

CLOSING MEMORANDUM

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

EXTENSION OF LETTER OF CREDIT

This memorandum will summarize the procedures to be followed in satisfying the conditions precedent to the extension of a letter of credit for the Modesto Public Financing Authority (the “Authority”) of its Lease Revenue Refunding Bonds Series 2008 (the “Bonds”).

CLOSING SCHEDULE

Thursday, May 11, 2023	Via Norton Rose Fulbright’s Virtual Closing Site	Pre-Closing
Friday, May 12, 2023	Via Norton Rose Fulbright’s Virtual Closing Site	Closing

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

MEMORANDUM OF LEGAL PAPERS

to be included in transcripts
relating to the above-mentioned Bonds

Closing: Friday, May 12, 2023

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

Modesto Public Financing Authority (the “Authority”)

*City of Modesto (the “City”)

Jose M. Sanchez, Esq., City Attorney and General Counsel for the Authority
 (“City Attorney”)

*Norton Rose Fulbright US LLP (“Bond Counsel” or “BC”)

*BMO Harris Bank N.A. (the “Bank”)

Hawkins Delafield & Wood LLP (“Bank Counsel”)

PFM Financial Advisors LLC (“PFM”)

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

Pre-Closing

The Pre-Closing will be held on May 11, 2023, via Norton Rose Fulbright's Virtual Closing Site.

The parties indicated below will deliver three (3) originals of each of the respective documents so indicated below. The documents will be executed in advance of the Closing by the respective parties thereto and delivered no later than the Pre-Closing. Unless otherwise indicated, the documents will be dated as of the date of Closing. All such deliveries will be deemed to have been made in escrow until final delivery at the Closing has been made.

Responsibility for preparing or assembling the documents is indicated in parentheses.

Closing

In connection with the extension of the letter of credit for the Bonds, a closing email will be distributed to the financing team by Norton Rose Fulbright indicating the transaction is closed.

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

DOCUMENTS AND INSTRUMENTS

The following documents and instruments are to be delivered to the appropriate party or parties at the Pre-Closing.

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Number

BASIC DOCUMENTS

Certified copy of the REIMBURSEMENT AGREEMENT, dated as of June 1, 2019, by and among the City, the Authority and the Bank (as successor in interest to Bank of the West), and FEE LETTER AGREEMENT, dated June 13, 2019, by and among the City, the Authority and the Bank (as successor in interest to Bank of the West). (BC)	1
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SUPPLEMENT NO. 4, dated May 11, 2023 to OFFICIAL STATEMENT, dated August 26, 2008. (BC)	5

AUTHORIZATION OF THE FINANCING

By the City

Certified copy of Resolution No. 2023-190 of the City Council of the City, adopted April 11, 2023, entitled “RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MODESTO RELATING TO MODESTO PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS SERIES 2008; APPROVING AMENDMENT NO. 1 TO REIMBURSEMENT AGREEMENT AMONG BMO HARRIS BANK N.A., CITY OF MODESTO AND MODESTO PUBLIC FINANCING AUTHORITY; AMENDMENT NO. 1 TO FEE LETTER AGREEMENT; AND A SUPPLEMENT TO OFFICIAL STATEMENT; AND AUTHORIZING CERTAIN OTHER RELATED ACTIONS.” (BC) 6

By the Authority

Certified copy of Resolution No. 01-2023 of the Commission of the Authority, adopted April 11, 2023, entitled “RESOLUTION OF THE MODESTO PUBLIC FINANCING AUTHORITY RELATING TO MODESTO PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS SERIES 2008 APPROVING THE EXTENSION OF A CREDIT FACILITY AND APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDMENT NO. 1 TO REIMBURSEMENT AGREEMENT, AN AMENDMENT NO. 1 TO FEE LETTER AGREEMENT WITH BMO HARRIS BANK N.A. (SUCCESSOR IN INTEREST TO BANK OF THE WEST), AND A SUPPLEMENT TO OFFICIAL STATEMENT; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A REMARKETING AGREEMENT WITH TD SECURITIES; AND AUTHORIZING CERTAIN OTHER RELATED ACTIONS.” (BC) 7

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\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

CERTIFICATE REGARDING COPIES OF REIMBURSEMENT AGREEMENT
AND FEE LETTER AGREEMENT

May 12, 2023

The undersigned authorized representative of the Modesto Public Financing Authority (the “Authority”), in connection with the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 (the “Bonds”) DOES HEREBY CERTIFY that attached hereto are full, true and correct copies of the REIMBURSEMENT AGREEMENT, dated as of June 1, 2019, by and among the Authority, the City of Modesto (the “City”) and BMO Harris Bank N.A. (as successor in interest to Bank of the West) (the “Bank”), and the FEE LETTER AGREEMENT, dated June 13, 2019, by and among the Authority, the City and the Bank, with respect to the Bonds, and does hereby further certify that such agreements have not been further amended, modified or rescinded, except by the Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023, by and among the Authority, the City and the Bank, and the Amendment No. 1 to Fee Letter Agreement, dated May 12, 2023, by and among the Authority, the City and the Bank, respectively, and are now in full force and effect.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, I have hereunto set my hand as of the date first written above.

MODESTO PUBLIC FINANCING AUTHORITY

By:



Diane Nayares-Perez
Secretary

(Signature Page to Certificate Regarding Copies of
Reimbursement Agreement and Fee Letter Agreement)

REIMBURSEMENT AGREEMENT

among

BANK OF THE WEST

and

CITY OF MODESTO

and

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of June 1, 2019

Relating to the

**\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008**

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REIMBURSEMENT AGREEMENT

This REIMBURSEMENT AGREEMENT (this “Agreement”) is made as of June 1, 2019 by and among BANK OF THE WEST (the “Bank”), the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the “Authority”) and the CITY OF MODESTO, a charter city duly organized and existing under laws of the State of California (the “City”).

RECITALS

- A. The Authority previously issued its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 and its Lease Revenue Bonds, Series 1998 (collectively, the “Prior Bonds”) to assist the financing of certain public capital improvements in the City.
- B. Pursuant to an Indenture dated as of August 1, 2008 (as amended or supplemented from time to time, the “Indenture”) between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), the Authority issued its Lease Revenue Refunding Bonds, Series 2008 (the “Bonds”) in the original aggregate principal amount of \$65,170,000 and currently outstanding in the aggregate principal amount of \$63,255,000, for the purposes, among other things, of refunding all of the Prior Bonds. The Bonds are secured by a pledge of Revenues (as such term is defined in the Indenture), which Revenues include base rental payments to be made by the City pursuant to the terms of a Lease Agreement dated as of August 1, 2008, as amended by an Amendment No. 1 to Lease Agreement, dated as of August 1, 2011 (as so amended and as it may be further amended or supplemented from time to time, the “Lease Agreement”) each between the City and the Authority.
- C. In order to support payment of principal and interest with respect to the Bonds, Bank of America, N.A. (the “Prior Bank”) issued its irrevocable transferable letter of credit dated August 28, 2008 (the “Prior Letter of Credit”) to the Trustee for the account of the City.
- D. In order to support payment of principal and interest with respect to the Bonds, the City has requested the Bank to provide, and the Bank is willing to provide, a letter of credit (the “Letter of Credit”) to the Trustee for the account of the City as an Alternate Credit Facility under the Indenture upon the terms and conditions herein set forth.

NOW, THEREFORE, in consideration of the foregoing recitals and the covenants contained herein, and in order to induce the Bank to issue the Letter of Credit on the Closing Date, the Authority, the City and the Bank hereby agree as follows (capitalized terms used herein and not otherwise defined have the meaning set forth in Section 1 hereof):

ARTICLE ONE

DEFINITIONS

Section 1.1. Definitions. Capitalized terms not defined in this Agreement shall have the meanings assigned to them in the Indenture. In addition to terms defined elsewhere in this Agreement, as used herein the following terms shall have the following meanings unless the context otherwise requires, and such meanings shall be equally applicable to both singular and plural forms of the terms herein defined:

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

“Affiliate” means, with respect to any Person, any Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such first Person. A Person shall be deemed to control another Person for the purposes of this definition if such first Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the second Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise.

“Agreement” shall mean this Reimbursement Agreement, as the same may from time to time be amended, supplemented or otherwise modified in accordance with its terms.

“Amortization Period” means, with respect to any Tender Draw, the period commencing on the Term Loan Conversion Date and ending on the earliest of (a) the third anniversary of the Term Loan Conversion Date, and (b) the third anniversary of the Stated Expiration Date as in effect on the Term Loan Conversion Date.

“Authority” shall mean the Modesto Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State of California, and its successors and assigns.

“Authorized Representative” shall mean such Person at the time and from time to time authorized by resolution to act on behalf of the City or the Authority by written certificate furnished to the Bank.

“Bank” shall mean Bank of the West and its successors and assigns.

“Bank Bonds” shall mean the Bonds held by the Tender Agent for the benefit of the Bank as provided in Section 4.13 of the Indenture.

“Bank Rate” means on any day, (a) if such day occurs prior to the Term Loan Conversion Date, a rate per annum equal to the Base Rate plus 1.00%; and (b) if such day occurs after the ninetieth day following the date on which the Bank honored a Tender Draw, a rate per annum equal to the Base Rate plus 3.00%; provided, that in no event shall the Bank Rate be less than the rate on the Bonds that are not Bank Bonds; and provided, further that in the event the Maximum Annual Base Rental Payment for any Rental Payment Period is not sufficient to pay

the principal of and interest on the Bonds and any Related Obligations coming due in any Rental Payment Period, the Bank Rate shall equal the Default Rate so long as any resulting deficiency remains unpaid.

“Bankruptcy Law” shall mean Title 11, U.S. Code, as amended or supplemented, any successor statute thereto, or any similar Federal, state, or foreign law for the relief of debtors.

“Base Rate” means, for any day, the higher of (a) the Prime Rate or (b) the Federal Funds Rate plus 1.00% per annum.

“Base Rental Payment” shall mean all amounts payable to the Authority from the City as Base Rental Payments pursuant to Section 3.01 of the Lease Agreement.

“Bond Purchase Fund” shall have the meaning set forth in the Indenture.

“Bonds” shall mean the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 issued in the original aggregate principal amount of \$65,170,000 and currently outstanding in the aggregate principal amount of \$50,915,000.

“Business Day” shall mean a day on which banks located in New York, New York, San Francisco, California, the city in which the principal office of the Trustee is located and the state where the Bank’s lending office is located are not required or authorized to be closed and on which the New York Stock Exchange is open.

“Change of Law” shall mean occurrence of any of the following: (a) the adoption or taking effect of any law, rule, regulation, statute, treaty, regulation, policy, guideline or directive, (b) any change in any law, rule, regulation, statute, treaty, regulation, policy, guideline or directive or in the interpretation, promulgation, implementation, administration or enforcement thereof by any governmental authority, court, central bank or comparable agency charged with the interpretation or administration thereof, (c) the making or issuance of any request, rule, ruling, guideline or directive (whether or not having the force of law) of any such authority, court, central bank or comparable agency, or (d) compliance by the Bank with any request or directive regarding capital adequacy or liquidity (whether or not having the force of law) of any such authority, court, central bank or comparable agency; provided that notwithstanding anything in this Agreement to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) or the United States financial regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change of Law,” regardless of the date adopted, issued, promulgated, enacted or implemented.

“City” shall mean the City of Modesto, a charter city duly organized and existing under and by virtue of the laws of the State of California, and its successors and assigns.

“City Communications Facilities Lease” shall mean the Facilities Lease (Communications Dispatch Center) dated as of August 1, 2008 between the City and the Authority, as the same may be amended or supplemented from time to time.

“City-County Administration Facilities Lease” shall mean the Facilities Lease (City-County Administration Building) dated as of August 1, 2008 between the Financing Agency and the Authority, as the same may be amended or supplemented from time to time.

“Closing Date” shall mean the date on which the Bank delivers the Letter of Credit pursuant to this Agreement.

“Collateral” shall have the meaning set forth in Section 2.5(a) hereof.

“Credit Facility Provider” shall have the meaning set forth in the Indenture.

“Default Rate” shall mean a rate per annum equal to the Base Rate plus 5.0%.

“Deferred Rental” shall have the meaning set forth in the Lease Agreement.

“Drawing” shall mean a drawing under the Letter of Credit resulting from the presentation to the Bank by the Trustee of a certificate in the form of Annex A, B, C, D or E to the Letter of Credit.

“Drawing Date” shall mean the date on which the Bank pays a Drawing on the Letter of Credit.

“DTC” shall have the meaning set forth in the Indenture.

“Environmental Claims” means any and all administrative, regulatory or judicial actions, suits, demand letters, claims, Liens, notices of noncompliance or violation, investigations, or proceedings relating in any way to any Environmental Law (“claims”) or any permit issued under any such Environmental Law, including (a) any and all claims by governmental or regulatory authorities for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any applicable Environmental Law and (b) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment.

“Environmental Law” means any federal, state or local statute, law, rule, regulation, ordinance, code, policy or rule of common law now or hereafter in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to health, safety or the environment or to Hazardous Materials.

“Event of Default” shall mean any event specified in Section 6.1 of this Agreement, provided that any requirement for notice, lapse of time, or both, or any other condition has been satisfied.

“Expiration Date” shall mean the date the Letter of Credit shall automatically terminate as described in paragraph 2 of the Letter of Credit.

“Facilities Leases” shall have the meaning set forth in the Lease Agreement (which includes the Parking Garage Facilities Lease, the Police Facilities and Miscellaneous Facilities Lease, the City-County Administration Facilities Lease and the City Communications Facilities Lease, as such terms are defined in the Lease Agreement).

“Fee Letter Agreement” shall mean the Fee Letter Agreement dated June 13, 2019 among the City, the Authority and the Bank, as the same may be amended or supplemented from time to time.

“Financing Agency” shall mean the City-County Capital Improvements and Financing Agency, duly organized and existing under a Joint Exercise of Powers Agreement, dated December 17, 1996, by and between the County of Stanislaus and the City.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Bank on such day on such transactions as determined by the Bank. Notwithstanding anything herein to the contrary, if the Federal Funds Rate as determined as provided above would be less than zero percent (0.0%), then the Federal Funds Rate shall be deemed to be zero percent (0.0%).

“Hazardous Materials” means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, transformers or other equipment that contains dielectric fluid containing polychlorinated biphenyls and radon gas; (b) any chemicals, materials or substances defined as or included in the definition of “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous wastes,” “restricted wastes,” “toxic substances,” “toxic pollutants,” “contaminants,” “special wastes” or “pollutants,” or words of similar import, under any applicable Environmental Law; and (c) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority.

“Indenture” has the meaning assigned to such term in Recital B.

“Lease Agreement” has the meaning assigned to such term in Recital B.

“Leased Property” shall mean the real and personal property subject to the Lease Agreement.

“Letter of Credit” shall mean the irrevocable direct pay letter of credit to be issued by the Bank pursuant hereto for the account of the City in favor of the Trustee to support payment of the Bonds, in substantially the form of Exhibit A to this Agreement with appropriate insertions, as it may be amended or supplemented from time to time.

“Letter of Credit Fee Rate” shall have the meaning set forth in Section 1.1 of the Fee Letter Agreement.

“Mandatory Tender Draft” shall have the meaning set forth in the Letter of Credit.

“Maximum Annual Base Rental Payment” means \$6,500,000 being the maximum annual amount (exclusive of Deferred Rental) payable to the Authority from the City as a Base Rental Payment for any Rental Payment Period, as such amount may be amended upon redetermination as described in Section 2.2(i) hereof.

“Obligations” shall mean the fees relating to the Letter of Credit, any and all obligations of the Authority and the City to reimburse the Bank for a Drawing under the Letter of Credit, and all other obligations of the Authority and the City to the Bank arising under or in relation to this Agreement.

“Official Statement” shall mean the Official Statement of the Authority with respect to the Bonds, and any similar statement prepared in connection with the Bonds.

“Optional Tender Draft” shall have the meaning set forth in the Letter of Credit.

“Parking Garage Facilities Lease” shall mean the Facilities Lease (Parking Garage) dated as of August 1, 2008 between the Redevelopment Agency and the Authority, as the same may be amended or supplemented from time to time.

“Payment Office” shall mean with respect to the Bank, the office of the Bank located at the address set forth in Section 7.2 hereof or such other office as the Bank may from time to time designate.

“Permitted Encumbrances” shall have the meaning set forth in the Indenture.

“Person” means a natural person, a firm, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

“Police Facilities and Miscellaneous Facilities Lease” shall mean the Facilities Lease (Police Facilities and Miscellaneous Facilities) dated as of August 1, 2008 between the City and the Authority, as the same may be amended or supplemented from time to time.

“Prime Rate” shall mean the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank’s Prime Rate; provided, that if the Prime Rate shall be less than zero, such rate shall be deemed zero for purposes of this Agreement.

“Prior Bank” shall have the meaning set forth in the recitals hereof.

“Prior Letter of Credit” shall have the meaning set forth in the recitals hereof.

“Provider” shall have the meaning set forth in the Indenture.

“Rebate Fund” shall have the meaning set forth in the Indenture.

“Redevelopment Agency” shall mean the Redevelopment Agency of the City of Modesto, as the original party to the Parking Garage Facilities Lease, prior to its dissolution pursuant to Section 34170 et seq. of the California Health & Safety Code.

“Reimbursement Account” shall have the meaning set forth in the Fee Letter Agreement.

“Related Documents” shall mean this Agreement, the Fee Letter Agreement, the Letter of Credit, the Bonds, the Indenture, the Lease Agreement, the Facilities Leases, the Remarketing Agreement, the Official Statement and the other documents, certificates and opinions executed and delivered in connection with issuance of the Bonds.

“Related Obligation” shall have the meaning set forth in the Indenture.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives of such Person and of such Person’s Affiliates.

“Release” shall mean disposing, discharging, injecting, spilling, leaking, dumping, emitting, escaping, emptying, seeping, placing, and the like, into or upon any land or water or air, or otherwise entering into the environment.

“Remarketing Agent” shall mean Raymond James & Associates, Inc., as successor Remarketing Agent, or any other firm which may at any time be substituted in its place as Remarketing Agent under the Indenture.

“Remarketing Agreement” shall mean the Remarketing Agreement, dated as of June 1, 2019, by and between the Authority and the Remarketing Agent, with respect to the Bonds, as the same may be amended or supplemented from time to time, or any similar agreement between the Authority and any successor Remarketing Agent.

“Rental Payment Period” shall have the meaning set forth in the Lease Agreement.

“Revenue Fund” shall have the meaning set forth in the Indenture.

“Revenues” shall have the meaning set forth in the Indenture.

“Series 2008 Interest Rate Swap Agreement” shall have the meaning set forth in the Indenture.

“Stated Amount” shall have the meaning set forth in the Letter of Credit.

“Stated Expiration Date” shall have the meaning set forth in the Letter of Credit.

“Successor Agency” means the Successor Agency to the Redevelopment Agency of the City of Modesto, as designated under Section 34173 of the California Health & Safety Code.

“Swap” shall have the meaning set forth in the Indenture.

“Swap Revenues” shall have the meaning set forth in the Indenture.

“Tender Agent” shall mean The Bank of New York Mellon Trust Company, N.A., or any successor thereto acting as Tender Agent pursuant to the Indenture.

“Tender Draw” shall mean a Drawing on the Letter of Credit resulting from the presentation to the Bank by the Trustee of an Optional Tender Draft or a Mandatory Tender Draft.

“Term Loan Conversion Date” shall have the meaning set forth in Section 2.2(d) hereof.

“Termination Fee” shall have the meaning set forth in Section 1.6 of the Fee Letter Agreement.

“Trustee” shall mean The Bank of New York Mellon Trust Company, N.A., or any successor thereto acting as Trustee pursuant to the Indenture.

ARTICLE TWO

LETTER OF CREDIT

Section 2.1. Issuance of Letter of Credit; Extension of Letter of Credit.

(a) Extension of Credit. The Bank hereby agrees, on the terms and subject to the conditions hereinafter set forth, to issue the Letter of Credit to the Trustee, in accordance with the terms of this Section 2.1. The Letter of Credit shall be issued by the Bank upon satisfaction by the City of all conditions precedent set forth in Section 3.1 hereof, and for a stated term from the date of the Letter of Credit to the initial Stated Expiration Date.

(b) Initial Term of Letter of Credit; Extension of Stated Expiration Date. The initial Stated Expiration Date for the Letter of Credit is June 13, 2023; provided that the Stated Expiration Date may be extended for an additional period upon the request by the Authority and the City and approval by the Bank in its sole discretion. Any request for an extension of the Letter of Credit must be in writing and accompanied by such information as the Bank may reasonably request and such request must be received by the Bank no earlier than 120 days and no less than sixty (60) days prior to the Stated Expiration Date then in effect. The Bank, in its sole and absolute discretion, may elect not to extend the term of the Letter of Credit. If the Bank has not agreed to the request for extension in writing within thirty (30) days after the Bank received the Authority’s and the City’s written request and the other information requested by

the Bank, the Authority's and the City's request shall be deemed to be denied. Each such extension shall be made on such terms and conditions as the Bank, the Authority and the City may mutually agree upon after analysis and due diligence as the Bank may require.

(c) Drawing on the Letter of Credit. Drawings to be made under the Letter of Credit shall be made by presentation by facsimile, in the form of a sight draft, accompanied by the appropriate annex submitted by the Trustee and no further presentation of documentation, including the original Letter of Credit, need be made; it being understood that the facsimile shall in all events be considered to be the sole operative instrument of drawing. The Bank may rely upon any such facsimile Drawing that the Bank, in good faith, believes to have been dispatched by the Trustee.

(d) Reduction and Reinstatement. The Stated Amount of the Letter of Credit shall be reduced by the amount of each Drawing, and shall be reinstated following certain Drawings, all as provided in the Letter of Credit.

Section 2.2. Reimbursement of Drawings. Subject to Section 2.5, the Authority and the City (by payment of Base Rental Payments in accordance with the terms of the Lease Agreement) hereby agree to reimburse to the Bank for any Drawing under the Letter of Credit as follows:

(a) on the same day the Bank honors a Drawing under the Letter of Credit, the full amount drawn except as provided in clause (d) below;

(b) upon demand, upon the occurrence of an Event of Default, interest on all Obligations, including all outstanding Drawings, at the Default Rate;

(c) subject to clause (d) below, on the Term Loan Conversion Date, the amount of such Tender Draw;

(d) If on the earlier of (i) the ninety-first day following the Drawing Date of any Tender Draw and (ii) the Expiration Date (the "Term Loan Conversion Date"), no Event of Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default, shall have occurred and be continuing and the representations and warranties of the City and the Authority hereunder are true and correct on and as of such Term Loan Conversion Date, the Authority and the City shall not be required to reimburse the Bank for such Tender Draw on the Term Loan Conversion Date but rather shall be required to pay such amount to the Bank in equal quarterly installments of principal due on the first Business Day of each calendar quarter occurring during the Amortization Period for such Tender Draw, together with interest thereon at the Bank Rate payable on the first day of each month following the Drawing Date of such Tender Draw, with the entire balance of such Tender Draw due on the last day of the Amortization Period; provided, however, that upon the remarketing of all or any portion of the applicable Bank Bonds purchased with amounts drawn under the Letter of Credit pursuant to such Tender Draw, the amount such Tender Draw shall be immediately due and owing to the Bank, together with interest thereon at the Bank Rate; and provided further, that all amounts owed to the Bank pursuant to this Section 2.2 shall be immediately due and payable in full (i) on the date of delivery to the Trustee of any Alternate Credit Facility (as provided in the

Indenture) as a substitution for the Letter of Credit, (ii) on the date of remarketing of such Bank Bonds, (iii) at such time as the Bonds are no longer Outstanding, (iv) on the date the interest rate on the Bonds to maturity has been converted to a rate that does not require credit enhancement or (v) on the date that the amount of the Letter of Credit is reduced to zero or the Letter of Credit is otherwise terminated prior to the Stated Expiration Date, including upon the occurrence of an Event of Default.

(e) The Authority and the City (by prepayment of Base Rental Payments in accordance with the terms of the Lease Agreement) may, on not less than one day's notice, prepay in whole or part the amount of any Tender Draw, together with the interest accrued with respect to such amount, to the date of prepayment, by prepaying or arranging for the purchase of the related Bank Bonds. Any prepayment of less than all outstanding Tender Draws will be applied to the outstanding Tender Draws in inverse order of maturity, and prepayment of less than all of the outstanding amount of an Tender Draw will be applied to the Bank Bonds purchased with such Tender Draw in inverse order of maturity.

(f) The Bonds purchased with the proceeds of any Optional Tender Draft or Mandatory Tender Draft shall thereupon become Bank Bonds and shall be registered as directed by the Bank pursuant to the Indenture and shall be held by the Trustee on behalf of the Bank or as otherwise directed by the Bank. The Authority and the City shall cause the Remarketing Agent to have a CUSIP number assigned to any such Bank Bonds within one (1) Business Day of any such purchase (such CUSIP number to be distinct from the CUSIP number assigned to the Bonds). If requested by the Bank, the Authority and the City shall apply for within ten (10) Business Days of such request, and utilize its best efforts to obtain as soon as practicable, at its sole cost and expense, a long-term unenhanced rating on the Bank Bonds from at least one nationally recognized securities rating agency of at least investment grade (i.e. "Baa3" or "BBB-" or its equivalent) and as otherwise required for the Bank to assign and pledge such Bank Bonds to any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank. Bank Bonds shall be entitled to all rights and privileges of Bonds set forth in the Indenture except that the principal component represented by such Bank Bonds shall mature, and the interest with respect to such Bank Bonds shall accrue at the Bank Rate and shall be payable, as set forth in this Section 2.2.

(g) Interest shall accrue on each advance made pursuant to the principal component of a Tender Draw and the corresponding Bank Bonds, from the Drawing Date of the applicable Tender Draw until the date due hereunder at the Bank Rate and shall be payable monthly in arrears on the first Business Day of each calendar month following the Drawing Date of such Tender Draw, and on the last day of the Amortization Period and on the date any Tender Draw shall otherwise become due and payable in full pursuant to Section 2.2(c) or 2.2(d) hereof. Interest shall accrue on all amounts due hereunder and on the corresponding Bank Bonds, if any, if not paid when due, at the Default Rate.

(h) If Bank Bonds are not assigned a separate CUSIP but remain in book-entry form held by DTC, the Authority and the City (by payment of the interest component of Base Rental Payments under the Lease Agreement) shall pay the difference between the Bank Rate and the interest rate then borne by the Bonds to the Bank as provided in this Section 2.2 and

shall pay interest on the principal amount of all outstanding Bonds, including Bank Bonds, at the interest rate then borne by the Bonds other than Bank Bonds, to the Trustee for payment to the holders and the Bank through the normal DTC payment procedures.

(i) In the event that the amount needed to pay the principal of and interest on the Bonds and any Related Obligations coming due in any Rental Payment Period is more than the estimated Base Rental Payment for such Rental Payment Period, the City will be obligated to pay up to the Maximum Annual Base Rental Payment for such Rental Payment Period. To the extent the Maximum Annual Base Rental Payment for such Rental Payment Period is not sufficient to pay the principal of and interest on the Bonds and any Related Obligations coming due in any Rental Payment Period, (1) such deficiency shall continue to be an obligation of the City pursuant to the Lease Agreement and the City will be obligated to pay the Base Rental Payment up to the Maximum Annual Base Rental Payment in each Rental Payment Period until such deficiency is paid in full, (2) the City shall, subject to compliance with applicable debt limitations, use its best efforts to utilize additional sources of funds and properties legally available to it in order to pay such deficiency; (3) any unpaid Tender Draw shall thereafter bear interest at the Default Rate; (4) the City shall increase the Base Rental Payment for any Rental Payment Period if and to the extent that the Maximum Annual Base Rental Payment exceeds the amount needed to pay the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period; (5) the Authority and the City shall, solely at the Bank's request, redetermine or cause to be redetermined the fair rental value of the Leased Property and the Maximum Annual Base Rental Payment as of the date of any such event and will otherwise, not challenge or redetermine the fair rental value of the Leased Property or the Maximum Annual Base Rental Payment and shall increase the Maximum Annual Base Rental Payment only to the extent any such increase is supported by the newly determined fair rental value of the Leased Property, taking into consideration the then current appraised value of the Leased Property; and (6) the Authority and the City shall, subject to the terms of the Lease Agreement, extend the term of the Lease Agreement if, on September 1, 2033, any amounts remain owing to the Bank. If any Tender Draw is not paid by the last day of the Amortization Period or on the date any Tender Draw shall otherwise become due and payable in full pursuant to Section 2.2(c) or 2.2(d) hereof, the Authority and the City shall use its best efforts to convert the interest rate on the Bonds to maturity at a rate that does not require credit enhancement.

The Authority and the City shall increase the Base Rental Payment for any Rental Payment Period following an abatement of Base Rental Payments pursuant to Section 3.06 of the Lease Agreement as set forth in Section 5.1(aa) hereof.

Further, the Authority and the City agree that if in any year the Maximum Annual Base Rental Payment exceeds the amount needed to pay the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period, the Authority and the City shall defer the Deferred Rental pursuant to Section 3.04 of the Lease Agreement and thereupon the Deferred Rental need not be paid by the City to the Authority at that time, but instead shall be deferred until such subsequent time as the Authority shall have need for such payment; provided, however, that notwithstanding anything herein or in the Lease Agreement to the contrary, that the Deferred Rental shall not cause the Base Rental Payment in any Rental Payment Period to

exceed the lesser of (x) 150% of the estimated Base Rental Payment for such Rental Payment Period as shown in Exhibit A to the Lease Agreement or (ii) the Maximum Annual Base Rental Payment, as adjusted for Deferred Rental for such Rental Payment Period.

Section 2.3. Letter of Credit Fees and Other Payments.

(a) Letter of Credit Fee. The Authority and the City (by payment of Additional Payments under the Lease Agreement) shall pay to Bank a nonrefundable Letter of Credit Fee as set forth in Section 1.1 of the Fee Letter Agreement, the terms of which are incorporated herein by this reference as if fully set forth herein.

(b) Payment Dates. The Letter of Credit Fee shall be due and payable as set forth in Section 1.2 of the Fee Letter Agreement, the terms of which are incorporated herein by this reference as if fully set forth herein.

(c) Other Fees. In addition, the Authority and the City (by payment of Additional Payments under the Lease Agreement) shall pay to Bank upon the amendment or transfer of the Letter of Credit and upon the negotiation of each draft drawn under the Letter of Credit, fees and charges as set forth in Section 1.3 of the Fee Letter Agreement, the terms of which are incorporated herein by this reference as if fully set forth herein.

(d) Calculation of Fees and Interest. All fees and interest payable under this Agreement shall be calculated as set forth in Section 1.4 of the Fee Letter Agreement, the terms of which are incorporated herein by this reference as if fully set forth herein.

(e) Initial Costs and Expenses. The Authority and the City (by payment of Additional Payments under the Lease Agreement) shall pay to the Bank any and all fees, charges and expenses as set forth in Section 1.5 of the Fee Letter Agreement, the terms of which are incorporated herein by this reference as if fully set forth herein. The obligations and liabilities under this Section 2.3(e) shall survive the termination of this Agreement, the Fee Letter Agreement and the Lease Agreement and the Authority's and the City's Obligations hereunder and thereunder and the payment in full of all Base Rental Payments and Additional Payments.

(f) Increased Costs; Capital Adequacy or Liquidity.

(i) If the Bank shall have determined that any Change of Law regarding capital adequacy or liquidity shall impose, modify or deem applicable any capital adequacy or liquidity or similar requirement (including, without limitation, a request or requirement that affects the manner in which the Bank allocates capital resources to its commitments), affects or would affect the amount of capital to be maintained by the Bank or has or would have the effect of reducing the rate of return on the capital of the Bank (or its parent) as a consequence of the Bank's obligations hereunder, including issuing, participating in or maintaining the Letter of Credit, purchasing, owning, holding or remarketing Bank Bonds or any participation therein or any collateral therefor, to a level below that which the Bank would have achieved but for such adoption, change or compliance (taking into consideration the Bank's policies with respect to capital adequacy or liquidity), then from time to time, within fifteen (15) days after written demand by the Bank made through the Bank, the Authority and the City (by payment of Additional Payments under the Lease Agreement) shall pay to the Bank such additional amount or amounts as will compensate the Bank for such event.

(ii) If the Bank shall have determined that any Change of Law:

(A) shall subject the Bank to any tax, duty or other charge with respect to its obligations under the Letter of Credit or this Agreement, or shall change the basis of taxation of payments to the Bank of the Bank Bonds or in respect of any amounts due under this Agreement (except for changes in the rate of tax on the overall net income of the Bank imposed by any taxing jurisdiction in which the Bank's principal executive office is located and other than by reason of any amount hereunder not being tax-exempt income to the recipient); or

(B) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), against assets of, deposits with or for the account of, or credit extended by, the Bank;

and the result of any of the foregoing is to increase the cost to the Bank of issuing the Letter of Credit, honoring any Drawing or holding any Bank Bonds, or to reduce the amount of any sum received or receivable by the Bank under this Agreement, by an amount deemed by the Bank to be material, then, within fifteen (15) days after written demand by the Bank made through the Bank, the Authority and the City (by payment of Additional Payments under the Lease Agreement) agrees to pay or cause to be paid to the Bank such additional amount or amounts as will compensate the Bank for such increased cost or reduction.

(iii) A certificate of the Bank claiming compensation under this Section 2.3(f) and setting forth the additional amount or amounts to be paid to it hereunder (accompanied by a statement specifying the reasons therefor) shall be

conclusive in the absence of manifest error. In determining such amount, the Bank may use any reasonable averaging and attribution methods.

(iv) The obligations and liabilities under this Section 2.3(f) shall survive the termination of this Agreement and the Lease Agreement and the Authority's and the City's Obligations hereunder and thereunder and the payment in full of all Base Rental Payments and Additional Payments.

(g) Taxes. If any taxes are imposed on any payments made by the Authority or the City (including payments under this paragraph) other than ordinary income taxes payable by the Bank, the Authority or the City (by payment of Additional Payments under the Lease Agreement), as applicable, shall pay the taxes and shall also pay to the Bank, at the time interest is paid, any additional amount which the Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such taxes had not been imposed. The Authority or the City shall confirm that it has paid the taxes by giving the Bank official tax receipts (or notarized copies) within thirty (30) days after the due date.

(h) Payment Office. All payments to be made by the Authority or the City to the Bank hereunder or in connection herewith, shall be made to the Reimbursement Account not later than 1:00 p.m., New York time, on the date due and shall be made in lawful money of the United States of America and in immediately available funds. Any amount not received by the Bank by such time shall be deemed to have been received on the next succeeding Business Day. All such payments not received on the date due shall bear interest until payment in full at the Default Rate and shall be payable on demand, or if no demand is made, on the first day of each calendar month thereafter. Notwithstanding anything herein to the contrary, following the occurrence and during the continuance of an Event of Default, interest shall accrue on all amounts owing hereunder and on the corresponding Bank Bonds at the Default Rate and shall be payable on demand, or if no demand is made, on the first day of each calendar month following the occurrence of such Event of Default.

(i) Obligations Absolute. Subject to Section 2.5, the Obligations of the Authority and the City under this Agreement shall be absolute, unconditional and irrevocable, and shall be paid or performed strictly in accordance with the terms of this Agreement under all circumstances whatsoever, including, without limitation, the following circumstances:

(i) the existence of any claim, set-off, defense or other rights which the Authority or the City may have at any time against the Trustee, the Tender Agent, any beneficiary or any transferee of the Letter of Credit (or any Person for whom the Trustee, the Tender Agent, any such beneficiary or any such transferee may be acting) or the Bank, whether in connection with the transactions contemplated by this Agreement or any related or unrelated transactions;

(ii) any breach of contract or other dispute between the City, the Authority, the Trustee, the Tender Agent, any beneficiary or any transferee of the Letter of Credit (or any Person for whom the Trustee, any such beneficiary or any such transferee may be acting), the Bank or any other Person;

(iii) any delay, extension of time, renewal, compromise or other indulgence or modification granted or agreed to by the Bank, with or without notice to or approval by the Authority or the City, in respect of any of the Obligations of the Authority or the City (as the case may be) to the Bank under this Agreement;

(iv) any certificate, statement or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) any non-application or misapplication by the Trustee of the proceeds of any Drawing under the Letter of Credit;

(vi) payment by the Bank under the Letter of Credit against presentation of a certificate which does not comply with the terms of the Letter of Credit, provided that such payment by the Bank shall not have constituted gross negligence or willful misconduct of the Bank; and

(vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

Nothing contained in this Section 2.3(i) shall operate to prevent the Authority or the City from bringing a cause of action against the Bank for any liability it may incur as a result of its gross negligence or willful misconduct.

(j) Non-Business Days. If any sum becomes payable pursuant to this Agreement on a day which is not a Business Day, the date for payment thereof shall be extended, without penalty, to the next succeeding Business Day, and such extended time shall be included in the computation of interest and fees.

(k) Taxes. All payments made by the Authority hereunder or by the City (as Additional Payments under the Lease Agreement) shall be made free and clear of and without deduction for any present or future income, stamp or other taxes, levies, imposts, deductions, charges, fees, withholdings, restrictions or conditions of any nature now or hereafter imposed, levied, collected, withheld or assessed by any jurisdiction or by any political subdivision or taxing authority thereof or therein (whether pursuant to United States Federal, state or local law or foreign law) and all interest, penalties or similar liabilities, excluding taxes on the overall net income of the Bank (such non-excluded taxes are hereinafter collectively referred to as the "Taxes"). If the Authority or the City shall be required by law to deduct or to withhold any Taxes from or in respect of any amount payable hereunder, (i) the amount so payable shall be increased to the extent necessary so that after making all required deductions and withholdings (including Taxes on amounts payable to the Bank pursuant to this sentence) and decreased to give effect to any refunds or credits received by the Bank so that the Bank receives an amount equal to the sum it would have received had no such deductions or withholdings been made (ii) the Authority or the City, as applicable, shall make such deductions or withholdings and (iii) the Authority or the City, as applicable, shall pay the full amount deducted or withheld to the relevant taxation authority in accordance with applicable law. Whenever any Taxes are payable

by the Authority or the City, as promptly as possible thereafter the Authority or the City, as applicable, shall send the Bank an official receipt or other documentation satisfactory to the Bank evidencing payment to such taxation authority.

(l) Maximum Rate. To the extent permitted by law, in the event that a rate of interest required to be paid by the Authority under this Agreement or by the City (by payment of the interest component of Base Rental Payments under the Lease Agreement) shall exceed a maximum rate established by law for any Rental Payment Period, then interest accrued at such maximum rate shall be paid by Authority and the City (by payment of the interest component of Base Rental Payments under the Lease Agreement) with respect to such Rental Payment Period and the differential between the amount of interest which would have accrued if the rate of interest required hereunder (without giving effect to this paragraph) had at all times been in effect and the amount of interest accrued at such maximum rate (the "Excess Interest") shall be deferred until such date as the rate of interest required to be paid by the Authority or the City hereunder ceases to exceed the maximum rate established by law and any subsequent reduction in the rate of interest required to be paid by the Authority or the City hereunder will not reduce the rate of interest below the maximum rate established by law until the total amount of interest accrued equals the amount of interest which would have accrued if the rate of interest required hereunder (without giving effect to this paragraph) had at all times been in effect. Upon the termination of this Agreement, in consideration for any limitation of the rate of interest which may otherwise be payable hereunder, the Authority and the City (by payment of Additional Payments under the Lease Agreement) shall pay or cause to be paid to the Bank a fee equal to the amount of all such unpaid deferred Excess Interest, but only as and to the extent that the Maximum Annual Base Rental Payment for such Rental Payment Period exceeds the amount needed to pay the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due in such Rental Payment Period.

Section 2.4. Liability of Bank. Neither the Bank nor any of its officers or directors shall be liable or responsible for (a) the use which may be made of the Letter of Credit or for any acts or omissions of the Trustee and any transfer in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement(s) thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by the Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under the Letter of Credit, except to the extent of any damages suffered by the Authority or the City by (i) the Bank's willful misconduct or gross negligence in determining whether documents presented under the Letter of Credit comply with the terms of the Letter of Credit or (ii) the Bank's willful failure or gross negligence in failing to pay under the Letter of Credit after the presentation to it by the Trustee of a sight draft and certificate strictly complying with the terms and conditions of the Letter of Credit. In furtherance and not in limitation of the foregoing, the Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary; provided, that if the Bank shall receive written notification from the Trustee and either the Authority or the City that sufficiently identified (in the opinion of the Bank) documents to be presented to the Bank are not to be honored, the Bank agrees that it will not honor such documents.

The Authority and the City assume all risks of the acts or omissions of the Trustee, the Tender Agent and the Remarketing Agent with respect to the Bonds. Neither the Bank, nor any of its officers, directors, employees or agents, shall be liable or responsible for (i) the use which may be made of the proceeds of the Bonds or of any acts or omissions of the Trustee or any transferee of the Letter of Credit in connection therewith, (ii) the validity, sufficiency or genuineness of documents, or of any endorsement(s) thereon (other than the validity as against the Bank of any agreement to which the Bank is a party (including the Letter of Credit)), even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged, (iii) the lack of validity or enforceability of this Agreement, the Bonds, the other Related Documents or any other agreement or instrument relating thereto (other than the validity or enforceability as against the Bank of any agreement to which the Bank is a party (including the Letter of Credit)), or (iv) any other circumstances whatsoever in making or failing to make payment under the Letter of Credit, other than any direct, as opposed to consequential, special, punitive, exemplary or indirect damages suffered by the Authority or the City which the Authority and the City proves were caused by (i) the Bank's willful misconduct or gross negligence in determining whether a draw presented under the Letter of Credit complied with the terms thereof, or (ii) the Bank's willful failure or gross negligence in failing to make a payment under the Letter of Credit required to be made by it thereunder after the presentation to it by the Trustee of a certificate strictly complying with the terms and conditions of the Letter of Credit. In furtherance and not in limitation of the foregoing, the Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information (other than actual knowledge to the contrary) to the contrary.

Section 2.5. Security; Nature of Obligations of the Authority and the City.

(a) Notwithstanding any provisions herein to the contrary, unless otherwise permitted by law, the Bank acknowledges and agrees that all Obligations of the Authority and the City hereunder are secured by and payable solely from the following (together, the "Collateral"): (a) the proceeds from the sale of bonds or other obligations authorized to be issued by the Authority or the City specifically for the purpose of paying amounts due hereunder, (b) the Revenues (including without limitation (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Lease Agreement (but not Additional Payments), (ii) any other amounts held in any fund or account (including the Revenue Fund) established pursuant to the Indenture (other than the Bond Purchase Fund and the Rebate Fund) or the Lease Agreement and all interest or other income from any investment of any money in such fund or account, and (iii) the Swap Revenues, if any), and (c) any Additional Payments payable to the Bank under the Lease Agreement. The Authority hereby pledges, places a Lien upon and assigns the Collateral to secure the Obligations to the Bank under this Agreement. The Authority has transferred in trust, granted a security interest in and assigned to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers (including the Bank), all of the Revenues and other assets pledged in Section 5.01(A) of the Indenture and all of the rights of the Authority under the Lease Agreement to receive and collect Base Rental Payments and other amounts (except for (i) the right to receive any Additional Payments to the extent payable to the Authority and (ii) any rights of the Authority to indemnification), and the right to enforce, whether by action at law or in equity or by other means, all provisions, covenants and agreements of the Lease Agreement with respect to the payment of Base Rental Payments.

(b) Subject to the provisions of Section 2.5(a), the Obligations of the Authority and the City under this Agreement to reimburse the Bank for Drawings shall be paid and performed strictly in accordance with the terms of this Agreement under all circumstances whatsoever, including, without limitation, the following circumstances:

(i) any lack of validity or enforceability of this Agreement, the Letter of Credit or any of the Related Documents;

(ii) any amendment or waiver of, or any consent to or departure from this Agreement or any Related Documents;

(iii) the existence of any claim, set-off, defense or other rights which the Authority or the City may have at any time against the Trustee, the Tender Agent, any beneficiary or any transferee of the Letter of Credit (or any Person for whom the Trustee, the Tender Agent, any such beneficiary or any such transferee may be acting), the Bank or any other Person, whether in connection with this Agreement, the Letter of Credit, the Related Documents or any unrelated transaction;

(iv) any statement in any certificate or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(v) payment by the Bank under the Letter of Credit against presentation of a draft or certificate which does not comply with the terms of the Letter of Credit;

unless any of the foregoing results from the gross negligence or willful misconduct of the Bank.

Section 2.6. Termination. The Letter of Credit may be terminated or permanently reduced at any time by the Authority or the City upon thirty (30) days written notice to the Bank and payment of any amounts owed to the Bank hereunder, including without limitation following the imposition of any costs and expenses pursuant to Sections 2.3(f) or (g).

ARTICLE THREE

CONDITIONS PRECEDENT

Section 3.1. Conditions Precedent to Issuance of Letter of Credit. The obligation of the Bank to issue the Letter of Credit shall be subject to the fulfillment of the following conditions precedent on or before the Closing Date thereof, in a manner satisfactory to the Bank and its counsel:

(a) The Bank shall have received an opinion of Norton Rose Fulbright LLP, as special counsel, as to the validity of the Facilities Leases and the Lease Agreement, in form and substance satisfactory to the Bank and its counsel, dated the Closing Date.

(b) The Bank shall have received an opinion of Bank counsel, in form and substance satisfactory to the Bank dated the Closing Date.

(c) The Bank shall have received an opinion of the City Attorney, in form and substance satisfactory to the Bank and its counsel dated the Closing Date;

(d) The Bank shall have received an opinion of the counsel to the Authority, in form and substance satisfactory to the Bank and its counsel dated the Closing Date;

(e) The Bank shall have received on the Closing Date executed originals of this Agreement and the Fee Letter Agreement and certified copies of the Indenture, the Lease Agreement, the Facilities Leases, the Remarketing Agreement and the other Related Documents, the title insurance policy in effect on the Leased Property with respect to the Bonds (the "Title Insurance Policy") and the other documents, certificates and opinions executed and delivered in connection with issuance of the Bonds and any other documents which the Bank may reasonably request evidencing that all necessary action (including, without limitation, adoption of resolutions) required to be taken by the Authority and the City in connection with the authorization, execution, issuance, delivery and performance of such documents and any other document required to be delivered by the City pursuant to or in connection with this Agreement, the Fee Letter Agreement or the transactions contemplated hereby or thereby, has been taken.

(f) The Bank shall have received a certificate signed by an Authorized Representative of the City dated the Closing Date stating that on such date:

(i) the representations and warranties set forth in this Agreement and in any other certificate, letter, writing or instrument delivered by the City to the Bank pursuant hereto or in connection herewith, shall be true and correct as of the Closing Date;

(ii) no material adverse change shall have occurred in the condition (financial or otherwise) of the City prior to the Closing Date;

(iii) on the Closing Date no Event of Default or no event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default, shall have occurred and be continuing;

(iv) there is no lawsuit, tax claim or other dispute pending or threatened against the City which, if lost, would impair the City's financial condition or ability to repay the unreimbursed Drawings, except as have been disclosed in writing to the Bank;

(v) the City is in compliance with the terms and conditions of this Agreement and has performed or complied with all of its Obligations, agreements and covenants to be performed or complied with pursuant to this Agreement on or prior to the Closing Date;

(vi) all information, documents, statements and certificates provided to the Bank by or on behalf of the City in connection with the Letter of Credit are

true and correct on and as of the date hereof and were provided in expectation of the Bank's reliance thereon in issuing the Letter of Credit; and

(vii) the City has delivered to the Bank true, correct and complete copies of the Related Documents and such documents were duly issued, adopted or executed and delivered, have not been modified, amended or rescinded and are in full force and effect on and as of the Closing Date and the Title Insurance Policy has not been modified, amended or rescinded and is in full force and effect on and as of the Closing Date;

(g) The Bank shall have received copies of resolutions of the City Council of the City, certified as of the Closing Date by the City Clerk, authorizing, among other things, the issuance of the Bonds and the execution, delivery and performance by the City of this Agreement, the Fee Letter Agreement, the Remarketing Agreement and the other Related Documents and any documents to be delivered by it hereunder.

(h) The Bank shall have received a certificate of an Authorized Representative of the City dated the Closing Date certifying as to the authority, incumbency and specimen signatures of the Authorized Representative of the City authorized to sign this Agreement, the Fee Letter Agreement and the Remarketing Agreement and any other documents to be delivered by it hereunder and who will be authorized to represent the City in connection with the Letter of Credit, this Agreement and the Fee Letter Agreement, upon which the Bank may rely until it receives a new such certificate.

(i) The Bank shall have received a certificate signed by an Authorized Representative of the Authority dated the Closing Date stating that on such date:

(i) the representations and warranties set forth in this Agreement and in any other certificate, letter, writing or instrument delivered by the Authority to the Bank pursuant hereto or in connection herewith, shall be true and correct as of the Closing Date;

(ii) no material adverse change shall have occurred in the condition (financial or otherwise) of the Authority prior to the Closing Date;

(iii) on the Closing Date no Event of Default or no event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default, shall have occurred and be continuing;

(iv) there is no lawsuit, tax claim or other dispute pending or threatened against the Authority which, if lost, would impair the Authority's financial condition or ability to repay the unreimbursed Drawings, except as have been disclosed in writing to the Bank;

(v) the Authority is in compliance with the terms and conditions of this Agreement and has performed or complied with all of its Obligations, agreements and covenants to be performed or complied with pursuant to this Agreement on or prior to the Closing Date;

(vi) all information, documents, statements and certificates provided to the Bank by or on behalf of the Authority in connection with the Letter of Credit are true and correct on and as of the date hereof and were provided in expectation of the Bank's reliance thereon in issuing the Letter of Credit; and

(vii) the Authority has delivered to the Bank true, correct and complete copies of the Related Documents and such documents were duly issued, adopted or executed and delivered, have not been modified, amended or rescinded and are in full force and effect on and as of the Closing Date.

(j) The Bank shall have received copies of resolutions of the governing board of the Authority, certified as of the Closing Date by the secretary of such governing board, authorizing, among other things, the issuance of the Bonds and the execution, delivery and performance by the Authority of this Agreement, the Fee Letter Agreement, the Remarketing Agreement and the other Related Documents and any documents to be delivered by it hereunder.

(k) The Bank shall have received a certificate of an Authorized Representative of the Authority dated the Closing Date certifying as to the authority, incumbency and specimen signatures of the Authorized Representative of the Authority authorized to sign this Agreement, the Fee Letter Agreement and the Remarketing Agreement and any other documents to be delivered by it hereunder and who will be authorized to represent the Authority in connection with the Letter of Credit, this Agreement and the Fee Letter Agreement, upon which the Bank may rely until it receives a new such certificate.

(l) The Bank shall have received certified copies of the Authority's joint exercise of powers agreement, notice of a joint powers agreement filed with the Secretary of State and roster of public agencies filing and acknowledgement from the California Secretary of State.

(m) Except for state "blue sky" laws, the Bank shall have received true and correct copies of any and all governmental approvals necessary for the City and the Authority to enter into this Agreement, the Fee Letter Agreement and the Remarketing Agreement and such approvals necessary at the Closing Date for the transactions contemplated thereby and hereby, or if no governmental approvals are required, a certificate of an Authorized Representative of the City to the effect that no such approvals are necessary.

(n) The Bank shall have received copies of the audited financial statements of the City for the three most recent years for which such statements are available, unaudited financial statements of the City for any fiscal year for which audited financial statements are unavailable, a copy of the City's 2020-19 proposed (or if available, adopted) budget, financial projections and any other information reasonably requested by the Bank.

(o) The Bank shall have received a copy of the City investment policy as well as other information with respect to the City Investment Pool, City investment strategies and related information as the Bank may request, in form and substance satisfactory to the Bank.

(p) The Bank shall have received certificates of insurance evidencing casualty insurance and rental interruption insurance coverage for the Leased Property and other insurance

coverage satisfying the requirements of Article V of the Lease Agreement, showing the Bank as additional insured and loss payee, and otherwise in form and substance satisfactory to the Bank.

(q) The Bank shall have received estoppel certificates executed by the Successor Agency and the Financing Agency, as lessors under the Parking Garage Facilities Lease and the City-County Administration Facilities Lease, respectively, in form and substance satisfactory to the Bank, and an opinion of counsel to the Successor Agency, substantially in the forms previously delivered to the Prior Bank;

(r) The Bank shall have received evidence that the conditions precedent to delivery of the Letter of Credit as an Alternate Credit Facility under Section 4.18 of the Indenture have been satisfied, including without limitation, notice to the Prior Bank of the issuance of the Letter of Credit and written evidence of payment in full of all amounts due to the Prior Bank under its reimbursement agreement.

(s) The Bank shall have received written evidence satisfactory to the Bank that a separate CUSIP number has been obtained and reserved from Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. for Bank Bonds.

(t) No material adverse change in the financial condition, operations or prospects of the City or laws, rules or regulations (or their interpretation or administration) shall have occurred as of the Closing Date that, in any case, may adversely affect the consummation of the transaction, as determined in the sole discretion of the Bank.

(u) All other legal matters pertaining to the execution and delivery of this Agreement, the issuance of the Letter of Credit and the other Related Documents shall be reasonably satisfactory to the Bank and its counsel.

(v) Payment of (or the Bank shall be reasonably satisfied that payment will be made promptly after demand therefor after the Closing Date of) fees and expenses of the Bank and its counsel.

ARTICLE FOUR

REPRESENTATIONS AND WARRANTIES

Section 4.1. Representations and Warranties of City. In order to induce the Bank to enter into this Agreement and to issue the Letter of Credit provided for in this Agreement, the City represents and as of the Closing Date and as of each Drawing Date, warrants and covenants with respect to itself, this Agreement and certain matters:

(a) Valid Existence. The City is a charter city, duly organized and validly existing under its charter and the Constitution of the State and has the necessary power and authority to execute and deliver this Agreement and the Related Documents to which the City is a party and to perform its obligations hereunder and thereunder.

(b) Authorization and Validity. The execution, delivery and performance by the City of this Agreement and the Related Documents to which the City is a party have been

duly authorized by all proper proceedings of the City, and no further approval, authorization or consents are required by law or otherwise. This Agreement and such Related Documents constitute the legal, valid and binding obligations of the City enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, moratorium and other laws affecting creditors' rights generally and principles of equity and public policy.

(c) Compliance with Laws and Contracts. Neither the execution and delivery by the City of this Agreement and the Related Documents to which the City is a party, nor the consummation of the transactions herein and therein contemplated, nor compliance with the provisions hereof or thereof will (i) violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the City or the City's charter (including but not limited to the Occupational Safety and Health Act of 1970, the Americans with Disabilities Act of 1990 and all Environmental Laws), (ii) result in any material breach of, or default under the provisions of any material indenture, instrument or agreement to which the City is a party or is subject, or by which it or its property is bound, or (iii) conflict with or result in the creation or imposition of any lien pursuant to the terms of any such indenture, instrument or agreement.

(d) Litigation. Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending with service of process accomplished or, to the knowledge of the City after due inquiry, threatened against or affecting the City or the Leased Property (i) wherein an unfavorable decision, ruling or finding would adversely affect (A) the City's ability to perform its obligations under this Agreement and the other Related Documents to which the City is a party or (B) the validity of this Agreement, any of the Related Documents to which the City is a party or any other agreement or instrument to which the City is a party; or (ii) which in any way contests the existence, organization or powers of the City or the titles of the officers of the City to their respective offices.

(e) No Event of Default. No Event of Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default has occurred and is continuing.

(f) Financial Statements. The audited statements of revenues, expenses and changes in fund balances and changes in financial position of the City for the most recently completed fiscal year as heretofore delivered to the Bank pursuant to Section 3.1(m) or 5.1(i)(i)(A) hereof, including balance sheets as of June 30 of such fiscal year, and statements of revenue and expense as of June 30 of such fiscal year, all examined and reported on by independent public accountants, prepared by the City, correctly and fairly present the financial condition of the City as of said date and the results of the operations of the City for such period, respectively, and have been prepared in accordance with generally accepted accounting principles consistently applied except as stated in the notes thereto. Since June 30 of such fiscal year, there has been no material adverse change in the financial condition, operations or prospects of the City or its ability to perform its obligations under this Agreement or any Related Document.

(g) Lease Agreement and Facilities Leases. The Lease Agreement and Facilities Leases are in full force and effect. The City has not been granted any waiver,

indulgence or postponement of any of the City's obligations under the Lease Agreement or the Facilities Leases. There exists no event of default or event, occurrence, condition or act that, with the giving of notice, the lapse of time or the happening of any further event or condition, would become a default under the Lease Agreement or the Facilities Leases. The Maximum Annual Base Rental Payment and Additional Payments for each Rental Payment Period does not exceed the fair rental value of the Leased Property for such Rental Payment Period. The Base Rental Payments for each Rental Payment Period, up to the Maximum Annual Base Rental Payment, as such amount may be adjusted for Deferred Rental, plus Additional Payments for such Rental Payment Period, represents the fair rental value of the Leased Property for such Rental Payment Period. In making such determination, consideration has been given to the appraised value of the Leased Property, costs of acquisition, demolition, site preparation, design, construction and financing of the Leased Property, other obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public. The Leased Property is an essential asset of the City necessary to serve the needs of the residents of the City. The City believes that at all times while any Base Rental Payments or any Obligations of the City or the Authority hereunder remain unpaid, the Leased Property will remain an essential asset of the City. The City has a valid and enforceable fee simple interest in the Leased Property (other than the Leased Property subject to the Parking Garage Facilities Lease or the City-County Administration Facilities Lease), subject only to Permitted Encumbrances. Upon the dissolution of the Redevelopment Agency pursuant to Section 34170 et seq. of the California Health & Safety Code, the City elected to become the successor agency for the Redevelopment Agency as designated under Section 34173 of the California Health & Safety Code and the City as such Successor Agency has assumed the rights and obligations of the Redevelopment Agency under the Parking Garage Facilities Lease. The City as the Successor Agency has a valid and enforceable fee simple interest in the Leased Property subject to the Parking Garage Facilities Lease, subject only to Permitted Encumbrances. The Financing Agency has a valid and enforceable fee simple interest in the Leased Property subject to the City-County Administration Facilities Lease, subject only to Permitted Encumbrances. The City currently has the use and occupancy of the Leased Property and the City has the legal authority to pay the Base Rental Payments and Additional Payments pursuant to the Lease Agreement for the use and occupancy of the Leased Property. The Parking Garage Facilities Lease is binding on the City as the Successor Agency.

(h) Accurate and Complete Disclosure. All factual information certified by the City in writing to the Bank (including without limitation all information contained in, or made pursuant to, this Agreement and the Related Documents to which the City is a party) is, and all other such factual information hereafter certified by the City in writing to the Bank will be, to the knowledge of the authorized Person making such certification after reasonable inquiry, accurate and complete in all material respects on the date as of which such information is certified. The Official Statement, true copies of which have heretofore been delivered to the Bank, and each official statement pertaining to the Bonds (including any amendments or supplements) prepared subsequent to the Closing Date (a true copy of which shall be furnished to the Bank prior to the distribution thereof) do not and will not contain any untrue statement of a material fact and do not and will not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which made, not misleading, except no representation is made as to any information concerning the Trustee, DTC or the Bank.

(i) Regulatory Approvals. Each authorization, consent, approval, license or formal exemption from or filing, declaration or registration with, any court governmental agency or regulatory authority (federal, state or local), required in connection with the City's execution and delivery of, and performance under, this Agreement and each of the Related Documents to which the City is a party has been obtained or made and is in full force and effect; provided, however, that no representation is made as to State blue sky laws.

(j) Other Documents. Each of the Related Documents to which the City is a party is in full force and effect, and the City hereby makes to the Bank each of the representations and warranties made by the City therein as if set forth at length herein. None of the Related Documents has been amended or supplemented except by such amendments or supplements as have previously been delivered to the Bank.

(k) Prospective Change in Law. To the best knowledge of the City (after due inquiry), except as otherwise disclosed in the Official Statement, there is no amendment, or proposed amendment certified for placement on a statewide ballot, to the Constitution of the State or any published administrative interpretation of the Constitution of the State or any State law, or any legislation which has passed either house of the State legislature or is under consideration by any conference or similar committee, or any published judicial decision interpreting any of the foregoing, the effect of which is to materially adversely affect the ability of the Authority or the City, as the case may be, to perform their respective obligations under this Agreement or any of the Related Documents to which each is a party.

(l) Tax-Exempt Status. Neither the City nor the Authority has taken any action or omitted to take any action, and knows of no action taken or omitted to be taken by any other Person, which action, if taken or omitted, would adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes or the exemption of such interest from the State's personal income tax.

(m) No Other Defaults. The City is not in default on any debt to any Person or entity in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date).

(n) No Immunity. The City is subject to liability for damages in contract and in tort in the manner and to the extent provided by the laws of the State. The City is subject to claims and to suit for money or damages in connection with or under this Agreement or any Related Document pursuant to and in accordance with the laws of the State applicable to public entities, including, but not limited to Part 3 of Division 3.6 of Title 1 of the Government Code of the State of California. The City is a "local public entity" as defined in Section 900.4 of the Government Code of the State of California. To the extent the City has or hereafter may acquire under any applicable law any right to immunity from set-off or legal proceedings on the grounds of sovereignty or otherwise, the City hereby waives, to the extent permitted by law, such rights to immunity for itself in respect of its obligations arising with or under this Agreement or any Related Document.

(o) Environmental Matters. Except as otherwise disclosed in the Official Statement:

(i) Hazardous Materials have not at any time been generated, used, treated or stored on, or transported to or from, the Leased Property or any property adjoining or in the vicinity of the Leased Property.

(ii) Hazardous Materials have not at any time been Released or disposed of on the Leased Property or any property adjoining or in the vicinity of the Leased Property.

(iii) The City is in compliance with all applicable Environmental Laws and directives of governmental agencies thereunder with respect to the Leased Property and the requirements of any permits issued under such Laws with respect to the Leased Property.

(iv) There are no past, pending or threatened Environmental Claims against the City or any of the Leased Property.

(v) There is no condition or occurrence on the Leased Property or any property adjoining or in the vicinity of the Leased Property that could be anticipated (x) to form the basis of an Environmental Claim against the City or the Leased Property or (y) to cause the Leased Property to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law.

(vi) There are not now and never have been any underground storage tanks located on the Leased Property or any property adjoining or in the vicinity of the Leased Property.

(p) Incorporation by Reference. The City hereby makes to the Bank the same representations and warranties made by the City in each Related Document to which it is a party, which representations and warranties, together with the related definitions of terms contained therein, are incorporated herein by this reference with the same effect as if each and every such representation and warranty and definition were set forth herein in its entirety. No amendment to or waiver of such representations, warranties or definitions made pursuant to the relevant Related Documents shall be effective to amend such representations and warranties and definitions as incorporated by reference herein without the prior written consent of the Bank.

(q) Usury; Maximum Rate. The terms of this Agreement, the Fee Letter Agreement and the Related Documents regarding the calculation and payment of interest and fees do not violate any applicable usury laws. The City is authorized by Section 5922 of the California Government Code to enter into this Agreement and the Fee Letter Agreement and the transactions contemplated hereby and thereby. The obligations of the City hereunder and under the Fee Letter Agreement and the Lease Agreement are not subject to any maximum interest rate imposed by law.

(r) Security. The payment of the Bonds and any Related Obligations (including without limitation the Obligations of the Authority and the City hereunder) are secured by a valid pledge of and first lien on and security interest in all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture (other than the Bond Purchase Fund and the Rebate Fund), as well as all other Collateral pledged by the Authority hereunder. The Obligations of the Authority and the City hereunder constitute a

Related Obligation under the Indenture. The Bank is a Credit Facility Provider and a Provider (and Bank of America, N.A. is no longer a Credit Facility Provider) within the meaning of the Indenture and the Lease Agreement. There are no Providers under the Indenture other than the Bank and Bank of America, N.A., as provider of the Series 2008 Interest Rate Swap Agreement. The Letter of Credit is an Alternate Credit Facility and therefore the Credit Facility within the meaning of the Indenture and the Lease Agreement, this Agreement is the Credit Facility Reimbursement Agreement within the meaning of the Indenture and the Lease Agreement, and Bank Bonds are Credit Facility Bonds within the meaning of the Indenture and the Lease Agreement. There is no Liquidity Facility within the meaning of the Indenture and the Lease Agreement and therefore, there is no Liquidity Facility Provider or Liquidity Agreement within the meaning of the Indenture and the Lease Agreement.

(s) Insurance. The City currently maintains insurance of such type and in such amounts or in excess of such amounts as are customarily carried by, and insures against such risks as are customarily insured against by, businesses of like type, size and character to the City and of such type and in such amounts required by the Lease Agreement.

(t) Government Sanctions. Neither the City nor, to the knowledge of the City, any of its Related Parties, is an individual or entity or Person currently the subject of any sanctions administered or enforced by the United States Government, including, without limitation, the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC"), the United Nations Security Council ("UNSC"), the European Union, Her Majesty's Treasury ("HMT"), or other relevant sanctions authority (collectively, "Sanctions"), nor is the City located, organized or resident in a country or territory that is the subject of Sanctions.

Section 4.2. Representations and Warranties of Authority. In order to induce the Bank to enter into this Agreement and to issue the Letter of Credit provided for in this Agreement, the Authority represents and as of the Closing Date and as of each Drawing Date, warrants and covenants with respect to itself, this Agreement and certain matters:

(a) Valid Existence. The Authority is a joint exercise of powers authority, duly organized and validly existing under its charter and the Constitution of the State and has the necessary power and authority to execute and deliver this Agreement and the Related Documents to which the Authority is a party and to perform its obligations hereunder and thereunder.

(b) Authorization and Validity. The execution, delivery and performance by the Authority of this Agreement and the Related Documents to which the Authority is a party have been duly authorized by all proper proceedings of the Authority, and no further approval, authorization or consents are required by law or otherwise. This Agreement and such Related Documents constitute the legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, moratorium and other laws affecting creditors' rights generally and principles of equity and public policy.

(c) Compliance with Laws and Contracts. Neither the execution and delivery by the Authority of this Agreement and the Related Documents to which the Authority is a party, nor the consummation of the transactions herein and therein contemplated, nor compliance with the provisions hereof or thereof will (i) violate any law, rule, regulation, order, writ, judgment,

injunction, decree or award binding on the Authority or the Authority's organizational documents (including but not limited to the Occupational Safety and Health Act of 1970, the Americans with Disabilities Act of 1990 and all Environmental Laws), (ii) result in any material breach of, or default under the provisions of any material indenture, instrument or agreement to which the Authority is a party or is subject, or by which it or its property is bound, or (iii) conflict with or result in the creation or imposition of any lien pursuant to the terms of any such indenture, instrument or agreement.

(d) Litigation. Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending with service of process accomplished or, to the knowledge of the Authority after due inquiry, threatened against or affecting the Authority or the Leased Property (i) wherein an unfavorable decision, ruling or finding would adversely affect (A) the Authority's ability to perform its obligations under this Agreement and the other Related Documents to which the Authority is a party or (B) the validity of this Agreement, any of the Related Documents to which the Authority is a party or any other agreement or instrument to which the Authority is a party; or (ii) which in any way contests the existence, organization or powers of the Authority or the titles of the officers of the Authority to their respective offices.

(e) No Event of Default. No Event of Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default has occurred and is continuing.

(f) Lease Agreement and Facilities Leases. The Lease Agreement and Facilities Leases are in full force and effect. The Authority has not been granted any waiver, indulgence or postponement of any of the Authority's obligations under the Lease Agreement or the Facilities Leases. There exists no event of default or event, occurrence, condition or act that, with the giving of notice, the lapse of time or the happening of any further event or condition, would become a default under the Lease Agreement or the Facilities Leases.

(g) Accurate and Complete Disclosure. All factual information certified by the Authority in writing to the Bank (including without limitation all information contained in, or made pursuant to, this Agreement and the Related Documents to which the Authority is a party) is, and all other such factual information hereafter certified by the Authority in writing to the Bank will be, to the knowledge of the authorized Person making such certification after reasonable inquiry, accurate and complete in all material respects on the date as of which such information is certified. The Official Statement, true copies of which have heretofore been delivered to the Bank, and each official statement pertaining to the Bonds (including any amendments or supplements) prepared subsequent to the Closing Date (a true copy of which shall be furnished to the Bank prior to the distribution thereof) do not and will not contain any untrue statement of a material fact and do not and will not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which made, not misleading, except no representation is made as to any information concerning the Trustee, DTC or the Bank.

(h) Regulatory Approvals. Each authorization, consent, approval, license or formal exemption from or filing, declaration or registration with, any court governmental agency

or regulatory authority (federal, state or local), required in connection with the Authority's execution and delivery of, and performance under, this Agreement and each of the Related Documents to which the Authority is a party has been obtained or made and is in full force and effect; provided, however, that no representation is made as to State blue sky laws.

(i) Other Documents. Each of the Related Documents to which the Authority is a party is in full force and effect, and the Authority hereby makes to the Bank each of the representations and warranties made by the Authority therein as if set forth at length herein. None of the Related Documents has been amended or supplemented except by such amendments or supplements as have previously been delivered to the Bank.

(j) Prospective Change in Law. To the best knowledge of the Authority (after due inquiry), except as otherwise disclosed in the Official Statement, there is no amendment, or proposed amendment certified for placement on a statewide ballot, to the Constitution of the State or any published administrative interpretation of the Constitution of the State or any State law, or any legislation which has passed either house of the State legislature or is under consideration by any conference or similar committee, or any published judicial decision interpreting any of the foregoing, the effect of which is to materially adversely affect the ability of the Authority to perform its obligations under this Agreement or any of the Related Documents to which it is a party.

(k) Tax-Exempt Status. The Authority has not taken any action or omitted to take any action, and knows of no action taken or omitted to be taken by any other Person, which action, if taken or omitted, would adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes or the exemption of such interest from the State's personal income tax.

(l) No Immunity. The Authority is subject to liability for damages in contract and in tort in the manner and to the extent provided by the laws of the State. The Authority is subject to claims and to suit for money or damages in connection with or under this Agreement pursuant to and in accordance with the laws of the State applicable to public entities, including, but not limited to Part 3 of Division 3.6 of Title 1 of the Government Code of the State of California. The Authority is a "local public entity" as defined in Section 900.4 of the Government Code of the State of California. To the extent the Authority has or hereafter may acquire under any applicable law any right to immunity from set-off or legal proceedings on the grounds of sovereignty or otherwise, the Authority hereby waives, to the extent permitted by law, such rights to immunity for itself in respect of its obligations arising with or under this Agreement or any Related Document.

(m) Incorporation by Reference. The Authority hereby makes to the Bank the same representations and warranties made by the Authority in each Related Document to which it is a party, which representations and warranties, together with the related definitions of terms contained therein, are incorporated herein by this reference with the same effect as if each and every such representation and warranty and definition were set forth herein in its entirety. No amendment to or waiver of such representations, warranties or definitions made pursuant to the relevant Related Documents shall be effective to amend such representations and warranties and definitions as incorporated by reference herein without the prior written consent of the Bank.

(n) Usury; Maximum Rate. The terms of this Agreement and the Related Documents regarding the calculation and payment of interest and fees do not violate any applicable usury laws. The Authority is authorized by Section 5922 of the California Government Code to enter into this Agreement and the transactions contemplated hereby and thereby. The obligations of the Authority hereunder and under the Lease Agreement are not subject to any maximum interest rate imposed by law.

(o) Security. The payment of the Bonds and any Related Obligations (including without limitation the Obligations of the Authority and the City hereunder) are secured by a valid pledge of and first lien on and security interest in all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture (other than the Bond Purchase Fund and the Rebate Fund), as well as all other Collateral pledged by the Authority hereunder. The Obligations of the Authority and the City hereunder constitute a Related Obligation under the Indenture. The Bank is a Credit Facility Provider and a Provider (and Bank of America, N.A. is no longer a Credit Facility Provider) within the meaning of the Indenture and the Lease Agreement. There are no Providers under the Indenture other than the Bank and Bank of America, N.A., as provider of the Series 2008 Interest Rate Swap Agreement. The Letter of Credit is an Alternate Credit Facility and therefore the Credit Facility within the meaning of the Indenture and the Lease Agreement, this Agreement is the Credit Facility Reimbursement Agreement within the meaning of the Indenture and the Lease Agreement, and Bank Bonds are Credit Facility Bonds within the meaning of the Indenture and the Lease Agreement. There is no Liquidity Facility within the meaning of the Indenture and the Lease Agreement and therefore, there is no Liquidity Facility Provider or Liquidity Agreement within the meaning of the Indenture and the Lease Agreement.

(p) Government Sanctions. Neither the Authority nor, to the knowledge of the Authority, any of its Related Parties, is an individual or entity or Person currently the subject of any Sanctions, nor is the Authority located, organized or resident in a country or territory that is the subject of Sanctions.

ARTICLE FIVE

COVENANTS

Section 5.1. Affirmative Covenants. So long as the Expiration Date has not occurred or any Obligation is owed to the Bank hereunder, the Authority and the City covenant and agree with the Bank as follows, unless the Bank shall otherwise consent in writing:

(a) Reimbursement. Subject to Section 2.5(a), the Authority and the City shall reimburse the Bank for any unreimbursed Drawings under the Letter of Credit as required by Section 2.2.

(b) Notice of Default. As soon as practicable but in any event not more than five (5) Business Days after an Authorized Representative of the City or the Authority shall have obtained knowledge of the occurrence of an Event of Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default, provide to the Bank the written statement of an Authorized City Representative setting forth the details of each such

Event of Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default and the action, if any, which the City and the Authority propose to take with respect thereto.

(c) Compliance With Laws. The City and the Authority shall comply with all laws, rules and regulations, and with all final orders, writs, judgments, injunctions, decrees or awards to which it may be subject; provided, however, that the City or the Authority, as applicable, may contest the validity or application thereof and appeal or otherwise seek relief therefrom, and exercise any and all of the rights and remedies which it may have with regard thereto, so long as such acts do not affect the power and authority of the City or the Authority to execute and deliver this Agreement, to perform their respective Obligations and pay all amounts payable by them hereunder, or to execute and deliver the Related Documents to which each of them is a party and to perform their respective obligations thereunder. The City shall not deviate from its investment policy in effect from time to time.

(d) Related Obligations. The City and the Authority shall duly perform each of their respective obligations under this Agreement and the other Related Documents to which they are a party. The City and the Authority shall use their best efforts to cause the Trustee, the Tender Agent and the Remarketing Agent at all times to comply with the terms of the Related Documents to which they are a party.

(e) Inspection Rights. At any reasonable time and from time to time upon two (2) days prior written notice, the City shall permit the Bank or any agents or representatives thereof to examine and make copies of the records and books of account related to the transactions contemplated by this Agreement and the Related Documents, to visit its properties and to discuss its affairs, finances and accounts with any of its officers and independent accountants.

(f) Amendments. Neither the City nor the Authority shall amend, modify, terminate or grant, or permit the amendment, modification, termination or grant of, any waiver under, or consent to, or permit or suffer to occur any action or omission which results in, or is equivalent to, an amendment, termination, modification, or grant of a waiver under any Related Document (including without limitation any amendment of the definition of Maximum Annual Base Rental Payment contained in the Lease Agreement) without the prior written consent of the Bank; provided that such consent shall not be required if the Bank notifies the City in writing that the Bank, in its sole discretion, has determined that any such amendment, modification or waiver does not affect its rights, duties or obligations. For the avoidance of doubt, neither the City nor the Authority shall amend, modify, terminate or grant, or permit the amendment, modification, termination or grant of, any waiver under, or consent to, or permit or suffer to occur any action or omission which results in, or is equivalent to, an amendment, termination, modification, or grant of a waiver under the Remarketing Agreement without the prior written consent of the Bank, other than an amendment, modification or grant of a waiver under Section 5 thereof.

(g) Official Statement. Neither the City nor the Authority shall refer to the Bank in any official statement (including the Official Statement) or make any changes in reference to the Bank in any official statement (including the Official Statement) without the

Bank's prior written consent thereto, which the Bank shall not unreasonably withhold or delay based upon customary business practices at the time such consent is requested.

(h) Voluntary Prepayment. Without the prior written consent of the Bank, neither the City nor the Authority shall permit the optional redemption, defeasance or other prepayment pursuant to the Indenture of any Bonds (other than Bank Bonds) prior to prepaying the Bank Bonds in full.

(i) Certain Notices; Financial Statements. The City shall provide or cause to be provided to the Bank copies of:

(i) Financial Statements. The City shall provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:

(A) Within 270 days of the City's fiscal year end, the City's annual financial statements as of June 30 of each year, certified and dated by an authorized financial officer of the City. These financial statements must be audited (with an unqualified opinion, using the accounting standards then applicable to the City) by a Certified Public Accountant.

(B) The City shall, promptly upon its approval and upon publication of the annual budget of the City each year, such budget and promptly after the adoption thereof.

(C) Promptly, upon sending or receipt, copies of any management letters and correspondence relating to management letters, sent or received by the City to or from the City's auditor, or, if no management letter is prepared, a letter from such auditor stating that no deficiencies were noted that would otherwise be addressed in a management letter.

(D) Together with the annual financial statements of the City delivered pursuant to Section 5.02(i)(A), a certificate as to whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action the City is taking and proposes to take with respect thereto.

(E) The annual report of the City, if any, which is delivered in accordance with the City's "continuing disclosure certificate" related to the any lease obligations or general fund obligations at the time it is delivered thereunder.

(ii) Promptly, notice of any action, suit or proceeding known to it at law or in equity or by or before any governmental instrumentality, entity or other agency for any uninsured claim which, if adversely determined, could result in a judgment against the City of \$500,000 or more, or would materially and adversely affect the City's ability to pay its Obligations under this Agreement.

(iii) Promptly, notice of (A) any material dispute which may exist between the City or the Authority on the one hand and the Remarketing Agent, the Trustee or the Trustee on the other hand or any dispute in connection with any transaction contemplated under this Agreement or any Related Document, (B) any matter or event which may result in a material adverse change in the financial condition, operations or prospects of the City or its ability to perform its obligations under this Agreement or any Related Document, (C) any inquiry by the Internal Revenue Service or the Securities and Exchange Commission, (D) any amendment to any Related Document, and (E) the resignation or removal of the Remarketing Agent, the Trustee or the Tender Agent.

(iv) As soon as practicable after the sale by the City of any securities payable from the City's general fund with respect to which an offering memorandum or official statement was prepared, such offering memorandum or official statement.

(v) Such additional information concerning the Leased Property, the Related Documents, the City or the Authority, as requested by the Bank from time to time.

(j) Existence. The City shall maintain its existence as a charter city, duly organized and validly existing under its charter and the Constitution of the State and its rights, franchises and privileges material to the conduct of its business and shall not, without the prior written consent of the Bank, initiate proceedings to reorganize, merge or consolidate with or into any Person, wind up, liquidate or dissolve its affairs (or suffer any liquidation or dissolution) or convert, sell, assign, transfer, lease or otherwise dispose of (or agree to do any of the foregoing at any future time), whether in one transaction or a series of transactions, all or substantially all of its property or assets. The Authority shall maintain its existence as a joint exercise of powers authority, duly organized and validly existing under its charter and the Constitution of the State and its rights, franchises and privileges material to the conduct of its business and shall not, without the prior written consent of the Bank, initiate proceedings to reorganize, merge or consolidate with or into any Person, wind up, liquidate or dissolve its affairs (or suffer any liquidation or dissolution) or convert, sell, assign, transfer, lease or otherwise dispose of (or agree to do any of the foregoing at any future time), whether in one transaction or a series of transactions, all or substantially all of its property or assets.

(k) Incorporation of Certain Covenants. The covenants of the City and the Authority set forth in the Related Documents are hereby incorporated by reference in this Agreement for the benefit of the Bank, which provisions, as well as related defined terms contained therein, are hereby incorporated by reference herein with the same effect as if each and every such provision were set forth herein in its entirety without giving effect to any expiration, amendment, supplement or termination of the Related Documents to which the Bank has not given its express written consent.

(l) Liens, etc. The Authority shall not create or suffer to exist any lien upon or with respect to any of the Leased Property or the security for the Bonds, except for Permitted Encumbrances.

(m) Insurance. The City shall maintain the insurance required by the Lease Agreement, including without limitation, (i) fire and extended coverage insurance in an amount not less than the greater of the replacement value of the Leased Property or the Stated Amount of the Letter of Credit, and (ii) rental interruption or use and occupancy insurance to cover the Authority's loss, total or partial, of the rent under the Lease Agreement resulting from the loss, total or partial, of the use of any part of the Leased Property as a result of any of the hazards required to be covered by the property insurance required under the Lease Agreement in an amount sufficient at all times to pay an amount not less than the maximum amount of Base Rental Payments scheduled to be paid during any twenty-four (24) month period assuming the interest on the Bonds shall be deemed to accrue at a rate per annum of 12%; provided that the City shall not be permitted to self-insure its obligation to maintain rental interruption or use and occupancy insurance. The City shall cause each issuer of each insurance policy (other than for general liability) to name the Bank as additional insured and loss payee and to cause each issuer of each insurance policy for general liability to name the Bank as additional covered party and to agree in writing to give the Bank thirty (30) days' advance notice of any cancellation or lapse in coverage. The City shall not amend any insurance policy maintained by it with respect to the Leased Property without the Bank's prior written approval. The City shall cause the proceeds of such insurance to be utilized, pursuant to Section 5.06 of the Indenture and Section 5.01 of the Lease Agreement and with the prior written consent of the Bank, for either (i) the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property or (ii) the redemption of Outstanding Bonds pursuant to the applicable provisions of Section 4.01(A) of the Indenture.

(n) Debt Limitation. The City shall not have outstanding or incur any direct or contingent liabilities or lease obligations (other than the Related Documents and the Obligations of the City to the Bank under this Agreement) with respect to the Leased Property, or permit any lien or encumbrance on the Leased Property without the Bank's written consent.

(o) Transfer, Substitution or Abandonment of Leased Property. During the term of this Agreement, the City may not assign, lease, transfer, pledge or otherwise dispose of, or grant an interest in, substitute or abandon any of the Leased Property or any part thereof without the prior written consent of the Bank.

(p) Further Assurances. The City and the Authority shall execute and deliver to the Bank all such documents, consents and instruments and do all such other acts and things as may be reasonably necessary or required by the Bank to enable the Bank to exercise and enforce its rights under the Related Documents and the Related Documents and to realize thereon, and record and file and re-record and re-file all such documents and instruments, at such time or times, in such manner and at such place or places, all as may be necessary or required by the Bank to validate, preserve and protect the position of the Bank under the Related Documents.

(q) Consents; Licenses; Permits. The City and the Authority shall take all necessary and appropriate action to ensure the continuance in force of all material consents, licenses, permits, orders, decrees, approvals, authorizations, registrations and filings obtained or made in connection with the Leased Property, this Agreement or the Related Documents or necessary to authorize the execution, delivery and performance by the City and the Authority of

this Agreement, the Related Documents and all other agreements to be delivered in connection with any thereof.

(r) Impairment. Neither the City nor the Authority shall take any action, or cause the Trustee, the Tender Agent or the Remarketing Agent to take any action under the Indenture or any Related Document, inconsistent with the rights of the Bank under this Agreement and the Related Documents including, without limitation, its Obligations to the Bank hereunder and the pledge, security interest or lien created hereunder or under the Indenture or any Related Document, or take any action which would result in the City's or the Authority's Obligations to the Bank under this Agreement not ranking at least equal in right of payment with all unsecured obligations of the City or the Authority, as applicable, to other creditors, or knowingly take any action or omit to take any action if such action or omission would adversely affect the exclusion of interest on the Bonds from gross income of the holders thereof for Federal income tax purposes or the exemption of such interest from State personal income taxes. The Authority shall take such action, and shall not fail to take any action, as may be necessary or required to preserve the Authority's leasehold interest in the Leased Properties under the Parking Garage Facilities Lease and the City-County Administration Facilities Lease for the remaining scheduled terms thereof.

(s) Environmental Covenants.

(i) The City will comply with all Environmental Laws applicable to ownership or use of the Leased Property, and will cause all tenants and other Persons occupying the Leased Property to comply with all such Environmental Laws, will immediately pay or cause to be paid all costs and expenses incurred in such compliance, and will keep or cause to be kept all the Leased Property free and clear of any Liens imposed pursuant to such Environmental Laws.

(ii) The City will not generate, use, treat, store, Release, or dispose of, or permit the generation, use, treatment, storage, Release, or disposal of Hazardous Materials on the Leased Property, or transport or permit the transportation of Hazardous Materials to or from the Leased Property.

(iii) On the written request of the Bank, at any time and from time to time, the City will provide, at the City's sole cost and expense, an environmental site assessment report concerning the Leased Property, prepared by an environmental consulting firm approved by the Bank, indicating the presence or absence of Hazardous Materials and the potential cost of any removal or remedial action in connection with any Hazardous Materials on the Leased Property. If City fails to provide the same within 15 days of such request the Bank may order the same, and the City shall grant and hereby grants to the Bank and its agents access to the Leased Property and specifically grants the Bank an irrevocable non-exclusive license, subject to the rights of subtenants, to undertake such an assessment; and the cost of such assessment shall be deemed to be an Additional Payment under the Lease Agreement, and shall be immediately due and payable on demand and with interest at the Default Rate.

(iv) The City will immediately advise the Bank in writing of any of the following:

(A) Any pending or threatened Environmental Claim against the City with respect to the Leased Property;

(B) Any condition or occurrence on the Leased Property that (A) results in noncompliance by the City with any applicable Environmental Law, or (B) could reasonably be anticipated to form the basis of an Environmental Claim against the City with respect to the Leased Property;

(C) Any condition or occurrence on the Leased Property or any property adjoining or in the vicinity of the Leased Property that could reasonably be anticipated to cause the Leased Property to be subject to any restrictions on the ownership, occupancy, use, or transferability of the Leased Property under any Environmental Law; and

(D) The taking of any removal or remedial action in response to the actual or alleged presence of any Hazardous Materials on the Leased Property or the issuance of any notice to take any such action by any governmental agency.

All such notices shall describe in reasonable detail the nature of the claim, investigation, condition, occurrence, or removal or remedial action and the City's response thereto. In addition, the City will provide the Bank with copies of all communications with any government or governmental agency relating to Environmental Laws, all communications with any Person relating to Environmental Claims, and such detailed reports of any Environmental Claim as may be requested by the Bank.

(v) The Bank shall have the right but not the obligation to participate in, as a party if it so elects, any legal proceeding or action initiated in connection with any Environmental Claim. Without the Bank's prior written consent, the City shall not enter into any settlement, consent, or compromise with respect to any Environmental Claim that might impair the value of the Bank's interests under the Lease Agreement; provided, however, that the Bank's prior consent shall not be necessary for the City to take any removal or remedial action if ordered by a court of competent jurisdiction or if the presence of Hazardous Materials at the Leased Property poses an immediate significant threat to the health, safety, or welfare of any individual or otherwise requires an immediate removal or remedial response.

The City will conduct any investigation, study, sampling, and testing, and undertake any cleanup, removal, remedial, or other action necessary to remove and clean up all Hazardous Materials from the Leased Property in accordance with the requirements of all applicable Environmental Laws, to the satisfaction of the Bank, and in accordance with orders and directives of all governmental authorities.

(vi) The City will not change or permit to be changed the present use of the Leased Property unless the City shall have notified the Bank thereof in writing and the Bank shall have determined, in its sole and absolute discretion, that such change will not result in the presence of Hazardous Materials on the Leased Property.

(t) Swap Fees. The City agrees that all termination fees, settlement amounts and expenses relating to any Swap or interest rate management agreement shall be and remain subordinate to the Obligations of the City to the Bank under this Agreement.

(u) Alternate Credit Facility; Nonrenewal. In the event of any Tender Draw as a result of the Bank's election to cause a mandatory tender of the Bonds because of the occurrence and continuance of an Event of Default hereunder, or upon the occurrence and continuance of an Event of Default specified in Section 6.1(j) hereof, or in the event the Bank declines at any time, in its sole and absolute discretion, to extend the Stated Expiration Date or should the Authority and the City fail to request an extension of the Stated Expiration Date on a timely basis, the Authority and the City shall replace the Letter of Credit with an Alternate Credit Facility as soon thereafter as possible. In the event the Bank declines at any time, in its sole and absolute discretion, to extend the Stated Expiration Date or should the Authority and the City fail to request an extension of the Stated Expiration Date on a timely basis and, in either case the Authority is unable to provide an Alternate Credit Facility by the related mandatory tender date, the Authority and the City shall convert the interest rate on the Bonds to maturity to a rate that does not require credit enhancement or refinance or defease the Bonds by such Stated Expiration Date or as soon thereafter as possible.

(v) Appropriation. The City shall include in the budget for each fiscal year of the City as separate line items amounts necessary to pay all Base Rental Payments and Additional Payments. The City shall make annual appropriations at levels required under the Lease Agreement to pay all Base Rental Payments and Additional Payments payable during such fiscal year. If such Base Rental Payments or Additional Payments exceed the budgeted amounts, the City covenants to amend or supplement the budget appropriations for such budget period to provide for such excess amounts. The covenants on the part of the City contained in this Section shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants.

(w) Additional Covenants Regarding Remarketing Agent. The Authority shall at all times cause a Remarketing Agent acceptable to the Bank to be in place and at all times have in place a Remarketing Agreement with respect thereto acceptable to the Bank. Upon any replacement of the Remarketing Agent, whether upon resignation or removal, the Authority shall cause the Remarketing Agreement with respect to such successor Remarketing Agent to at all times provide that (a) the Remarketing Agent shall use its best efforts to remarket the Bonds (including without limitation Bank Bonds) at rates up to and including the maximum rate permitted under the Indenture without regard to the rate paid to the Bank with respect to Bank Bonds; (b) if at any time the Remarketing Agent shall fail to remarket the Bonds for a period of thirty (30) consecutive calendar days or shall otherwise fail to perform its duties under the

Remarketing Agreement, the Authority shall, at the direction of the Bank, appoint a successor remarketing agent acceptable to the Bank; (c) the Remarketing Agent must give at least 60 days' written notice prior to resigning; and (d) the Bank must be a third-party beneficiary of the Remarketing Agreement.

(x) Trustee and Other Agents. The Authority shall immediately notify the Bank of any resignation of the Trustee, the Tender Agent or the Remarketing Agent, and, if requested by the Bank, shall remove any of such agents and appoint a successor Trustee, Tender Agent or Remarketing Agent, as the case may be. Any successor Trustee, Tender Agent or Remarketing Agent shall be acceptable to the Bank.

(y) Termination. So long as any of the Authority's or the City's Obligations hereunder remain unpaid or any Bank Bonds remain Outstanding, terminate this Agreement, the Indenture, the Lease Agreement or any of the Facilities Leases or replace the Letter of Credit with an Alternate Credit Facility or cause any conversion of the Bonds to a rate mode other than a Daily Mode or Weekly Mode.

(z) Abatement. Any determination of the amount of any abatement of Base Rental Payments pursuant to Section 3.06 of the Lease Agreement shall be approved by the Bank, subject to applicable debt limitations. In the event of any such abatement, the Authority and the City shall increase the Base Rental Payment for any Rental Payment Period for the portion of the Leased Property that remains usable if and to the extent that the Maximum Annual Base Rental Payment relating to such usable portion of the Leased Property exceeds the amount needed to pay the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period until such abated Base Rental Payments and Additional Payments have been paid in full. In addition, after the substantial completion of the work of repair or reconstruction, the Authority and the City shall increase the Base Rental Payment for any Rental Payment Period for the whole of the Leased Property if and to the extent that the Maximum Annual Base Rental Payment exceeds the amount needed to pay the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period until such abated Base Rental Payments and Additional Payments have been paid in full. In the event of any such abatement, any Additional Payments for any Rental Payment Period shall be payable as contingent obligations of the Authority and the City and shall not be subject to abatement pursuant to Section 3.06 of the Lease Agreement.

(aa) Additional Rights. In the event that the Authority or the City shall enter into or otherwise consent to any credit agreement, reimbursement agreement, bond purchase agreement, liquidity agreement or other agreement or instrument (or any amendment, supplement or modification thereto) pursuant to which a financial institution or financial institutions (other than the Authority or the City) (each, a "Lender") undertakes to make loans or advances or extend credit or liquidity to the Authority and/or the City as support for any general fund obligation of the City (each, a "Bank Agreement"), which Bank Agreement contains (i) covenants that are more restrictive on the part of the City or MICLA than those contained in this Agreement and/or (ii) events of default and/or remedies that are more favorable to the Lender than those contained in this Agreement (collectively, the "Additional Rights"), such

Additional Rights shall automatically be deemed to be incorporated into this Agreement and the Bank shall have the benefits of such Additional Rights. Upon entering into or consenting to any Bank Agreement, the Authority and the City shall promptly enter into an amendment to this Agreement to include such Additional Rights, provided that the Bank shall maintain the benefit of such Additional Rights even if the Authority and/or the City fails to provide such amendment. If the Authority and the City shall amend the Bank Agreement such that it no longer provides for such Additional Rights, then, without the consent of the Bank, this Agreement shall automatically no longer contain the Additional Rights and the Bank shall no longer have the benefits of any of the Additional Rights.

(bb) Government Sanctions. Neither the City nor the Authority shall, directly or indirectly, use the proceeds of draws under the Letter of Credit or any other credit provided under this Agreement, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in any country or territory, that, at the time of such funding, is the subject of Sanctions, or in any manner that will result in a violation by any Person (including any Person participating in the transactions contemplated by this Agreement, whether as underwriter, advisor, investor or otherwise) of Sanctions.

ARTICLE SIX

DEFAULTS

Section 6.1. Events of Defaults and Remedies. If any of the following events shall occur and be continuing, each such event shall be an “Event of Default”:

(a) The Authority or the City (by payment of Base Rental Payments or Additional Payments under the Lease Agreement) shall fail to pay when due any amount payable to the Bank under this Agreement or under the Lease Agreement (including any Base Rental Payment or Additional Payment) or under any of the Related Documents; or

(b) Any provision of the Bonds or any other Related Document ceases to be valid and binding against the Authority, the City, the Successor Agency or the Financing Agency (as the case may be) or shall be declared null and void or the Authority, the City, the Successor Agency or the Financing Agency repudiates its obligations under this Agreement or any of the Related Documents or the pledge and assignment pursuant hereto and pursuant to the Indenture shall for any reason cease to be fully enforceable with the priority required hereunder and thereunder; or

(c) The Authority, the City, the Successor Agency or the Financing Agency shall either (i) become insolvent or generally fail to pay, or admit in writing its inability to pay, its debts as they become due; or (ii) voluntarily commence any proceeding or file any petition under the Bankruptcy Law or similar law seeking dissolution or reorganization or the appointment of a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of an involuntary petition filed against it in any bankruptcy, insolvency or similar proceeding, or shall be

adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or shall consent to, or acquiesce in the appointment of, a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business; or (iii) take any action for the purpose of effectuating any of the foregoing; or

(d) involuntary proceedings or an involuntary petition shall be commenced or filed against the Authority, the City, the Successor Agency or the Financing Agency under the Bankruptcy Law or similar law seeking the dissolution or reorganization of the Authority, the City, the Successor Agency or the Financing Agency or the appointment of a receiver, trustee, custodian or liquidator for the Authority, the City, the Successor Agency or the Financing Agency or of a substantial part of the property, assets or business of the Authority, the City, the Successor Agency or the Financing Agency, or any writ, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or business of the Authority, the City, the Successor Agency or the Financing Agency, and such proceedings or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded, within thirty (30) days after commencement, filing or levy, as the case may be; or

(e) Any judgments or arbitration awards are entered against the City, or the City enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of \$500,000 or more in excess of any insurance coverage, provided that the insurer has issued a letter of responsibility for payment up to the amount of insurance coverage; or

(f) The City shall fail to make a payment on any debt to any Person or entity payable from the City's general fund in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date), or in connection with any credit the City has obtained from the Bank regardless of amount, or any interest or premium thereon when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such debt, or the City shall fail to perform or observe any term, covenant or condition in any agreement or instrument relating to any debt to any Person or entity in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date) when required to be performed or observed, if the effect of such failure to perform or observe results in the acceleration, or ability to accelerate, the maturity of such debt (or, with respect to any Swap, which results in such Swap being terminated early or being capable of being terminated early); or

(g) Any default occurs under the Lease Agreement or any other Related Document, in each case after the passage of any notice and cure periods; or

(h) The City or the Authority fails to meet the conditions of, or fails to perform (i) any term, covenant, condition or agreement on its part to be performed or observed under Section 5.1(a), (f), (g), (h), (j), (l), (m), (n), (o), (r), (t), (v), (y), (z), (aa) or (bb) hereof, or (ii) any term, covenant, condition or agreement on its part to be performed or observed not

specifically referred to in this Article, and such default (solely in the case of clause (ii)) is not cured within thirty (30) days after the Bank has given the City or the Authority, as applicable, written notice of such default; or

(i) Any of the City's or the Authority's representations or warranties made herein or in any statement or certificate at any time made or deemed made by or on behalf of the City or the Authority pursuant hereto or in connection herewith, and/or in any of the other Related Documents, is false or misleading in any material respect when made or deemed made; or

(j) The ratings assigned to any long term, unenhanced general fund obligation of the City shall be withdrawn or suspended or otherwise unavailable for credit-related reasons or reduced below Baa1 by Moody's Investors Service, Inc., BBB+ by S&P Global Ratings or BBB+ by Fitch Ratings, Inc. In the event of split ratings, the default will be determined by reference to the lowest rating; or

(k) The leasehold interest of the Authority under either of the Parking Garage Facilities Lease or the City-County Administration Facilities Lease shall terminate; or

(l) A moratorium shall have been declared with respect to the payment of the debts of the Authority or the City; or

(m) Any of the funds or accounts established pursuant to the Indenture or the Lease Agreement or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City or the Authority and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within thirty (30) days after its issue or levy; or

(n) An event shall have occurred that in the opinion of the Bank has a material adverse effect on the financial condition, operations or prospects of the City or its ability to perform its obligations under this Agreement or any Related Document.

If an Event of Default shall have occurred and be continuing, the Bank may (i) give notice to the Trustee under the Indenture of the Bank's election to cause a mandatory tender of the Bonds because of the occurrence and continuance of an Event of Default hereunder, (ii) 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 Bank hereunder to be immediately due and payable, without presentment, demand, protest or any notice of any kind, but subject to Section 2.5 hereof or (iii) exercise any and all rights and remedies available to the Bank under this Agreement or the Indenture, at law or in equity; provided, that the Bank may not cause the acceleration of Base Rental Payments under the Lease Agreement. In the event of the occurrence of an Event of Default described in Section 6.1(c) or (d), all unpaid amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued thereon and all other amounts payable to the Bank hereunder 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, but subject to Section 2.5 hereof.

ARTICLE SEVEN

MISCELLANEOUS

Section 7.1. Modification of this Agreement. No amendment, modification or waiver of any provision of this Agreement or any other Related Document, and no consent to any departure by the Authority or the City therefrom, shall be effective unless the same shall be in writing and signed by the Bank and no amendment, modification or waiver of any provision of the Letter of Credit shall in any event be effective unless the same shall be in writing and signed by the Bank. Any such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the City or the Authority in any case shall entitle the City or the Authority to any other or further notice or demand in the same, similar or other circumstances.

Section 7.2. Successors and Assigns. This Agreement is binding on the successors and assignees of the City, the Authority and the Bank. The City and the Authority agree that neither of them may assign this Agreement without the Bank's prior consent. The Bank may sell participations in this facility without the consent of the City or the Authority, provided that under no circumstances with such grant of participations relieve the Bank of its obligations under the Letter of Credit. The Bank may exchange financial information about the Authority and the City with actual or potential participants or assignees. If participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Authority and the City and will have the benefit of Sections 2.3(f), 7.3, 7.4 and 7.6 hereof. The Bank may collaterally assign and pledge all or any portion of the obligations owing to it hereunder or under the other Related Documents to any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, provided that any payment in respect of such assigned obligations made by the Authority or the City to the Bank in accordance with the terms of this Agreement shall satisfy the obligations of the Authority or the City, respectively, hereunder in respect of such assigned obligation to the extent of such payment.

Section 7.3. Administration Costs. Following the Closing Date, the Authority and the City (by payment of Additional Payments under the Lease Agreement) shall pay the Bank for all reasonable fees, charges and expenses payable or incurred by the Bank in connection with the administration of this Agreement and the transactions contemplated by this Agreement, including without limitation, the legal fees and expenses of counsel to the Bank, together with interest on such amounts from the date such payment is due until paid at a rate per annum equal to the Default Rate, and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such fees, charges and expenses.

Section 7.4. Enforcement Costs. The Authority and the City (by payment of Additional Payments under the Lease Agreement) shall reimburse the Bank for any fees, charges and expenses payable or incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout"

or restructuring under this Agreement, including without limitation the legal fees and expenses of counsel to the Bank, together with interest on such amounts from the date such payment is due until paid at a rate per annum equal to the Default Rate, and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such fees, charges and expenses. As used in this paragraph, "legal fees" includes the allocated costs of the Bank's in-house counsel.

Section 7.5. One Agreement. This Agreement, the Fee Letter Agreement and any related security or other agreements required by this Agreement, collectively:

- (a) represent the sum of the understandings and agreements among the Authority, the Bank and the City concerning this credit;
- (b) replace any prior oral or written agreements between or among the Bank and the Authority and/or the City concerning this credit; and
- (c) are intended by the Bank, the Authority and the City as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and the Fee Letter Agreement and any other agreements required by this Agreement, this Agreement and the Fee Letter Agreement will prevail.

Section 7.6. Indemnification. To the extent permitted by law, the Authority and the City (by payment of Additional Payments under the Lease Agreement) will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any of the Related Documents, (b) any credit extended or committed by the Bank to the Authority and the City hereunder, (c) any claim, whether well-founded or otherwise, that there has been a failure to comply with any law regulating the Authority or the City in connection with the Bonds, this Agreement, the Lease Agreement or any of the other Related Documents or the transactions contemplated hereby or thereby, (d) the use storage, presence, disposal or Release of any Hazardous Materials on or about the Property and (e) any litigation or proceeding related to or arising out of this Agreement, any such document, any such credit, or any such claim. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive the termination of this Agreement and the Lease Agreement and the Authority's and the City's obligations hereunder and thereunder and the payment in full of all Base Rental Payments and Additional Payments. All sums due to the Bank hereunder shall be Obligations of the Authority and the City, due and payable immediately without demand. This indemnity excludes any loss, liability, damages, judgments and costs that result from the gross negligence or willful misconduct of the Bank.

Section 7.7. Notices. Unless otherwise provided in this Agreement or in another agreement among or between the Bank and the Authority and/or the City, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage

prepaid, or by overnight courier, to the addresses set forth below, or sent by facsimile to the fax numbers set forth below, or to such other addresses as the Bank, the Authority and the City may specify from time to time in writing. Notices and other communications sent by (a) first class mail shall be deemed delivered on the earlier of actual receipt or on the fourth business day after deposit in the U.S. mail, postage prepaid, (b) overnight courier shall be deemed delivered on the next business day, and (c) telecopy shall be deemed delivered when transmitted.

If to the City:

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, CA 95354
Attn: Director of Finance
Facsimile: 209-571-5880

If to the Authority:

Modesto Public Financing Authority
c/o City of Modesto
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attn: Auditor and Treasurer
Facsimile: 209-571-5880

If to the Bank:

To the addresses set forth in the Fee Letter Agreement.

Section 7.8. Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

Section 7.9. Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement. This Agreement may be delivered by the exchange of signed signature pages by facsimile transmission or by attaching a pdf copy to an email, and any printed or copied version of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

Section 7.10. No Waiver; Remedies. No failure on the part of the Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 7.11. Severability. Any provision of this Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without

invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provisions in any other jurisdiction.

Section 7.12. Set-Off. Upon the occurrence and during the continuance of any Event of Default the Bank and each of its affiliates are hereby authorized at any time and from time to time, without notice to the Authority or the City (any such notice being expressly waived by the Authority and the City) and to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisions or final) at any time held and other indebtedness at any time owing by the Bank or any of its affiliates, except in connection with the Letter of Credit as herein provided, to or for the credit or the account of the Authority or the City against any and all of the Obligations of the Authority and the City now or hereafter existing under this Agreement, irrespective of whether or not the Bank shall have made any demand hereunder and although such obligations may not have matured. The rights of the Bank and each of its affiliates under this Section are in addition to other rights and remedies which the Bank and each of its affiliates may have including, without limitation, other rights of set-off. For such purpose, the Bank and each of its affiliates shall have, and the Authority and the City each hereby grants to the Bank and each of its affiliates, a first lien on and security interest in such deposits or indebtedness held or maintained by the Bank or any of its affiliates and the proceeds thereof.

Section 7.13. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

Section 7.14. Waiver of Suretyship. The Authority, City and the Bank intend that the Obligations of the Authority and the City under this Agreement constitute direct obligations of the Authority and the City, respectively, and not obligations in the nature of a guaranty or a surety. Nevertheless, should it ever be deemed that the Authority's or the City's Obligations hereunder are in the nature of a guarantor or surety, then the Authority and the City expressly waive any and all rights of subrogation, reimbursement, indemnification and contribution and any other rights and defenses under applicable suretyship or similar laws now or hereafter in effect, including without limitation Sections 2787 to 2855, inclusive, 2899 and 3433 of the California Civil Code. The Authority and the City, respectively, agree that the Bank may enforce this Agreement without the necessity of resorting to or exhausting any security or collateral, and the Authority and the City waive the right to require the Bank to proceed against the other co-obligor to exercise any right or remedy under this Agreement or to pursue any other remedy, or to enforce any other right.

Further, should it ever be deemed that the Authority's or the City's Obligations hereunder are in the nature of a guarantor or surety and the Authority's or the City's Obligations hereunder are secured by real property, then each of the Authority and the City, respectively, waives all rights and defenses that it may have because the other co-obligor's Obligations hereunder are secured by real property. This means, among other things: (1) the Bank may collect from either the Authority or the City without first foreclosing on any real or personal property collateral pledged by the other co-obligor; (2) if the Bank forecloses on any real property collateral pledged by the other co-obligor, (A) the amount of the obligation may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price and (B) the Bank may collect from the Authority or

the City even if the Bank, by foreclosing on the real property collateral, has destroyed any right the Authority or the City, as applicable, may have to collect from the other co-obligor. This is an unconditional and irrevocable waiver of any rights and defenses the Authority or the City may have because the other co-obligor's Obligations hereunder are secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the Code of Civil Procedure. In addition, each of the Authority and the City, respectively, waives all rights and defenses arising out of an election of remedies by the Bank, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed the Authority's or the City's, as applicable, rights of subrogation and reimbursement against the principal by the operation of Section 580d of the Code of Civil Procedure or otherwise.

Section 7.15. Waiver of Jury Trial.

(a) TO THE FULL EXTENT PERMITTED BY LAW, THE AUTHORITY AND THE CITY EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY FOR ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE LETTER OF CREDIT OR ANY OTHER DOCUMENT DELIVERED IN CONNECTION HERewith OR THEREWITH, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY OR IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY THE AUTHORITY OR THE CITY AGAINST THE BANK OR ANY BANK-RELATED PERSON, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. EACH OF THE AUTHORITY AND THE CITY FURTHER AGREES, TO THE FULLEST EXTENT PERMITTED BY LAW, THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT JURY. WITHOUT LIMITING THE FOREGOING, TO THE EXTENT PERMITTED BY LAW, EACH OF THE AUTHORITY AND THE CITY FURTHER AGREES THAT ITS RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT, THE LETTER OF CREDIT OR ANY OTHER DOCUMENT DELIVERED IN CONNECTION HERewith OR THEREWITH OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT, THE LETTER OF CREDIT AND ANY OTHER DOCUMENTS DELIVERED IN CONNECTION THEREWITH.

(b) In the event the waiver of jury trial as set forth in subsection (a) of this Section shall be declared void or unenforceable, each of the Authority and the City agrees to refer the dispute to a judicial referee in accordance with the provisions of Section 638 et seq. of the California Code of Civil Procedure.

Section 7.16. No Advisory or Fiduciary Relationship. The Authority and the City each acknowledges and agrees that: (i) the transaction contemplated by this Agreement is an arm's length, commercial transaction among the Authority, the City and the Bank in which the Bank is acting solely as a principal and is not acting as a municipal advisor, financial advisor or

fiduciary to the Authority or the City; (ii) the Bank has not assumed any advisory or fiduciary responsibility to the Authority or the City with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Bank has provided other services or is currently providing other services to the Authority or the City on other matters); (iii) the only obligations the Bank has to the Authority or the City with respect to the transaction contemplated hereby expressly are set forth in this Agreement; and (iv) the Authority and the City each has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate.

Section 7.17. Redaction. In the event on or subsequent to the Closing Date the City or the Authority delivers or causes to be delivered to the Remarketing Agent for delivery to the Municipal Securities Rulemaking Board, or directly to the Municipal Securities Rulemaking Board, in either instance pursuant to Rule G-34 (“CUSIP Numbers, New Issue, and Market Information Requirements”), a copy of this Agreement or the Letter of Credit (including without limitation any amendments hereto or thereto), the City and the Authority shall only provide or cause to be provided a copy of this Agreement and the Letter of Credit (including without limitation any amendments hereto or thereto), in the forms provided by the Bank, that redacts such confidential information contained in this Agreement and the Letter of Credit (including without limitation any amendments hereto or thereto) which could be used in a fraudulent manner, such as any VRDO liquidity bank routing or account numbers, staff names and contact information and fees assessed by the Bank, which redaction is consistent with MSRB Notice 2011-17 (February 23, 2011) and the City and the Authority shall not provide or cause to be provided a copy of the Fee Letter Agreement. The Bank shall provide such redacted copies of this Agreement and the Letter of Credit (including without limitation any amendments hereto or thereto) upon request by the City or the Authority. The City and the Authority shall cause the Remarketing Agent to deliver only such redacted copies of this Agreement and the Letter of Credit (including without limitation any amendments hereto or thereto), in the forms provided by the Bank, and shall not permit delivery of a copy of the Fee Letter Agreement, to the Municipal Securities Rulemaking Board pursuant to said Rule G-34.

[The remainder of this page intentionally left blank]

This Reimbursement Agreement is executed as of the date stated on the first page.

BANK OF THE WEST

CITY OF MODESTO

By: Edward C. Neu
Typed Name: Edward C. Neu
Title: Senior Vice President

By: _____
Typed Name: _____
Title: _____

ATTEST:

By: _____
Typed Name: _____
City Clerk

APPROVED AS TO FORM:

By: _____
Typed Name: _____
Title: _____

MODESTO PUBLIC FINANCING
AUTHORITY

By: _____
Typed Name: _____
Title: _____

Federal law requires the Bank to provide the following notice. This notice is not part of the foregoing agreement or instrument and may not be altered. Please read the notice carefully.

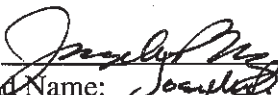
USA PATRIOT ACT NOTICE. Federal law requires all financial institutions to obtain, verify and record information that identifies each Person who opens an account or obtains a loan. The Bank will ask for the Authority's and the City's legal name, address, tax ID number or social security number and other identifying information. The Bank may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of the Authority, the City, guarantors or other related Persons.

This Reimbursement Agreement is executed as of the date stated on the first page.

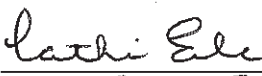
BANK OF THE WEST

CITY OF MODESTO

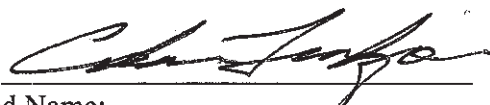
By: _____
Typed Name: _____
Title: _____

By: 
Typed Name: Joseph Lopez
Title: City Manager

ATTEST:

By: 
Typed Name: Cathi Erbe
City Clerk - Assistant

APPROVED AS TO FORM:

By: 
Typed Name: Adam Lindgren
Title: of Counsel

MODESTO PUBLIC FINANCING
AUTHORITY

By: 
Typed Name: DeAnne Christensen
Title: Auditor and Treasurer

Federal law requires the Bank to provide the following notice. This notice is not part of the foregoing agreement or instrument and may not be altered. Please read the notice carefully.

USA PATRIOT ACT NOTICE. Federal law requires all financial institutions to obtain, verify and record information that identifies each Person who opens an account or obtains a loan. The Bank will ask for the Authority's and the City's legal name, address, tax ID number or social security number and other identifying information. The Bank may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of the Authority, the City, guarantors or other related Persons.

EXHIBIT A
FORM OF LETTER OF CREDIT

[See attached pages]

Irrevocable Transferable Letter of Credit No. MB60517199

Date: June 13, 2019

Irrevocable Transferable Letter of Credit Number: MB60517199

Beneficiary:

The Bank of New York Mellon Trust Company,
N.A., as Trustee
400 South Hope Street, Suite 500
Los Angeles, California 90071
Attention: Corporate Trust Department

Applicant:

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, California 95354

Issuer:

Bank of the West
Global Trade Operations
13300 Crossroads Parkway North
SC-XRD-2W-G
City of Industry, California 91746

Amount: Fifty-One Million Four Hundred Eighty-Four Thousand One Hundred Thirty-Three Dollars (\$51,484,133.00)

Expiration Date: June 13, 2023 at 4:00 p.m. (California time) at our counters.

Ladies and Gentlemen:

1. At the request and for the account of the City of Modesto (the “City”), we hereby establish this Letter of Credit in your favor as trustee (the “Trustee”) under the Indenture dated as of August 1, 2008 (the “Indenture”), by and between the Trustee and the Modesto Public Financing Authority (the “Authority”), for the owners of the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 originally issued in the aggregate principal amount of \$65,170,000 and currently outstanding in the aggregate principal amount of \$50,915,000 (the “Bonds”). We hereby irrevocably authorize you to draw on us by sight drafts in an aggregate amount not exceeding \$51,484,133.00 (as reduced or reinstated from time to time in accordance with the provisions hereof, the “Stated Amount”) of which an amount not exceeding \$50,915,000.00 (as reduced or reinstated from time to time in accordance with the terms hereof, the “Principal Portion”), may be drawn with respect to payment of the unpaid principal of or the portion of the purchase price corresponding to the unpaid principal of the Bonds and an initial amount not exceeding \$569,133.00 (as reduced or reinstated from time to time in accordance with the terms hereof, the “Interest Portion”) may be drawn upon with respect to payment of interest actually accrued and unpaid on, or the portion of the purchase price corresponding to interest actually accrued and unpaid on, the Bonds on or prior to their stated maturity date, but in no event more than interest accrued and unpaid on the Bonds calculated at a

maximum interest rate of 12% per annum (based on a year of 365 days) for the 34 days immediately preceding any drawing. The Stated Amount is comprised of the Principal Portion and the Interest Portion, as they may vary from time to time. This Letter of Credit is only available to be drawn upon with respect to Bonds bearing interest at a Daily Rate or a Weekly Rate (as such terms are defined in the Indenture). This Letter of Credit is established pursuant to a Reimbursement Agreement, dated as of June 1, 2019 by and among the City, the Authority and us, as it may be amended or supplemented from time to time (the “Reimbursement Agreement”).

2. This Letter of Credit shall expire at 4:00 p.m. (California time) on the date (the “Expiration Date”) which is the earliest of: (i) June 13, 2023, unless extended by us in our sole discretion by delivery of a certificate in the form of Annex L attached hereto (the “Stated Expiration Date”), (ii) the date on which we honor a drawing which when added to all other drawings honored hereunder and not subject to reinstatement in the aggregate equals the Stated Amount, (iii) the first (1st) Business Day (defined below) which is five (5) days after the date of our receipt of a certificate signed by one purporting to be your duly authorized officer in the form of Annex G or H attached hereto appropriately completed, (iv) the day we deliver to you a certificate in the form of Annex F attached hereto stating that an event of default under the Reimbursement Agreement has occurred and that this Letter of Credit has expired, or (v) the date when you surrender this Letter of Credit to us for cancellation. You agree to surrender this Letter of Credit to us, and not to make any drawing, after (a) the Expiration Date, or (b) the date on which there are no Bonds outstanding under the Indenture. “Business Day” means any day on which banks located in New York, New York, San Francisco, California and the city in which the Principal Office of the Trustee (as defined in the Indenture, currently Los Angeles, California) is located are not required or authorized to be closed and on which The New York Stock Exchange is open.

3. Funds under this Letter of Credit will be paid with our own funds and will be made available to you against receipt by us of a sight draft in the form attached hereto as Annex K, together with the following items, at the time required below: (a) if the drawing is being made with respect to payment of the purchase price of Bonds tendered pursuant to Section 4.09(A) of the Indenture (an “Optional Tender Draft”), receipt by us of your written certificate in the form of Annex A attached hereto appropriately completed and signed by one purporting to be your duly authorized officer; (b) if the drawing is being made with respect to the principal of the Bonds due upon the maturity date thereof pursuant to Section 5.12 of the Indenture (a “Principal Draft”), receipt by us of your written certificate in the form of Annex B attached hereto appropriately completed and signed by one purporting to be your duly authorized officer; (c) if the drawing is being made with respect to the payment of the interest due on the Bonds on a regularly scheduled bond payment date or upon maturity pursuant to Section 5.12 of the Indenture (an “Interest Draft”), receipt by us of your written certificate in the form of Annex C attached hereto appropriately completed and signed by one purporting to be your duly authorized officer; (d) if the drawing is being made with respect to the payment of principal of and interest on the Bonds upon redemption of the Bonds pursuant to Section 4.01(A), 4.01(B) or 4.01(H) of the Indenture pursuant to Section 5.12 of the Indenture (a “Redemption Draft”), receipt by us of your written certificate in the form of Annex D attached hereto appropriately completed and signed by one purporting to be your duly authorized officer; and (e) if the drawing is being made with respect to the payment of principal and interest constituting the purchase price of Bonds tendered pursuant to Section 4.09(B) of the Indenture (a “Mandatory

Tender Draft”), receipt by us of your written certificate in the form of Annex E attached hereto appropriately completed and signed by one purporting to be your duly authorized officer. No drawing may be made under this Letter of Credit for any payment with respect to Bonds registered to or on behalf of us or our nominee.

4. If an Optional Tender Draft or Mandatory Tender Draft is made by you hereunder at or prior to 8:30 a.m. (California time) on a Business Day, and provided that such drawing and the documents and other items presented in connection therewith conform to the terms and conditions hereof, payment shall be made to you or your designee, of the amount specified, in immediately available funds, not later than 11:30 a.m. (California time) on such Business Day. If an Optional Tender Draft or Mandatory Tender Draft is made by you hereunder after 8:30 a.m. (California time) on a Business Day and provided that such drawing and the documents and other items presented in connection therewith conform to the terms and conditions hereof, payment shall be made to you or your designee, of the amount specified, in immediately available funds, not later than 11:30 a.m. (California time) on the next succeeding Business Day.

If a drawing other than an Optional Tender Draft or Mandatory Tender Draft is made by you hereunder at or prior to 1:00 p.m. (California time) on any Business Day, and provided that such drawing and the documents and other items presented in connection therewith conform to the terms and conditions hereof, payment shall be made to you or your designee, of the amount specified, in immediately available funds, not later than 10:00 a.m. (California time) on the next Business Day. If a drawing other than an Optional Tender Draft or Mandatory Tender Draft is made by you hereunder after 1:00 p.m. (California time) on any Business Day, and provided that such drawing and the documents and other items presented in connection therewith conform to the terms and conditions hereof, payment shall be made to you or your designee, of the amount specified, in immediately available funds, not later than 10:00 a.m. (California time) on the second succeeding Business Day.

Payment under this Letter of Credit will be made by wire transfer of federal funds to the account designated in writing by you in your sight draft.

5. Demands for payment hereunder honored by us shall not, in the aggregate, exceed the Stated Amount, the Principal Portion and the Interest Portion, as the Stated Amount, the Principal Portion and the Interest Portion may have been reduced or reinstated by us as herein provided. Subject to the preceding sentence, each drawing honored by us hereunder shall pro tanto reduce the Principal Portion and/or the Interest Portion of this Letter of Credit as set forth in the certificate presented in connection with such drawing, and any such reduction shall result in a corresponding reduction in the Stated Amount, it being understood that after the effective date of any such reduction you shall no longer have any right to make a drawing hereunder in respect of the amount of such principal of and/or interest on the Bonds or the payment of the purchase price corresponding thereto causing or corresponding to such reduction unless the amount of such drawing is subject to reinstatement and has been reinstated as provided in Section 7 of this Letter of Credit.

6. Upon receipt by us of a certificate in the form of Annex G or H attached hereto appropriately completed and signed by one purporting to be your duly authorized officer the Stated Amount, the Principal Portion and the Interest Portion will be reduced to zero.

7. The amounts of drawings made hereunder will be reinstated by us to the Stated Amount under the following conditions:

(a) with respect to our honoring an Optional Tender Draft or a Mandatory Tender Draft, the Stated Amount shall be reinstated automatically in the amount of said drawing as to the Principal Portion and the Interest Portion (subject to any reduction in such amount as provided in Section 6) when we have sent to you a notice in writing that a reinstatement in the amount of such drawing has been made.

(b) with respect to our honoring an Interest Draft, the amount of said drawing will be reinstated automatically effective at the close of business on the date of such payment in the amount of said drawing (subject to any reduction in said amount as above provided in Section 6); provided, however, that such reinstatement shall not prejudice our right to deliver written notice to the Trustee in the form of Annex J attached hereto that the City is in default under the Reimbursement Agreement.

(c) with respect to our honoring of a Principal Draft, the amount of said drawing and the amount of the Interest Portion corresponding to the amount of said drawing will not be reinstated, and with respect to our honoring of a Redemption Draft, the amount of said drawing will not be reinstated.

8. Only the Trustee may make a drawing under this Letter of Credit. Upon the payment to you, your account, your designee or the account of your designee of the amount demanded hereunder, we shall be fully discharged of our obligation under this Letter of Credit with respect to such demand for payment and we shall not thereafter be obligated to make any further payments under this Letter of Credit in respect of such demand for payment to you or any other person who may have made to you or makes to you a demand for payment of principal of or interest on any Bond. By paying to you an amount demanded in accordance herewith, we make no representation as to the correctness of the amount demanded.

9. All demands for payment and certificates to be presented to us hereunder, as well as all communications to us in respect of this Letter of Credit shall be in writing and shall be timely delivered in writing to the following address: Bank of the West, Global Trade Services, 13300 Crossroads Parkway North, SC-XRD-2W-G, City of Industry, California 91746, Attention: Standby Team 2, Facsimile Number: (323) 727-6405, Telephone Number: (323) 727-6339 or (323) 727-6304, as may be designated by us in a written notice delivered to you and shall make specific reference to "Irrevocable Transferable Letter of Credit No. MB60517199, reference: City of Modesto, Modesto Public Financing Authority." Demands for payment and the accompanying certificates may also be made by facsimile transmission immediately confirmed by telephone, and we shall be entitled to rely thereon as if such demand for payment and the accompanying certificates were presented in person, provided such Drafts, including the required Annexes, are in conformance with the requirements for the same as set forth herein; provided that, the failure to confirm such demand for payment by telephone shall not affect the validity or effectiveness of the drawing. In the event of presentation by facsimile, the facsimile is considered the sole original presentation.

11. If a drawing demand is not, in any instance, in strict conformance with the terms and conditions of this Letter of Credit, we shall give the Trustee prompt notice that the purported drawing was not effected in accordance with this Letter of Credit, stating the reason therefor and that we are holding any documents at the Trustee's disposal or is returning them to the Trustee, as we may elect. Upon being notified that the purported drawing was not effected in conformity with this Letter of Credit, the Trustee may attempt to correct any such nonconforming drawing certificate if, and to the extent that, the Trustee is entitled (without regard to the provisions of this sentence) and is able to do so.

12. To the extent not inconsistent with the express provisions hereof, this Letter of Credit shall be governed by and construed in accordance with the International Standby Practices 1998, International Chamber of Commerce Publication No. 590, and any subsequent revisions thereof (the "ISP 98"). As to matters not governed thereby, this Letter of Credit shall be governed by the internal laws of the State of California, including, without limitation, Article 5 of the Uniform Commercial Code as in effect in the State of California.

13. This Letter of Credit may be transferred more than once but only in the amount of the full Stated Amount to any single transferee who has succeeded the Trustee as trustee under the Indenture. Transfers may be effected only through our office set forth above and only upon presentation to us of a duly executed instrument of transfer in the form attached hereto as Annex I and payment by the City of our transfer fee as set out in the letter agreement referenced in the Reimbursement Agreement. Any transfer of this Letter of Credit as aforesaid must be endorsed by us on the reverse hereof and may not change the time or date of expiration specified above or any other term hereof.

14. This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein (including, without limitation, the Bonds), except only the certificates referred to herein; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except for such certificates.

Very truly yours,

BANK OF THE WEST

By: _____
Name:
Title:

By: _____
Name:
Title:

OPTIONAL TENDER DRAFT

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), hereby certifies to Bank of the West (the "Bank"), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the "Letter of Credit"; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee under the Indenture, that:

(a) The Trustee is the Trustee under the Indenture for the owners of the Bonds and is authorized to make this demand under the terms of the Letter of Credit.

(b) Pursuant to Section 5.12 of the Indenture the Trustee has concurrently herewith presented its sight draft drawn on you in the amount of \$_____. The Trustee is making a drawing under the Letter of Credit with respect to payment of the purchase price of the Bonds tendered pursuant to Section 4.09(A) of the Indenture.

(c) The amount demanded hereby is \$_____. Such amount represents the Principal Portion in the amount of \$_____ and the Interest Portion in the amount of \$_____ of the purchase price of Bonds tendered to the Trustee pursuant to Section 4.09(A) of the Indenture less the proceeds of the remarketing of such Bonds. Said amount does not exceed the amount permitted to be drawn under the Letter of Credit in accordance with the Letter of Credit and the Indenture with respect to such Bonds.

(d) The amount demanded hereby does not include any amount in respect of the purchase of any Bank Bonds or Bonds registered in the name of the Authority or the City.

(e) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the purchase price owing on account of the purchase of Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose, and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(f) The Principal Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this drawing) is \$_____. After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this drawing), the Principal Portion will be \$_____.

(g) The Interest Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently

requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this certificate) is \$_____. After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming (a) no subsequently presented drawing is honored prior to the time of payment of this drawing, and (b) reinstatement of the Interest Portion in accordance with the terms of the Letter of Credit) the Interest Portion will be \$_____.

IN WITNESS WHEREOF, the Trustee has executed and delivered this certificate as of the _____ day of _____, _____.

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

By: _____
Name: _____
Title: _____

PRINCIPAL DRAFT

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), hereby certifies to Bank of the West (the "Bank"), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the "Letter of Credit"; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee under the Indenture, that:

(a) The Trustee is the Trustee under the Indenture for the owners of the Bonds and is authorized to make this demand under the terms of the Letter of Credit.

(b) Pursuant to Section 5.12 of the Indenture, the Trustee has concurrently presented its sight draft drawn on you in the amount of \$_____. The Trustee is making a drawing under the Principal Portion of the Letter of Credit with respect to payment of principal of the Bonds which amount has become due and payable on their stated maturity.

(c) The amount demanded hereby is \$_____. Said amount does not exceed the amount permitted to be drawn under the Letter of Credit in accordance with the Letter of Credit and the Indenture.

(d) The amount demanded hereby does not include any amount in respect of the payment of principal of any Bank Bonds or Bonds registered in the name of the Authority or the City.

(e) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount owing with respect to Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose, and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(f) The Principal Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this drawing) is \$_____. After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this drawing), the Principal Portion will be permanently reduced to \$_____.

(g) The Interest Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior

to the time of payment of this certificate) is \$_____. After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming (a) no subsequently presented drawing is honored prior to the time of payment of this drawing, and (b) reinstatement of the Interest Portion in accordance with the terms of the Letter of Credit) the Interest Portion will be permanently reduced to \$_____.

IN WITNESS WHEREOF, the Trustee has executed and delivered this certificate as of the _____ day of _____, _____.

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

By: _____
Name: _____
Title: _____

INTEREST DRAFT

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), hereby certifies to Bank of the West (the "Bank"), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the "Letter of Credit"; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank, in favor of the Trustee under the Indenture, that:

(a) The Trustee is the Trustee under the Indenture for the owners of the Bonds and is authorized to make this demand under the terms of the Letter of Credit.

(b) Pursuant to Section 5.12 of the Indenture, the Trustee has concurrently presented its sight draft drawn on you in the amount of \$_____. The Trustee is making a drawing under the Interest Portion of the Letter of Credit with respect to payment of interest due with respect to the Bonds due on a regularly scheduled bond payment date pursuant to Section 2.02 of the Indenture.

(c) The amount demanded hereby is \$_____. Said amount does not exceed the amount permitted to be drawn under the Letter of Credit in accordance with the Letter of Credit and the Indenture.

(d) The amount demanded hereby does not include any amount in respect of the payment of interest on any Bank Bonds or Bonds registered in the name of the Authority or the City.

(e) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the interest accrued and owing with respect to the Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(f) The Interest Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this certificate) is \$_____.

(g) After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming (a) no subsequently presented drawing is honored prior to the time of payment of this drawing, and (b) reinstatement of the Interest Portion in accordance with the terms of the Letter of Credit) the Interest Portion will be reduced to \$_____.

IN WITNESS WHEREOF, the Trustee has executed and delivered this certificate as of
the _____ day of _____, ____.

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

By: _____

Name: _____

Title: _____

REDEMPTION DRAFT

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), hereby certifies to Bank of the West (the "Bank"), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the "Letter of Credit"; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee under the Indenture, that:

(a) The Trustee is the Trustee under the Indenture for the owners of the Bonds and is authorized to make this demand under the terms of the Letter of Credit.

(b) Pursuant to Section 5.12 of the Indenture the Trustee has concurrently herewith presented its sight draft drawn on you in the amount of \$_____. The Trustee is making a drawing under the Letter of Credit with respect to payment of the principal of and interest on [all/a portion of] the Bonds pursuant to Section [4.01(A)]/[4.01(B)]/[4.01(H)] of the Indenture.

(c) The amount demanded hereby is \$_____. Of such amount \$_____ represents the principal of Bonds to be redeemed and \$_____ represents the accrued and unpaid interest on such Bonds. Said amount does not exceed the amount permitted to be drawn under the Letter of Credit in accordance with the Letter of Credit and the Indenture with respect to such Bonds.

(d) The amount demanded hereby does not include any amount in respect of the redemption of any Bank Bonds or Bonds registered in the name of the Authority or the City.

(e) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount owing on account of the redemption of Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose, and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(f) The Principal Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this drawing) is \$_____. After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this drawing), the Principal Portion will be permanently reduced to \$_____. The Interest Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time

of payment of this certificate) is \$_____. After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming (i) no subsequently presented drawing is honored prior to the time of payment of this drawing, and (ii) reinstatement of the Interest Portion in accordance with the terms of the Letter of Credit) the Interest Portion will be permanently reduced to \$_____.

IN WITNESS WHEREOF, the Trustee has executed and delivered this certificate as of the _____ day of _____, _____.

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

By: _____
Name: _____
Title: _____

MANDATORY TENDER DRAFT

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), hereby certifies to Bank of the West (the "Bank"), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the "Letter of Credit"; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee under the Indenture, that:

(a) The Trustee is the Trustee under the Indenture for the owners of the Bonds and is authorized to make this demand under the terms of the Letter of Credit.

(b) Pursuant to Section 5.12 of the Indenture the Trustee has concurrently herewith presented its sight draft drawn on you in the amount of \$_____. The Trustee is making a drawing under the Letter of Credit with respect to payment of the purchase price of the Bonds tendered pursuant to Section 4.09(B) of the Indenture. Payment of the amount of this drawing shall reduce the Principal Portion, the Interest Portion and the Stated Amount of the Letter of Credit to zero.

(c) The amount demanded hereby is \$_____. Such amount represents the Principal Portion in the amount of \$_____ of the purchase price of Bonds tendered to the Trustee pursuant to Section 4.09(B) of the Indenture. Said amount does not exceed the amount permitted to be drawn under the Letter of Credit in accordance with the Letter of Credit and the Indenture with respect to such Bonds.

(d) The amount demanded hereby does not include any amount in respect of the purchase of any Bank Bonds or Bonds registered in the name of the Authority or the City.

(e) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount owing on account of the purchase of Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose, and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(f) The Principal Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this drawing) is \$_____. After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this drawing), the Principal Portion will be \$_____. The Interest Portion available under the Letter of Credit (immediately prior to the drawing requested hereby and taking into account any other drawing previously or concurrently requested by the Trustee which

has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming no subsequently presented drawing is honored prior to the time of payment of this certificate) is \$_____. After payment of the drawing requested hereby (and any other drawing previously or concurrently requested by the Trustee which has not been paid or rejected by the Bank prior to the time of presentation of this certificate and assuming (a) no subsequently presented drawing is honored prior to the time of payment of this drawing, and (b) reinstatement of the Interest Portion in accordance with the terms of the Letter of Credit) the Interest Portion will be reduced to \$_____.

IN WITNESS WHEREOF, the Trustee has executed and delivered this certificate as of the _____ day of _____, _____.

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

By: _____
Name: _____
Title: _____

NOTICE OF EXPIRATION OF THE LETTER OF CREDIT
AT THE ELECTION OF THE BANK

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of Bank of the West (the “Bank”), hereby certifies to The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that the City is in default under Section _____ of the Reimbursement Agreement.

We have assumed that you have confirmed that we have purchased all Bonds required to be purchased by us following the mandatory tender thereof pursuant to Section 4.09(B)(2) of the Indenture.

We hereby notify you that the Letter of Credit will expire upon your receipt of this notice.

IN WITNESS WHEREOF, the Bank has executed and delivered this notice as of the _____ day of _____, ____.

BANK OF THE WEST

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

TRUSTEE'S CERTIFICATE FOR TERMINATION OF LETTER OF CREDIT
(ACCEPTANCE OF ALTERNATE CREDIT FACILITY)

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), hereby certifies to Bank of the West (the "Bank"), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the "Letter of Credit"; any capitalized term used herein and not defined shall have its respective meaning as set forth in, the Letter of Credit) issued by the Bank in favor of the Trustee, that:

(a) The Trustee is the Trustee under the Indenture for the owners of the Bonds and is authorized to make this demand under the terms of the Letter of Credit.

(b) The conditions precedent to the acceptance of an Alternate Credit Facility set forth in the Indenture have been satisfied.

(c) As Trustee under the Indenture, the Trustee has accepted an Alternate Credit Facility.

(d) Upon receipt by the Bank of this certificate the Letter of Credit shall terminate with respect to all outstanding Bonds and the Letter of Credit is being surrendered to you herewith for cancellation.

IN WITNESS WHEREOF, the Trustee has executed and delivered this certificate as of the ____ day of _____, ____.

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

By: _____
Name: _____
Title: _____

TRUSTEE'S CERTIFICATE FOR TERMINATION OF LETTER OF CREDIT
(NO BONDS OUTSTANDING OR CONVERSION OF ALL BONDS TO BEAR INTEREST
AT A FIXED RATE, FLEXIBLE RATE OR TERM RATE)

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), hereby certifies to Bank of the West (the "Bank"), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the "Letter of Credit"; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that:

(a) The Trustee is the Trustee under the Indenture for the owners of the Bonds and is authorized to make this demand under the terms of the Letter of Credit.

(b) [No Bonds remain outstanding under the Indenture] or [All Bonds remaining outstanding under the Indenture have been converted to bear interest at a Fixed Rate, Flexible Rate or Term Rate (as such terms are defined in the Indenture) as of _____].

(c) Upon receipt by the Bank of this certificate the Letter of Credit shall terminate as provided in clause (iii) of paragraph 2 of the Letter of Credit and the Letter of Credit is being surrendered to you herewith for cancellation.

IN WITNESS WHEREOF, the Trustee has executed and delivered this certificate as of the ____ day of _____, ____.

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

By: _____
Name: _____
Title: _____

TRANSFER DEMAND

Irrevocable Transferable Letter of Credit No. MB60517199

Bank of the West
Global Trade Services
13300 Crossroads Parkway North
SC-XRD-2W-G
City of Industry, California 91746
Attention: Standby Team 2

RE: Irrevocable Transferable Letter of Credit No. MB60517199

Ladies and Gentlemen:

For value received, the undersigned beneficiary hereby irrevocably transfers to:

(Name of Transferee)
(Address)

All rights of the undersigned beneficiary to draw under the above Letter of Credit in its entirety. The transferee has succeeded the undersigned as Trustee under the Indenture (as defined in the Letter of Credit).

By this transfer, all rights of the undersigned beneficiary in such Letter of Credit are transferred to the transferee and the transferee shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments, whether increases or extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised direct to the transferee without necessity of any consent of or notice to the undersigned beneficiary.

The Letter of Credit is returned herewith, and we ask you to endorse the transfer on the reverse thereof and forward it directly to the transferee with your customary notice of transfer.

Very truly yours,

Signature Authenticated:

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

(Authorized Signature)

By: _____
Name: _____
Title: _____

We certify that we have succeeded (Name of Beneficiary) as Trustee under the Indenture (as defined in the Letter of Credit).

Signature Authenticated:

[Name of Transferee]

(Authorized Signature)

By: _____
Name: _____
Title: _____

NOTICE OF MANDATORY TENDER AT THE ELECTION OF THE BANK

Irrevocable Transferable Letter of Credit No. MB60517199

The undersigned, a duly authorized officer of Bank of the West (the “Bank”), hereby certifies to The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), with reference to Irrevocable Transferable Letter of Credit No. MB60517199 (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that the City is in default under Section _____ of the Reimbursement Agreement.

We hereby direct you, upon receipt by you of this certificate to cause the mandatory tender of all outstanding Bonds pursuant to Section 4.09(B)(2) of the Indenture.

IN WITNESS WHEREOF, the Bank has executed and delivered this notice as of the _____ day of _____, ____.

BANK OF THE WEST

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

FORM OF SIGHT DRAFT

Irrevocable Transferable Letter of Credit No. MB60517199

Bank of the West
Global Trade Services
13300 Crossroads Parkway North
SC-XRD-2W-G
City of Industry, California 91746
Attention: Standby Team 2

This sight draft is presented to you for the amount of \$_____ for the purposes set forth in the accompanying certificate. The amount demanded hereby and by the accompanying certificate should be wire transferred in federal funds to the following account:

[insert account information]

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

By: _____
Name: _____
Title: _____

NOTICE OF EXTENSION

Irrevocable Transferable Letter of Credit No. MB60517199

[Letterhead of Bank of the West]

[Date]

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 500
Los Angeles, California 90071
Attention: Global Corporate Trust Services

Ladies and Gentlemen:

Pursuant to Section 2.1 of the Reimbursement Agreement (the “Reimbursement Agreement”) dated as of June 1, 2019, by and among the City of Modesto, the Modesto Public Financing Authority and Bank of the West (the “Bank”), the Bank has approved an extension of Irrevocable Transferable Letter of Credit No. MB60517199 (the “Letter of Credit”), dated June 13, 2019. The Stated Expiration Date of the Letter of Credit shall be extended to _____.

You are hereby authorized to attach this Notice of Extension to the Letter of Credit and to treat this Notice of Extension as an amendment to the Letter of Credit.

All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Reimbursement Agreement or the Letter of Credit.

Very truly yours,

BANK OF THE WEST

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

**Fee Letter Agreement, dated June 13, 2019, by and among the City,
the Authority and the Bank (as successor in interest to Bank of the West)**

[Provided to the Authority, the City and the Bank]

FEE LETTER AGREEMENT

June 13, 2019

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, California 95354

Modesto Public Financing Authority
c/o City of Modesto
1010 Tenth Street, Suite 5200
Modesto, California 95354

Re: Modesto Public Financing Authority Lease Revenue Refunding Bonds,
Series 2008

Ladies and Gentlemen:

Reference is hereby made to that certain Reimbursement Agreement dated as of June 1, 2019 (as the same may be amended or supplemented from time to time, the "Agreement"), among the City of Modesto (the "City"), the Modesto Public Financing Authority (the "Authority"), and Bank of the West (the "Bank"), pursuant to which the Bank has issued its Irrevocable Transferable Letter of Credit No. MB60517199 supporting the above-referenced Bonds. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

Certain provisions of the Agreement make reference to a Fee Letter Agreement dated June 13, 2019 (this "Fee Letter Agreement") among the City, the Authority and the Bank, as the same may be amended or supplemented from time to time. This is the Fee Letter Agreement referenced in the Agreement, and the terms hereof are incorporated by reference into the Agreement as if fully set forth therein. The City and the Bank hereby agree that the Closing Date shall be the date hereof.

In consideration for the issuance of the Letter of Credit pursuant to the terms of the Agreement, the parties hereto agree as follows:

ARTICLE I. FEES AND PAYMENTS.

Section 1.1. Letter of Credit Fee. The Authority and the City (by payment of Additional Payments under the Lease Agreement) hereby agree to pay or cause to be paid to the Bank a nonrefundable Letter of Credit Fee, payable quarterly in arrears for each calendar quarter from and after the Closing Date, equal to (i) 0.375% per annum multiplied by (ii) the Stated Amount of the Letter of Credit, for each day during such calendar quarter commencing on the first day of

such calendar quarter (or, in the case of the first calendar quarter, the Closing Date) and ending on the last calendar day of such calendar quarter.

Section 1.2. Payment Dates. The Letter of Credit Fee shall be paid quarterly in arrears for the preceding calendar quarter on the first Business Day of each January, April, July and October commencing on October 1, 2019 (such payment to include the Letter of Credit Fee for both calendar quarters commencing on the Closing Date and on July 1, 2019) and on the Expiration Date.

Section 1.3. Other Fees. In addition, the Authority and City (by payment of Additional Payments under the Lease Agreement) shall pay to Bank upon each transfer of the Letter of Credit in accordance with its terms to any successor Trustee, a transfer fee of \$2,500 and upon each amendment of the Letter of Credit, the Agreement, this Fee Letter Agreement or any of the other Related Documents, an amendment fee in a minimum amount equal to \$5,000 to be determined by the Bank at the time thereof, plus the fees and expenses of counsel to the Bank in connection therewith. In addition, the Authority and City (by payment of Additional Payments under the Lease Agreement) shall pay to Bank in connection with Drawings under the Letter of Credit, a non-refundable annual administration fee in the amount of \$1,500, payable in advance on the Closing Date and on each anniversary of the Closing Date occurring thereafter.

Section 1.4. Calculation of Fees and Interest. All fees payable hereunder shall be nonrefundable and shall be calculated on the basis of a 365/366-day year and actual days elapsed, including the Closing Date and the Expiration Date. All interest payable under the Agreement shall be calculated on the basis of a 365/366-day year and actual days elapsed.

Section 1.5. Initial Costs and Expenses. The Authority and the City (by payment of Additional Payments under the Lease Agreement) shall pay to the Bank any and all reasonable fees, charges and expenses, payable or incurred by the Bank (consisting solely of the fees and expenses of counsel to the Bank) in connection with the preparation, due diligence and execution and delivery of the Agreement and the Letter of Credit, together with interest on such amounts from the date such payment is due until paid at a rate per annum equal to the Default Rate, and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such fees and expenses. The obligations and liabilities under this Section 1.5 shall survive the termination of this Fee Letter Agreement, the Agreement and the Lease Agreement and the Authority's and the City's Obligations hereunder and thereunder and the payment in full of all Base Rental Payments and Additional Payments.

Section 1.6. Reimbursement Account. "Reimbursement Account" shall mean the following account of the Bank, or such other account as may be subsequently designated by the Bank in writing to the City, the Authority and the Trustee:

Bank of the West
ABA#: 121100782
A/C#: 239855758
Attention: GLOBAL TRADE SERVICES
Ref: LC No. MB60517199
Obligor No. 1000203410

ARTICLE II NOTICES.

Unless otherwise provided in the Agreement or in another agreement among or between the Bank and the Authority and/or the City, all notices required under the Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses set forth below, or sent by facsimile to the fax numbers set forth below, or to such other addresses as the Bank, the Authority and the City may specify from time to time in writing. Notices and other communications sent by (a) first class mail shall be deemed delivered on the earlier of actual receipt or on the fourth business day after deposit in the U.S. mail, postage prepaid, (b) overnight courier shall be deemed delivered on the next business day, and (c) telecopy shall be deemed delivered when transmitted.

Address where notices to the Bank are to be sent:

If with respect to draws under the Letter of Credit, to:

Bank of the West
Global Trade Operations
13300 Crossroads Parkway North
SC-XRD-2W-G
City of Industry, California 91746
Attention: Marisa Suen, Supervisor II, Vice President
Telephone: (323) 727-6304
Facsimile: (323) 727-6405
Email: marisa.suen@bankofthewest.com

If with respect to the Agreement, to:

Bank of the West
180 Montgomery Street
San Francisco, California 94104
Attention: Edward C. Neu, Director & Public Finance Manager
Telephone: (415) 765-4938
Facsimile: (866) 235-9308
Email: ted.neu@bankofthewest.com

with a copy to:

Bank of the West
500 Capitol Mall, Suite 1200
Sacramento, CA 95814
Attention: Cristina E. Garcia, CBG Credit Products Officer, Vice President
Telephone: (916) 552-4343
Facsimile: (866) 235-9308
Email: cristina.garcia2@bankofthewest.com

ARTICLE III MISCELLANEOUS.

Section 2.1. Modification of this Fee Letter Agreement. No amendment, modification or waiver of any provision of this Fee Letter Agreement, and no consent to any departure by the Authority or the City therefrom, shall be effective unless the same shall be in writing and signed by the Bank. Any such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the City or the Authority in any case shall entitle the City or the Authority to any other or further notice or demand in the same, similar or other circumstances.

Section 2.2. Governing Law. This Fee Letter Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

Section 2.3. Counterparts. This Fee Letter Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement. This Fee Letter Agreement may be delivered by the exchange of signed signature pages by facsimile transmission or by attaching a pdf copy to an email, and any printed or copied version of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

Section 2.4. Severability. Any provision of this Fee Letter Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provisions in any other jurisdiction.

Section 2.5. One Agreement. This Agreement, the Fee Letter Agreement and any related security or other agreements required by this Agreement, collectively: (a) represent the sum of the understandings and agreements among the Authority, the Bank and the City with respect to the subject matter hereof; (b) replace any prior oral or written agreements between or among the Bank and the Authority and/or the City concerning the subject matter hereof; and (c) are intended by the Bank, the Authority and the City as the final, complete and exclusive statement of the terms agreed to by them with respect to the subject matter hereof. In the event of any conflict between this Fee Letter Agreement and the Agreement and any other Related Documents, this Fee Letter Agreement will prevail. This Fee Letter Agreement and the

Agreement shall be construed as one agreement among the City, the Authority and the Bank and shall be governed by the provisions of the Agreement.

[The remainder of this page intentionally left blank]

If the foregoing accurately reflects our agreement, please indicate the same by signing in the space provided below.

Very truly yours,

BANK OF THE WEST

By Edward C. New
Its Senior Vice President

Accepted and Agreed to:
CITY OF MODESTO

By _____
Its _____

Attest:

By _____
Its City Clerk

Approved as to Form:

By _____
Its _____

If the foregoing accurately reflects our agreement, please indicate the same by signing in the space provided below.

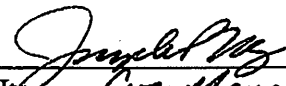
Very truly yours,

BANK OF THE WEST

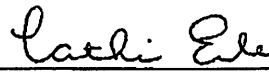
By _____
Its _____

Accepted and Agreed to:

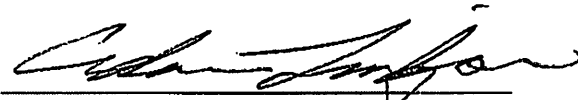
CITY OF MODESTO

By 
Its City Manager

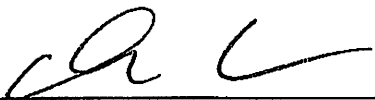
Attest:

By 
Its City Clerk - Assistant

Approved as to Form:

By 
Its CITY ATTORNEY

MODESTO PUBLIC FINANCING
AUTHORITY

By 
Its Auditor and Treasurer

**AMENDMENT NO. 1 TO
REIMBURSEMENT AGREEMENT**

among

BMO HARRIS BANK N.A.

and

CITY OF MODESTO

and

MODESTO PUBLIC FINANCING AUTHORITY

Dated May 12, 2023

Relating to the

**\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008**

Amending that certain Reimbursement Agreement, dated as of June 1, 2019, by and among Bank of the West, the City of Modesto and the Modesto Public Financing Authority

AMENDMENT NO. 1 TO
REIMBURSEMENT AGREEMENT

THIS AMENDMENT NO. 1 TO REIMBURSEMENT AGREEMENT (this “Amendment No. 1”), dated May 12, 2023 by and among BMO HARRIS BANK N.A., a national banking association, as successor in interest to Bank of the West (the “Bank”), the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the “Authority”) and the CITY OF MODESTO, a charter city and municipal corporation duly organized and existing under laws of the State of California (the “City”), amending that certain Reimbursement Agreement, dated as of June 1, 2019 (the “Original Reimbursement Agreement”), by and among the Bank, the Authority and the City. The Original Reimbursement Agreement, as amended by this Amendment No. 1 and as it may be further amended and supplemented from time to time, is hereinafter referred to as the “Reimbursement Agreement.”

WITNESSETH:

A. Bank of the West, the Authority and the City entered into the Original Reimbursement Agreement pursuant to which Bank of the West issued the Letter of Credit (as more particularly defined in the Reimbursement Agreement) to the Trustee for the account of the City.

B. Effective February 1, 2023, the Letter of Credit became an obligation of the Bank.

C. The City has applied to the Bank for the extension by the Bank of the Stated Expiration Date of the Letter of Credit to June 8, 2026 and an amendment of certain provisions of the Original Reimbursement Agreement and certain provisions of the Original Fee Letter Agreement.

D. The Bank has agreed to extend the Stated Expiration Date of the Letter of Credit to June 8, 2026 and amend such provisions of the Original Reimbursement Agreement and the Original Fee Letter Agreement on the terms and conditions set forth herein.

E. As of May 12, 2023, the Stated Amount of the Letter of Credit is \$42,236,909.00, consisting of a Principal Portion of \$41,770,000.00 and an Interest Portion of \$466,909.00.

NOW, THEREFORE, in consideration of the foregoing and the undertakings herein set forth and intending to be legally bound, the Authority, the City and the Bank hereby agree as follows:

Section 1. Authority and Definitions.

(a) This Amendment No. 1 is entered into pursuant to Section 7.1 of the Original Reimbursement Agreement.

(b) This Amendment No. 1 amends the Original Reimbursement Agreement.

(c) Capitalized terms used herein without definition shall have the meanings set forth in the Original Reimbursement Agreement.

(d) Subject to the satisfaction of the conditions precedent set forth in Section 2 hereof, this Amendment No. 1 shall become effective, a letter of credit amendment substantially in the form of Exhibit A attached hereto (the “Letter of Credit Amendment No. 1”) shall be delivered to the Trustee by the Bank, and the Amendment No. 1 to Fee Letter Agreement, dated May 12, 2023, by and among the City, the Authority and the Bank (the “Fee Letter Amendment No. 1”) shall be executed and delivered by the Bank, upon the execution and delivery hereof by the Authority, the City and the Bank on May 12, 2023 (the “Extension Closing Date”).

(e) The provisions of this Amendment No. 1 shall supersede and prevail over any conflicting provisions of the Original Reimbursement Agreement. If there is any conflict between the terms, conditions and provisions of this Amendment No. 1 and those of any of the Related Documents, the terms, conditions and provisions of this Amendment No. 1, as applicable, shall prevail. Save and except as expressly amended hereby, all of the terms and provisions of the Original Reimbursement Agreement continue in full force and effect and are applicable to the provisions of this Amendment No. 1 and the obligations of the parties hereunder. Reference to this specific Amendment No. 1 need not be made in any note, document, agreement, letter, certificate, the Reimbursement Agreement or any communication issued or made subsequent to, or with respect to, the Reimbursement Agreement, it being hereby agreed that any reference to the Reimbursement Agreement shall be sufficient to refer to the Original Reimbursement Agreement as hereby amended. The parties hereto expressly agree that this Amendment No. 1 shall constitute a modification of the Original Reimbursement Agreement and does not constitute a novation or substitution with respect to the Original Reimbursement Agreement.

Section 2. Amendment of the Original Reimbursement Agreement.

(a) Except for any references to Bank of the West as the Bank as of the Closing Date through and including January 31, 2023, all references to the Bank in the Original Reimbursement Agreement shall be amended to refer to BMO Harris Bank N.A. instead.

(b) The definitions of “Agreement,” “Bank” and “Fee Letter Agreement” Section 1.1 of the Original Reimbursement Agreement are hereby deleted in their entirety and the following substituted therefor:

“Agreement” shall mean this Reimbursement Agreement, dated as of June 1, 2019, by and among the Bank, the Authority and the City, as amended by the Amendment No. 1 to Reimbursement Agreement, dated as of May 12, 2023, by and among the Bank, the Authority and the City, and as the same may from time to time be further amended, supplemented or otherwise modified in accordance with its terms.

“Bank” means (i) as of the Closing Date through and including January 31, 2023, Bank of the West and its successors and assigns and (ii) from

and after February 1, 2023, BMO Harris Bank N.A. and its successors and assigns.

“Fee Letter Agreement” shall mean the Fee Letter Agreement dated June 13, 2019 among the City, the Authority and the Bank, as amended by the Amendment No. 1 to Fee Letter Agreement, dated May 12, 2023, by and among the City, the Authority and the Bank, and as the same may be further amended or supplemented from time to time.

Section 3. Conditions Precedent to Execution and Delivery and Effectiveness of this Amendment No. 1 and the Fee Letter Amendment No. 1 and Issuance of the Letter of Credit Amendment No. 1. The obligation of the Bank to execute and deliver this Amendment No. 1 and the Fee Letter Amendment No. 1 and to issue the Letter of Credit Amendment No. 1 shall be subject to the fulfillment of the following conditions precedent on or before the Extension Closing Date, in a manner satisfactory to the Bank and its counsel:

(a) the Bank shall have received an opinion of the City Attorney, in form and substance satisfactory to the Bank and its counsel dated the Extension Closing Date;

(b) the Bank shall have received an opinion of the counsel to the Authority, in form and substance satisfactory to the Bank and its counsel dated the Extension Closing Date;

(c) the Bank shall have received on the Extension Closing Date executed originals of this Amendment No. 1 and the Fee Letter Amendment No. 1, and any other documents which the Bank may reasonably request evidencing that all necessary action (including, without limitation, adoption of resolutions) required to be taken by the Authority and the City in connection with the authorization, execution, issuance, delivery and performance of such documents and any other document required to be delivered by the City pursuant to or in connection with this Amendment No. 1 or the Fee Letter Amendment No. 1 or the transactions contemplated hereby or thereby, has been taken;

(d) the Bank shall have received a certificate signed by an Authorized Representative of the City dated the Extension Closing Date stating that on such date:

(i) the representations and warranties set forth in this Amendment No. 1 and in any other certificate, letter, writing or instrument delivered by the City to the Bank pursuant hereto or in connection herewith, shall be true and correct as of the Extension Closing Date;

(ii) no material adverse change shall have occurred in the condition (financial or otherwise) of the City prior to the Extension Closing Date;

(iii) on the Extension Closing Date no Event of Default or no event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default, shall have occurred and be continuing;

(iv) there is no lawsuit, tax claim or other dispute pending or threatened against the City which, if lost, would impair the City’s financial condition or

ability to repay the unreimbursed Drawings, except as have been disclosed in writing to the Bank;

(v) the City is in compliance with the terms and conditions of Reimbursement Agreement and has performed or complied with all of its Obligations, agreements and covenants to be performed or complied with pursuant to the Reimbursement Agreement on or prior to the Extension Closing Date;

(vi) all information, documents, statements and certificates provided to the Bank by or on behalf of the City in connection with the Letter of Credit Amendment No. 1 are true and correct on and as of the date hereof and were provided in expectation of the Bank's reliance thereon in issuing the Letter of Credit Amendment No. 1; and

(vii) the City has delivered to the Bank true, correct and complete copies of the Related Documents and such documents were duly issued, adopted or executed and delivered, have not been modified, amended or rescinded and are in full force and effect on and as of the Extension Closing Date and the Title Insurance Policy has not been modified, amended or rescinded and is in full force and effect on and as of the Extension Closing Date;

(e) the Bank shall have received copies of resolutions of the City Council of the City, certified as of the Extension Closing Date by the City Clerk, authorizing, among other things, the execution, delivery and performance by the City of this Amendment No. 1, the Fee Letter Agreement Amendment No. 1 and any other documents to be delivered by it hereunder;

(f) the Bank shall have received a certificate of an Authorized Representative of the City dated the Extension Closing Date certifying as to the authority, incumbency and specimen signatures of the Authorized Representative of the City authorized to sign this Amendment No. 1, the Fee Letter Agreement Amendment No. 1 and any other documents to be delivered by it hereunder and who will be authorized to represent the City in connection with the Letter of Credit, the Reimbursement Agreement and the Fee Letter Agreement, upon which the Bank may rely until it receives a new such certificate;

(a) the Bank shall have received a certificate signed by an Authorized Representative of the Authority dated the Extension Closing Date stating that on such date:

(i) the representations and warranties set forth in this Amendment No. 1 and in any other certificate, letter, writing or instrument delivered by the Authority to the Bank pursuant hereto or in connection herewith, shall be true and correct as of the Extension Closing Date;

(ii) no material adverse change shall have occurred in the condition (financial or otherwise) of the Authority prior to the Extension Closing Date;

(iii) on the Extension Closing Date no Event of Default or no event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default, shall have occurred and be continuing;

(iv) there is no lawsuit, tax claim or other dispute pending or threatened against the Authority which, if lost, would impair the Authority's financial condition or ability to repay the unreimbursed Drawings, except as have been disclosed in writing to the Bank;

(v) the Authority is in compliance with the terms and conditions of the Reimbursement Agreement and has performed or complied with all of its Obligations, agreements and covenants to be performed or complied with pursuant to the Reimbursement Agreement on or prior to the Extension Closing Date;

(vi) all information, documents, statements and certificates provided to the Bank by or on behalf of the Authority in connection with the Letter of Credit Amendment No. 1 are true and correct on and as of the date hereof and were provided in expectation of the Bank's reliance thereon in issuing the Letter of Credit Amendment No. 1; and

(vii) the Authority has delivered to the Bank true, correct and complete copies of the Related Documents and such documents were duly issued, adopted or executed and delivered, have not been modified, amended or rescinded and are in full force and effect on and as of the Extension Closing Date;

(g) the Bank shall have received copies of resolutions of the governing board of the Authority, certified as of the Extension Closing Date by the secretary of such governing board, authorizing, among other things, execution, delivery and performance by the Authority of this Amendment No. 1, the Fee Letter Agreement Amendment No. 1 and any documents to be delivered by it hereunder;

(h) the Bank shall have received a certificate of an Authorized Representative of the Authority dated the Extension Closing Date certifying as to the authority, incumbency and specimen signatures of the Authorized Representative of the Authority authorized to sign this Amendment No. 1, the Fee Letter Agreement Amendment No. 1 and any other documents to be delivered by it hereunder and who will be authorized to represent the Authority in connection with the Letter of Credit, the Reimbursement Agreement and the Fee Letter Agreement, upon which the Bank may rely until it receives a new such certificate;

(i) the representations and warranties set forth in Section 4 hereof shall be true and correct on and as of the Extension Closing Date and no Event of Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default shall have occurred and be continuing;

(j) payment to the Bank of (or the Bank shall be reasonably satisfied that payment will be made promptly after demand therefor after the Extension Closing Date of) all fees and expenses payable by the City pursuant to Section 5 hereof; and

(k) all other legal matters pertaining to the execution and delivery of this Amendment No. 1 and the Fee Letter Amendment No. 1 and the issuance of the Letter of Credit Amendment No. 1 shall be reasonably satisfactory to the Bank and its counsel.

Section 4. Representations and Warranties.

(a) The City hereby represents and warrants as of the Extension Closing Date that: (i) the representations and warranties of the City set forth in Article 4.1 of the Original Reimbursement Agreement and in any and all documents delivered to the Bank in connection therewith are true and correct on and as of the Extension Closing Date, as if made on and as of such date; (ii) no Event of Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default has occurred and is continuing; (iii) no default has occurred and is continuing under any of the Related Documents; (iv) the City is in compliance with the terms and conditions of the Original Reimbursement Agreement and has performed or complied with all of its obligations, agreements and covenants to be performed or complied with pursuant to the Reimbursement Agreement on or prior to the Extension Closing Date; (v) no material adverse change in the financial condition, operations or prospects of the City or laws, rules or regulations (or their interpretation or administration) shall have occurred as of the Extension Closing Date that, in any case, may adversely affect the consummation of the transaction, as determined in the sole discretion of the Bank; (vi) this Amendment No. 1 and the Fee Letter Agreement Amendment No. 1 have each been duly authorized, executed and delivered by the City; and (vii) all information, documents, statements and certificates provided to the Bank by or on behalf of the City in connection with the transactions contemplated by this Amendment No. 1 and the Fee Letter Agreement Amendment No. 1 are true and correct as of the date thereof and were provided in expectation of the Bank's reliance thereon in executing this Amendment No. 1 and the Fee Letter Agreement Amendment No. 1 and issuing the Letter of Credit Amendment No. 1.

(b) The Authority hereby represents and warrants as of the Extension Closing Date that: (i) the representations and warranties of the Authority set forth in Article 4.2 of the Reimbursement Agreement and in any and all documents delivered to the Bank in connection therewith are true and correct on and as of the Extension Closing Date, as if made on and as of such date; (ii) no Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default has occurred and is continuing; (iii) no default has occurred and is continuing under any of the Related Documents; (iv) the Authority is in compliance with the terms and conditions of the Reimbursement Agreement and has performed or complied with all of its obligations, agreements and covenants to be performed or complied with pursuant to the Reimbursement Agreement on or prior to the Extension Closing Date; (v) this Amendment No. 1 and the Fee Letter Agreement Amendment No. 1 have each been duly authorized, executed and delivered by the Authority; and (vi) all information, documents, statements and certificates provided to the Bank by or on behalf of the Authority in connection with the transactions contemplated by this Amendment No. 1 and the Fee Letter Agreement Amendment No. 1 are true and correct as of the date thereof and were provided in expectation of the Bank's reliance thereon in executing this Amendment No. 1 and the Fee Letter Agreement Amendment No. 1 and issuing the Letter of Credit Amendment No. 1.

Section 5. Costs and Expenses. The City shall pay (by payment of Additional Payments under the Lease Agreement) to the Bank any and all reasonable fees, charges and expenses, payable or incurred by the Bank in connection with the execution and delivery of this Amendment No. 1, the Fee Letter Amendment No. 1 and the Letter of Credit Amendment No. 1, including without limitation, the fees and expenses of counsel to the Bank. The City hereby agrees that such fees, charges and expenses are included as obligations under the Original Reimbursement Agreement.

Section 6. Miscellaneous.

(a) No Waiver. The Authority and the City each acknowledge and agree that, if and to the extent that the Bank has not heretofore required strict compliance with the performance by the Authority and the City of the covenants, agreements and obligations of the Authority and the City under the Reimbursement Agreement or the Related Documents, such action or inaction shall not constitute a waiver of, or otherwise affect in any manner, the Bank's rights and remedies under the Reimbursement Agreement or the Related Documents, as amended hereby, including the right to require performance of such covenants, agreements and obligations strictly in accordance with the terms and provisions thereof.

(b) Counterparts. This Amendment No. 1 may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement. This Amendment No. 1 may be delivered by the exchange of signed signature pages by facsimile transmission or by attaching a pdf copy to an email, and any printed or copied version of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

(c) Severability. Any provision of this Amendment No. 1 which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provisions in any other jurisdiction.

(d) One Agreement. Taken together with the Original Reimbursement Agreement and the other instruments and documents delivered in compliance herewith, this Amendment No. 1 and any related security or other agreements required by this Amendment No. 1, collectively: (i) represent the sum of the understandings and agreements among the Authority, the Bank and the City concerning this credit; (ii) replace any prior oral or written agreements between or among the Bank and the Authority and/or the City concerning this credit; and (iii) are intended by the Bank, the Authority and the City as the final, complete and exclusive statement of the terms agreed to by them. In the event of any conflict between this Amendment No. 1 and any other agreements required by this Amendment No. 1, this Amendment No. 1 will prevail.

(e) Governing Law. This Amendment No. 1 shall be governed by, and construed in accordance with, the laws of the State of California.

This Amendment No. 1 to Reimbursement Agreement is executed as of the date stated on the first page.

BMO HARRIS BANK N.A.,
as successor in interest to Bank of the West

By: Edward C. Neu
Typed Name: Edward C. Neu
Title: Managing Director

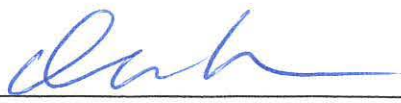
[Signatures continue on the next page]

[Signature Page to Amendment No. 1 to Reimbursement Agreement]

S-1

3764265 046654 AGMT

CITY OF MODESTO

By: 
Typed Name: DeAnna Christensen
Title: Finance Director/Treasurer

ATTEST:

By: 
Typed Name: Diane Navares-Perez
Title: City Clerk

APPROVED AS TO FORM:

By: _____
Typed Name: _____
Title: _____

MODESTO PUBLIC FINANCING
AUTHORITY

By: 
Typed Name: DeAnna Christensen
Title: Auditor and Treasurer

Federal law requires the Bank to provide the following notice. This notice is not part of the foregoing agreement or instrument and may not be altered. Please read the notice carefully.

USA PATRIOT ACT NOTICE. Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account or obtains a loan. The Bank will ask for the Authority's and the City's legal name, address, tax ID number or social security number and other identifying information. The Bank may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of the Authority, the City, guarantors or other related persons.

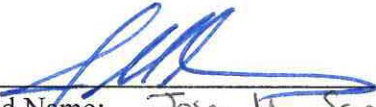
CITY OF MODESTO

By: _____
Typed Name: DeAnna Christensen
Title: Finance Director/Treasurer

ATTEST:

By: _____
Typed Name: Diane Navares-Perez
Title: City Clerk

APPROVED AS TO FORM:

By:  _____
Typed Name: Jose W. Sanchez
Title: City Attorney

MODESTO PUBLIC FINANCING
AUTHORITY

By: _____
Typed Name: DeAnna Christensen
Title: Auditor and Treasurer

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Exhibit A

Form of Letter of Credit Amendment No. 1

Irrevocable Transferable Letter of Credit No. MB60517199

Amendment No. 1

[Letterhead of BMO Harris Bank N.A.]

May 12, 2023

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 500
Los Angeles, California 90071
Attention: Global Corporate Trust Services

Ladies and Gentlemen:

Pursuant to Section 2.1 of the Reimbursement Agreement dated as of June 1, 2019 (the “Original Reimbursement Agreement”), by and among the City of Modesto (the “City”), the Modesto Public Financing Authority (the “Authority”) and Bank of the West, as amended by the Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023 (the “Reimbursement Agreement Amendment No. 1”), by and among the City, the Authority and BMO Harris Bank N.A., as successor in interest to Bank of the West (the “Bank”), the Bank has approved an extension of Irrevocable Transferable Letter of Credit No. MB60517199 (the “Letter of Credit”), dated June 13, 2019.

The Letter of Credit is hereby amended as follows:

1. The Stated Expiration Date of the Letter of Credit shall be extended to June 8, 2026.
2. Except for any references to Bank of the West as the Bank as of the Closing Date through and including January 31, 2023, all references to the Bank in the Letter of Credit shall be amended to refer to BMO Harris Bank N.A. instead.

You are hereby authorized to attach this Amendment No. 1 to the Letter of Credit and to treat this Amendment No. 1 as an amendment to the Letter of Credit.

All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Original Reimbursement Agreement, as amended by the Reimbursement Agreement Amendment No. 1 and as it may be further amended or supplemented from time to time (the “Reimbursement Agreement”) or the Letter of Credit.

Very truly yours,

BMO HARRIS BANK N.A.

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

Tab 3

**Amendment No. 1 to Fee Letter Agreement, dated May 12, 2023,
by and among the City, the Authority and BMO Harris Bank N.A.**

[Provided to the Authority, the City and the Bank]

AMENDMENT NO. 1 TO FEE LETTER AGREEMENT

May 12, 2023

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, California 95354

Modesto Public Financing Authority
c/o City of Modesto
1010 Tenth Street, Suite 5200
Modesto, California 95354

Re: Modesto Public Financing Authority Lease Revenue Refunding Bonds,
Series 2008

Ladies and Gentlemen:

This Amendment No. 1 to Fee Letter, dated May 12, 2023 (this "Fee Letter Agreement Amendment No. 1"), by and among BMO Harris Bank N.A., as successor in interest to Bank of the West (the "Bank"), the Modesto Public Financing Authority (the "Authority") and the City of Modesto (the "City"), amends that certain Fee Letter Agreement, dated June 13, 2019, by and among Bank of the West, the Authority and the City (the "Original Fee Letter Agreement", and as amended by this Fee Letter Agreement Amendment No. 1 and as it may be further amended and supplemented from time to time, the "Fee Letter Agreement"). Reference is hereby made to that certain Reimbursement Agreement, dated as of June 1, 2019 (the "Original Reimbursement Agreement"), among the City of Modesto (the "City"), the Modesto Public Financing Authority (the "Authority"), and Bank of the West, as amended by that certain Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023 (the "Reimbursement Agreement Amendment No. 1" and the Original Reimbursement Agreement, as amended by the Reimbursement Agreement Amendment No. 1 and as the same may be further amended or supplemented from time to time, the "Agreement"), among the City, the Authority and the Bank, pursuant to which Bank of the West issued its Irrevocable Transferable Letter of Credit No. MB60517199, as amended from time to time including as amended by that certain Amendment No. 1 to Irrevocable Transferable Letter of Credit No. MB60517199 dated May 12, 2023 (the "Letter of Credit Amendment No. 1") issued by the Bank, supporting the above-referenced Bonds (as so amended and as it may be further amended and supplemented from time to time, the "Letter of Credit"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

Section 1. Authority and Definitions.

(a) This Fee Letter Agreement Amendment No. 1 is entered into pursuant to Section 2.1 of the Original Fee Letter Agreement.

(b) This Fee Letter Agreement Amendment No. 1 amends the Original Fee Letter Agreement.

(c) Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

(d) This Fee Letter Agreement Amendment No. 1 shall become effective upon the execution and delivery hereof by the Authority, the City and the Bank on May 12, 2023.

(e) The provisions of this Fee Letter Agreement Amendment No. 1 shall supersede and prevail over any conflicting provisions of the Original Fee Letter Agreement. If there is any conflict between the terms, conditions and provisions of this Fee Letter Agreement Amendment No. 1 and those of any of the Related Documents, the terms, conditions and provisions of this Fee Letter Agreement Amendment No. 1, as applicable, shall prevail. Save and except as expressly amended hereby, all of the terms and provisions of the Original Fee Letter Agreement continue in full force and effect and are applicable to the provisions of this Fee Letter Agreement Amendment No. 1 and the obligations of the parties hereunder. Reference to this specific Fee Letter Agreement Amendment No. 1 need not be made in any note, document, agreement, letter, certificate, the Reimbursement Agreement or any communication issued or made subsequent to, or with respect to, the Reimbursement Agreement, it being hereby agreed that any reference to the Reimbursement Agreement shall be sufficient to refer to the Original Fee Letter Agreement as hereby amended. The parties hereto expressly agree that this Fee Letter Agreement Amendment No. 1 shall constitute a modification of the Original Fee Letter Agreement and does not constitute a novation or substitution with respect to the Original Fee Letter Agreement.

Section 2. Amendment of the Original Fee Letter Agreement.

(a) Except for any references to Bank of the West as the Bank as of the Closing Date through and including January 31, 2023, all references to the Bank in the Original Fee Letter Agreement shall be amended to refer to BMO Harris Bank N.A. instead.

(b) Section 1.1 of the Original Fee Letter Agreement is hereby deleted in its entirety and the following substituted therefor:

Section 1.1. Letter of Credit Fee. For the period from the Closing Date through but not including May 12, 2023, the Letter of Credit Fee shall be as set forth in the Fee Letter Agreement, dated June 13, 2019 (the "Original Fee Letter"), by and among the Bank, the Authority and the City (which provision, for

purposes of determining the Letter of Credit Fee in effect for the period from the Closing Date through but not including May 12, 2023, was incorporated by reference into the Agreement). For the period from and after May 12, 2023, the Authority and the City (by payment of Additional Payments under the Lease Agreement) hereby agree to pay or cause to be paid to the Bank a nonrefundable letter of credit fee (the "Letter of Credit Fee"), payable semiannually in arrears for each semiannual period from and after May 12, 2023 (or, in the case of the first semiannual period from and after May 12, 2023, the semiannual period from May 12, 2023 through September 30, 2023), equal to (i) the Letter of Credit Fee Rate multiplied by (ii) the Stated Amount of the Letter of Credit, for each day during such semiannual period commencing on the first day of such semiannual period (or, in the case of the first semiannual period from and after May 12, 2023, May 12, 2023) and ending on the last calendar day of such semiannual period. As used above, "Letter of Credit Fee Rate" shall mean 0.34% per annum, increased one time per level by the percentage points indicated below for each level below the A2/A/A level through or to which the current rating assigned to any long term, unenhanced general fund obligation of the City by Moody's Investors Service, Inc., S&P Global Ratings or Fitch Ratings, Inc. falls:

Rating (Moody's/S&P/Fitch)	Percentage Point <u>Increase</u>
A2/A/A or higher	0.00%
A3/A-/A-	0.10%
Baa1/BBB+/BBB+	0.10%

In the event that (x) the ratings assigned to any long term, unenhanced general fund obligation of the City shall be withdrawn or suspended or otherwise unavailable for credit-related reasons or reduced below Baa1 by Moody's Investors Service, Inc., BBB+ by S&P Global Ratings or BBB+ by Fitch Ratings, Inc. or (y) upon the occurrence of an Event of Default, the then current Letter of Credit Fee Rate based on the table above will be increased by an additional 1.50% per annum. In the event of split ratings, the Letter of Credit Rate will be based on the level that includes the lowest such rating. All such fee increases shall be cumulative.

(c) Section 1.2 of the Original Fee Letter Agreement is hereby deleted in its entirety and the following substituted therefor:

Section 1.2. Payment Dates. For the period from the Closing Date through but not including May 12, 2023, the Letter of Credit Fee shall be paid on the dates as set forth in the Original Fee Letter. For the period from and after May 12, 2023, the Letter of Credit Fee shall be paid semiannually in arrears for the preceding semiannual period on the first Business Day of each April and October, commencing on October 1, 2023 (such payment to include the Letter of Credit Fee for both the calendar quarter commencing on April 1, 2023 and ending on May 11,

2023, as set forth in the Original Fee Letter and the Letter of Credit Fee for the first semiannual period commencing on May 12, 2023 and ending on September 30, 2023, as set forth in Section 1.1 hereof) and on the Expiration Date.

(d) The last sentence of Section 1.3 of the Original Fee Letter Agreement is hereby deleted in its entirety and the following substituted therefor:

For the period from the Closing Date through but not including May 12, 2023, the Authority and City (by payment of Additional Payments under the Lease Agreement) shall pay to Bank in connection with Drawings under the Letter of Credit, a non-refundable annual administration fee in the amount of \$1,500, payable in advance on the Closing Date and on each anniversary of the Closing Date occurring thereafter. No annual administration fee shall be payable for the period from and after May 12, 2023, but any annual administration fee previously paid for such period shall be nonrefundable.

Section 3. Miscellaneous.

(a) Governing Law. This Fee Letter Agreement Amendment No. 1 shall be governed by, and construed in accordance with, the laws of the State of California.

(b) Counterparts. This Fee Letter Agreement Amendment No. 1 may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement. This Fee Letter Agreement Amendment No. 1 may be delivered by the exchange of signed signature pages by facsimile transmission or by attaching a pdf copy to an email, and any printed or copied version of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

(c) Severability. Any provision of this Fee Letter Agreement Amendment No. 1 which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provisions in any other jurisdiction.

(d) One Agreement. Taken together with the Original Fee Letter Agreement and the other instruments and documents delivered in compliance herewith, this Fee Letter Agreement Amendment No. 1 and any related security or other agreements required by this Fee Letter Agreement Amendment No. 1, collectively: (i) represent the sum of the understandings and agreements among the Authority, the Bank and the City concerning this credit; (ii) replace any prior oral or written agreements between or among the Bank and the Authority and/or the City concerning this credit; and (iii) are intended by the Bank, the Authority and the City as the final,

complete and exclusive statement of the terms agreed to by them. In the event of any conflict between this Fee Letter Agreement Amendment No. 1 and any other agreements required by this Fee Letter Agreement Amendment No. 1, this Fee Letter Agreement Amendment No. 1 will prevail.

[The remainder of this page intentionally left blank]

If the foregoing accurately reflects our agreement, please indicate the same by signing in the space provided below.

Very truly yours,

BMO HARRIS BANK N.A., as successor in
interest to Bank of the West

By: Edward C Neu
Typed Name: Edward C. Neu
Title: Managing Director

[Signatures continue on the next page]

[Signature Page to Amendment No. 1 to Fee Letter Agreement]

S-1

Accepted and Agreed to:

CITY OF MODESTO

By: 

Typed Name: DeAnna Christensen

Title: Finance Director/Treasurer

Attest:

By: 

Typed Name: Diane Navares-Perez

Title: City Clerk

Approved as to Form:

By: _____

Typed Name: _____

Title: _____

MODESTO PUBLIC FINANCING
AUTHORITY

By: 

Typed Name: DeAnna Christensen

Title: Auditor and Treasurer

[Signature Page to Amendment No. 1 to Fee Letter Agreement]

S-2

Accepted and Agreed to:

CITY OF MODESTO

By: _____

Typed Name: DeAnna Christensen

Title: Finance Director/Treasurer

Attest:

By _____

Typed Name: Diane Navares-Perez

Title: City Clerk

Approved as to Form:

By: _____

Typed Name: Jose M. Sanchez

Title: City Attorney

MODESTO PUBLIC FINANCING
AUTHORITY

By: _____

Typed Name: DeAnna Christensen

Title: Auditor and Treasurer

[Signature Page to Amendment No. 1 to Fee Letter Agreement]

S-2

BANK OF THE WEST

A trade name used by BMO Harris Bank N.A.

BANK OF THE WEST
GLOBAL TRADE OPERATIONS
13300 CROSSROADS PKWY N.
CITY OF INDUSTRY, CA 91746
SC-XRD-2W-G
SWIFT: BWSTUS66LAX

Irrevocable Transferable Letter of Credit No. MB60517199

Amendment No. 1

May 12, 2023

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 500
Los Angeles, California 90071
Attention: Global Corporate Trust Services

Ladies and Gentlemen:

Pursuant to Section 2.1 of the Reimbursement Agreement dated as of June 1, 2019 (the "Original Reimbursement Agreement"), by and among the City of Modesto (the "City"), the Modesto Public Financing Authority (the "Authority") and Bank of the West, as amended by the Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023 (the "Reimbursement Agreement Amendment No. 1"), by and among the City, the Authority and BMO Harris Bank N.A., as successor in interest to Bank of the West (the "Bank"), the Bank has approved an extension of Irrevocable Transferable Letter of Credit No. MB60517199 (the "Letter of Credit"), dated June 13, 2019.

The Letter of Credit is hereby amended as follows:

1. The Stated Expiration Date of the Letter of Credit shall be extended to June 8, 2026.
2. Except for any references to Bank of the West as the Bank as of the Closing Date through and including January 31, 2023, all references to the Bank in the Letter of Credit shall be amended to refer to BMO Harris Bank N.A. instead.

You are hereby authorized to attach this Amendment No. 1 to the Letter of Credit and to treat this Amendment No. 1 as an amendment to the Letter of Credit.

All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Original Reimbursement Agreement, as amended by the Reimbursement Agreement Amendment No. 1 and as it may be further amended or supplemented from time to time (the "Reimbursement Agreement") or the Letter of Credit.

Very truly yours,

BMO HARRIS BANK N.A.

By: ~~SPECIMEN~~
Name: GIUSEPPE PIAZZA
Title: VICE - PRESIDENT

By: ~~SPECIMEN~~
Name: EWING
Title: ASSISTANT VICE - PRESIDENT

SUPPLEMENT NO. 4, DATED MAY 11, 2023, TO OFFICIAL STATEMENT, DATED AUGUST 26, 2008

NOT A NEW ISSUE

RATINGS:
See “RATINGS” herein

\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

Dated: Date of Original Delivery Price: 100% CUSIP[†] 607796BU2 Due: September 1, 2033
(August 28, 2008)

This Supplement No. 4 to Official Statement (this “Supplement”) sets forth certain information supplementary to that information contained in the Official Statement dated August 26, 2008, as supplemented on February 25, 2014, June 22, 2016, and June 4, 2019 (together, the “Original Official Statement”), relating to the Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 (the “2008 Bonds”). The 2008 Bonds were issued pursuant to an Indenture, dated as of August 1, 2008, by and between the Modesto Public Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the 2008 Bonds and (iii) pay the costs of issuance of the 2008 Bonds.

Information with respect to the 2008 Bonds is contained in the Original Official Statement, as supplemented by this Supplement. This Supplement should be read together with the Original Official Statement (a copy of which is attached hereto as Appendix A and incorporated herein by reference). To the extent that the information in this Supplement conflicts with the information in the Original Official Statement, this Supplement shall govern. No attempt has been made to update the Original Official Statement except as specifically set forth in this Supplement. Unless otherwise defined in this Supplement, all terms used herein shall have the same meanings as those terms in the Original Official Statement.

The 2008 Bonds were issued in and are currently in a Weekly Mode, and interest on the 2008 Bonds accrues at the Weekly Rate. Regularly scheduled payments of the principal of and interest on the 2008 Bonds is supported by an irrevocable, direct-pay letter of credit (the “Letter of Credit”) issued by BMO Harris Bank N.A. (the “Bank”), successor in interest to Bank of the West, pursuant to the terms of a Reimbursement Agreement, dated as of June 1, 2019, by and among the Authority, the City of Modesto (the “City”) and the Bank, upon which Letter of Credit the Trustee is instructed to draw whenever any such amount is payable on the 2008 Bonds. The Trustee may also draw funds under the Letter of Credit to pay the purchase price of 2008 Bonds tendered for payment and not remarketed to the extent other moneys are not available therefor. The Letter of Credit with respect to the 2008 Bonds had an original stated expiration date of June 13, 2023. The Authority has requested the Bank to extend the stated expiration date to June 8, 2026, and the Bank intends to do so. See “CREDIT FACILITY” and “INFORMATION CONCERNING THE BANK” herein.

Raymond James & Associates, Inc. currently serves as remarketing agent for the 2008 Bonds (the “Remarketing Agent”).

Certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City and for the Bank by Hawkins Delafield & Wood LLP, Los Angeles, California.

RAYMOND JAMES®

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the City, its Municipal Advisor or the Remarketing Agent is responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the 2008 Bonds or as indicated above. The CUSIP number for a specific bond is subject to being changed after the issuance of the bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of such bonds.

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SUPPLEMENT NO. 4, DATED MAY 11, 2023, TO OFFICIAL STATEMENT, DATED AUGUST 26, 2008

RELATING TO

**\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008**

INTRODUCTION

The purpose of this Supplement No. 4 to Official Statement (this “Supplement”) is to supplement the Official Statement dated August 26, 2008, as supplemented on February 25, 2014, June 22, 2016, and June 4, 2019 (together, the “Original Official Statement”), relating to the \$65,170,000 original principal amount of Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 (the “2008 Bonds”). The 2008 Bonds are currently outstanding in the aggregate principal amount of \$41,770,000. This Supplement provides information concerning the extension to June 8, 2026 of the stated expiration date of the irrevocable direct-pay letter of credit (the “Letter of Credit”) issued by BMO Harris Bank N.A. (the “Bank”), successor in interest to Bank of the West, pursuant to the terms of a Reimbursement Agreement, dated as of June 1, 2019 (the “Original Reimbursement Agreement”), by and among the Bank, the Modesto Public Financing Authority (the “Authority”) and the City of Modesto (the “City”), to provide for the payment of principal, purchase price and optional and mandatory sinking fund redemption price of and interest on the 2008 Bonds. The Letter of Credit currently has a stated expiration date of June 13, 2023.

The 2008 Bonds were issued pursuant to an Indenture, dated as of August 1, 2008, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the 2008 Bonds and (iii) pay the costs of issuance of the 2008 Bonds.

In connection with the extension of the Letter of Credit’s stated expiration date by the Bank, the Original Reimbursement Agreement will be amended pursuant to an Amendment No. 1 to Reimbursement Agreement (the “Amendment No. 1” and the Reimbursement Agreement, as amended by Amendment No. 1, the “Reimbursement Agreement”). See “CREDIT FACILITY” herein.

This Supplement also provides information about the Bank, which has been provided by the Bank. See “INFORMATION CONCERNING THE BANK” below.

The Bank has provided only the information related to itself set forth under the heading “INFORMATION CONCERNING THE BANK” for inclusion in this Supplement and has not provided any other information for this Supplement. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date. The Bank has not (i) independently verified or reviewed, (ii) made any representation regarding, nor (iii) accepted any responsibility for the accuracy or completeness of, this Supplement or the Original Official Statement or any information or disclosure contained herein or therein, other than solely with respect to the information with respect to itself set forth in this Supplement under the heading “INFORMATION CONCERNING THE BANK.”

Information with respect to the 2008 Bonds is contained in the Original Official Statement, as supplemented by this Supplement. This Supplement should be read together with the Original Official Statement (a copy of which is attached hereto as Appendix A and incorporated herein by reference). To

the extent that the information in this Supplement conflicts with the information in the Original Official Statement, this Supplement shall govern. No attempt has been made to update the Original Official Statement except as specifically set forth in this Supplement. Unless otherwise defined in this Supplement, all terms used herein shall have the same meanings as those terms in the Original Official Statement.

CREDIT FACILITY

POTENTIAL PURCHASERS OF THE 2008 BONDS SHOULD BASE ANY DECISION WITH RESPECT TO THE PURCHASE, HOLDING OR TENDER OF SUCH 2008 BONDS SOLELY UPON THE CREDIT OF THE BANK AND NOT THE CITY OR THE AUTHORITY. NEITHER THE CITY NOR THE AUTHORITY HAS OBLIGATED ITSELF TO PURCHASE THE 2008 BONDS IN THE EVENT OF A MANDATORY OR OPTIONAL TENDER. CERTAIN INFORMATION INCLUDED IN THIS SUPPLEMENT WITH RESPECT TO THE CITY AND THE AUTHORITY IS FOR INFORMATIONAL PURPOSES ONLY.

Reference is made to each of the Letter of Credit and the Reimbursement Agreement in its entirety for the detailed provisions thereof, copies of which are available for inspection from the Trustee.

Credit Facility

The Bank has established, at the request and for the account of the City, the Letter of Credit in favor of the Trustee. The Letter of Credit authorizes the Trustee to draw on the Letter of Credit in an aggregate amount not exceeding \$42,236,909.00 (as reduced or reinstated from time to time in accordance with the provisions of the Letter of Credit, the "Stated Amount") of which an amount not exceeding \$41,770,000.00 (as reduced or reinstated from time to time in accordance with the provisions of the Letter of Credit, the "Principal Portion") may be drawn with respect to payment of the unpaid principal of or the portion of the purchase price corresponding to the unpaid principal of the 2008 Bonds and an amount not exceeding \$466,909.00 (as reduced or reinstated from time to time in accordance with the provisions of the Letter of Credit, the "Interest Portion") may be drawn upon with respect to payment of interest actually accrued and unpaid on, or the portion of the purchase price corresponding to interest actually accrued and unpaid on, the 2008 Bonds on or prior to their stated maturity date, but in no event more than interest accrued and unpaid on the 2008 Bonds calculated at a maximum interest rate of 12% per annum (based on a year of 365 days) for the 34 days immediately preceding any drawing. The Stated Amount is comprised of the Principal Portion and the Interest Portion, as they may vary from time to time. The Letter of Credit is only available to be drawn upon with respect to 2008 Bonds bearing interest at a Daily Rate or Weekly Rate pursuant to the Indenture.

Drawings by the Trustee under the Letter of Credit and presentation of a reduction certificate by the Trustee to the Bank will reduce the Stated Amount available for subsequent drawings under the Letter of Credit, subject to reinstatement as provided in the Letter of Credit.

Upon extension, the Letter of Credit will expire at 4:00 p.m. (California time) on the date (the "Expiration Date") which is the earliest of: (i) June 8, 2026, unless extended by the Bank in its sole discretion (the "Stated Expiration Date"), (ii) the date on which the Bank honors a drawing which when added to all other drawings honored hereunder and not subject to reinstatement in the aggregate equals the Stated Amount, (iii) the first (1st) Business Day which is five (5) days after the date of the Bank's receipt of a specified certificate from the Trustee stating that (x) the conditions precedent to the acceptance of an Alternate Credit Facility set forth in the Indenture have been satisfied and the Trustee has accepted an Alternate Credit Facility, or (y) no 2008 Bonds remain outstanding under the Indenture or all 2008 Bonds remaining outstanding under the Indenture have been converted to bear interest at a Fixed Rate, Flexible Rate or Term Rate, (iv) the day the Bank delivers to the Trustee a specified certificate stating that an event

of default under the Reimbursement Agreement has occurred and that the Letter of Credit has expired, or (v) the date when the Trustee surrenders the Letter of Credit to the Bank for cancellation. The Trustee has agreed in the Letter of Credit to surrender the Letter of Credit to the Bank, and not to make any drawing after (a) the Expiration Date, or (b) the date on which there are no 2008 Bonds outstanding under the Indenture. Funds under the Letter of Credit will be paid with the Bank's own funds.

Reimbursement Agreement

General. The following summarizes certain provisions of the Reimbursement Agreement. The Reimbursement Agreement, among other things, sets the terms and conditions whereby the Authority and the City are required to repay to the Bank any amounts drawn by the Trustee under the Letter of Credit. Among other things, the Reimbursement Agreement also provides for the payment or reimbursement to the Bank of certain specified fees, costs and expenses, affirmative and negative covenants to be observed on the part of the Authority and the City and certain indemnification obligations on the part of the Authority and the City. ***The Reimbursement Agreement will not secure the Trustee, the holders of the 2008 Bonds, or the 2008 Bonds.***

For purposes of this summary, "Bankruptcy Law" shall mean Title 11, U.S. Code, as amended or supplemented, any successor statute thereto, or any similar Federal, state, or foreign law for the relief of debtors.

For purposes of this summary, "Related Documents" shall mean the Reimbursement Agreement, the related fee letter agreement, the Letter of Credit, the 2008 Bonds, the Indenture, the Lease Agreement, the Facilities Leases, the Remarketing Agreement, the Official Statement and the other documents, certificates and opinions executed and delivered in connection with issuance of the 2008 Bonds.

For purposes of this summary, "Successor Agency" means the City as the successor agency for the Redevelopment Agency of the City of Modesto as designated under Section 34173 of the California Health & Safety Code.

Events of Default. If any of the following events shall occur and be continuing, each such event shall be an "Event of Default" under the Reimbursement Agreement:

(a) The Authority or the City (by payment of Base Rental Payments or Additional Payments under the Lease Agreement) shall fail to pay when due any amount payable to the Bank under the Reimbursement Agreement or under the Lease Agreement (including any Base Rental Payment or Additional Payment) or under any of the Related Documents; or

(b) Any provision of the 2008 Bonds or any other Related Document ceases to be valid and binding against the Authority, the City, the Successor Agency or the Financing Agency (as the case may be) or shall be declared null and void or the Authority, the City, the Successor Agency or the Financing Agency repudiates its obligations under the Reimbursement Agreement or any of the Related Documents or the pledge and assignment pursuant to the Reimbursement Agreement and pursuant to the Indenture shall for any reason cease to be fully enforceable with the priority required under the Reimbursement Agreement and under the Indenture; or

(c) The Authority, the City, the Successor Agency or the Financing Agency shall either (i) become insolvent or generally fail to pay, or admit in writing its inability to pay, its debts as they become due; or (ii) voluntarily commence any proceeding or file any petition under the Bankruptcy Law or similar law seeking dissolution or reorganization or the appointment of a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement

with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of an involuntary petition filed against it in any bankruptcy, insolvency or similar proceeding, or shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or shall consent to, or acquiesce in the appointment of, a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business; or (iii) take any action for the purpose of effectuating any of the foregoing; or

(d) Involuntary proceedings or an involuntary petition shall be commenced or filed against the Authority, the City, the Successor Agency or the Financing Agency under the Bankruptcy Law or similar law seeking the dissolution or reorganization of the Authority, the City, the Successor Agency or the Financing Agency or the appointment of a receiver, trustee, custodian or liquidator for the Authority, the City, the Successor Agency or the Financing Agency or of a substantial part of the property, assets or business of the Authority, the City, the Successor Agency or the Financing Agency, or any writ, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or business of the Authority, the City, the Successor Agency or the Financing Agency, and such proceedings or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded, within thirty (30) days after commencement, filing or levy, as the case may be; or

(e) Any judgments or arbitration awards are entered against the City, or the City enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of \$500,000 or more in excess of any insurance coverage, provided that the insurer has issued a letter of responsibility for payment up to the amount of insurance coverage; or

(f) The City shall fail to make a payment on any debt to any person or entity payable from the City's general fund in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date), or in connection with any credit the City has obtained from the Bank regardless of amount, or any interest or premium thereon when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such debt, or the City shall fail to perform or observe any term, covenant or condition in any agreement or instrument relating to any debt to any person or entity in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date) when required to be performed or observed, if the effect of such failure to perform or observe results in the acceleration, or ability to accelerate, the maturity of such debt (or, with respect to any Swap, which results in such Swap being terminated early or being capable of being terminated early); or

(g) Any default occurs under the Lease Agreement or any other Related Document, in each case after the passage of any notice and cure periods; or

(h) The City or the Authority fails to meet the conditions of, or fails to perform (i) any term, covenant, condition or agreement on its part to be performed or observed under certain affirmative covenants set forth in the Reimbursement Agreement, or (ii) any term, covenant, condition or agreement on its part to be performed or observed not specifically referred to in any of the Events of Default, and such default (solely in the case of clause (ii)) is not cured within thirty (30) days after the Bank has given the City or the Authority, as applicable, written notice of such default; or

(i) Any of the City's or the Authority's representations or warranties made in the Reimbursement Agreement or in any statement or certificate at any time made or deemed made by or on

behalf of the City or the Authority pursuant thereto or in connection therewith, and/or in any of the other Related Documents, is false or misleading in any material respect when made or deemed made; or

(j) The ratings assigned to any long term, unenhanced general fund obligation of the City shall be withdrawn or suspended or otherwise unavailable for credit-related reasons or reduced below Baa1 by Moody's Investors Service, Inc., BBB+ by S&P Global Ratings or BBB+ by Fitch Ratings, Inc. In the event of split ratings, the default will be determined by reference to the lowest rating; or

(k) The leasehold interest of the Authority under either of the Parking Garage Facilities Lease or the City – County Administration Facilities Lease shall terminate; or

(l) A moratorium shall have been declared with respect to the payment of the debts of the Authority or the City; or

(m) Any of the funds or accounts established pursuant to the Indenture or the Lease Agreement or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City or the Authority and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within thirty (30) days after its issue or levy; or

(n) An event shall have occurred that in the opinion of the Bank has a material adverse effect on the financial condition, operations or prospects of the City or its ability to perform its obligations under the Reimbursement Agreement or any Related Document.

Remedies. If an Event of Default under the Reimbursement Agreement shall have occurred and be continuing, the Bank may (i) give notice to the Trustee under the Indenture of the Bank's election to cause a mandatory tender of the 2008 Bonds because of the occurrence and continuance of an Event of Default under the Reimbursement Agreement, (ii) 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 Bank under the Reimbursement Agreement to be immediately due and payable, without presentment, demand, protest or any notice of any kind, but subject to certain limitations on repayment set forth in the Reimbursement Agreement or (iii) exercise any and all rights and remedies available to the Bank under the Reimbursement Agreement or the Indenture, at law or in equity; provided, that the Bank may not cause the acceleration of Base Rental Payments under the Lease Agreement. In the event of the occurrence of an Event of Default described in paragraphs (c) or (d) above, all unpaid amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued thereon and all other amounts payable 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, but subject to certain limitations on repayment set forth in the Reimbursement Agreement.

INFORMATION CONCERNING THE BANK

Except for the contents under this subheading, BMO Harris Bank N.A. did not participate in the preparation of, or in any way verify the information in, any other part of this Supplement and assumes no responsibility for the nature, contents, accuracy or completeness of the information set forth in this Supplement.

BMO Harris Bank N.A. ("BMOHB"), with executive offices in Chicago, Illinois, is a wholly-owned subsidiary and the principal asset of BMO Financial Corp., a Delaware corporation ("BFC"). BFC is a wholly-owned subsidiary of the Bank of Montreal. BMOHB is a commercial and retail bank offering

a wide range of banking and trust services to customers located throughout the United States and around the world.

Each quarter, BMOHB files quarterly reports called “Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices” (“BMOHB Call Reports”). Each BMOHB Call Report may be obtained from the FDIC on its website at <http://www.fdic.gov>. The financial information referenced in this paragraph is not incorporated by reference into the information under this subheading.

The above information has been supplied by BMOHB. The delivery of the information under this subheading shall not create any implication that there has been no change in the affairs of BMOHB since the date such information was provided by BMOHB, or that the information contained or referred to under this subheading is correct as of any time subsequent to the date it was provided by BMOHB.

Neither BMOHB nor its affiliates make any representations as to the contents of this Supplement (except as to the information under this subheading), the suitability of the 2008 Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws and regulations.

RATINGS

Fitch and S&P have assigned the 2008 Bonds the ratings of “AA- (negative outlook)/F1+” and “A+ (stable)/A-1”, respectively, based on the Bank’s Letter of Credit supporting the 2008 Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Fitch Ratings, 33 Whitehall Street, New York, New York 10004 and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Neither the Authority nor the City makes any representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2008 Bonds.

MISCELLANEOUS

This Supplement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the 2008 Bonds. Any statements made in this Supplement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Supplement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or the Bank since the date hereof.

This Supplement has been duly approved, executed and delivered by the City and the Authority.

CITY OF MODESTO, CALIFORNIA

By: /s/ DeAnna Christensen
Director of Finance

MODESTO PUBLIC FINANCING AUTHORITY

By: /s/ DeAnna Christensen
Auditor and Treasurer

APPENDIX A

**COPY OF OFFICIAL STATEMENT, DATED AUGUST 26, 2008,
AS SUPPLEMENTED AS OF FEBRUARY 25, 2014, JUNE 22, 2016, AND JUNE 4, 2019**

**SUPPLEMENT NO. 3*, DATED JUNE 4, 2019, TO OFFICIAL STATEMENT, ORIGINALLY DATED
AUGUST 26, 2008**

NOT A NEW ISSUE

RATINGS:
See “RATINGS” herein

**\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008**

**Dated: Date of Original Delivery Price: 100% CUSIP† 607796BU2 Due: September 1, 2033
(August 28, 2008)**

This Supplement No. 3 to Official Statement (this “Supplement”) sets forth certain information supplementary to that information contained in the Official Statement dated August 26, 2008, as supplemented on February 25, 2014 and as further supplemented on June 22, 2016 (together, the “Original Official Statement”), relating to the Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 (the “2008 Bonds”). The 2008 Bonds were issued pursuant to an Indenture, dated as of August 1, 2008 (the “Indenture”), by and between the Modesto Public Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the 2008 Bonds and (iii) pay the costs of issuance of the 2008 Bonds.

Information with respect to the 2008 Bonds is contained in the Original Official Statement, as supplemented by this Supplement. This Supplement should be read together with the Original Official Statement (a copy of which is attached hereto as Appendix A and incorporated herein by reference). To the extent that the information in this Supplement conflicts with the information in the Original Official Statement, this Supplement shall govern. No attempt has been made to update the Original Official Statement except as specifically set forth in this Supplement. Unless otherwise defined in this Supplement, all terms used herein shall have the same meanings as those terms in the Original Official Statement.

The 2008 Bonds were issued in and are currently in a Weekly Mode, and interest on the 2008 Bonds accrues at the Weekly Rate. Payments of the principal of and interest on the 2008 Bonds are currently supported by an irrevocable, direct-pay letter of credit (the “BofA Letter of Credit”) issued by Bank of America, N.A. (the “Bank”), which expires on June 22, 2019. Effective June 13, 2019 (the “Substitution Date”), the BofA Letter of Credit will be replaced by an irrevocable, transferable letter of credit (the “BotW Letter of Credit”) to be issued by Bank of the West (the “Bank”), pursuant to the terms of a Reimbursement Agreement, dated as of June 1, 2019 (the “Reimbursement Agreement”), by and among the Authority, the City of Modesto (the “City”) and the Bank. Under the terms of the Indenture the Trustee is instructed to draw under the BotW Letter of Credit whenever any regularly scheduled payment of principal and interest is payable on the 2008 Bonds. The Trustee may also draw funds under the BotW Letter of Credit to pay the purchase price of 2008 Bonds tendered for payment and not remarketed to the extent other moneys are not available therefor. The BotW Letter of Credit will expire on June 13, 2023. See “LETTER OF CREDIT” and “INFORMATION CONCERNING BANK OF THE WEST ” herein.

The 2008 Bonds are subject to mandatory purchase on the Substitution Date.

As of May 20, 2019, the Authority appointed Raymond James & Associates, Inc. as the new remarketing agent for the 2008 Bonds (replacing Merrill Lynch, Pierce, Fenner & Smith Incorporated –i.e., BofAMerrill Lynch)

Certain legal matters in connection with the substitution of the BotW Letter of Credit will be passed upon for the City and the Authority by Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City and for the Bank by Hawkins Delafield & Wood LLP, Los Angeles, California.

RAYMOND JAMES®

* This Supplement corrects and restates Supplement No. 3 dated May 23, 2019.

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**SUPPLEMENT NO. 3*, DATED JUNE 4, 2019, TO OFFICIAL STATEMENT, ORIGINALLY DATED
AUGUST 26, 2008**

RELATING TO

\$65,170,000

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008**

INTRODUCTION

The purpose of this Supplement No. 3 to Official Statement (this “Supplement”) is to supplement the Official Statement dated August 26, 2008, as supplemented on February 25, 2014 and June 22, 2018 (together, the “Original Official Statement”), relating to the \$65,170,000 Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 (the “2008 Bonds”). The 2008 Bonds are currently outstanding in the aggregate principal amount of \$50,915,000. The 2008 Bonds were issued pursuant to an Indenture, dated as of August 1, 2008 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the 2008 Bonds and (iii) pay the costs of issuance of the 2008 Bonds.

Payments of the principal of and interest on the 2008 Bonds and the purchase price of 2008 Bonds tendered for payment and not remarketed to the extent other moneys are not available therefor are currently supported by an irrevocable, direct-pay letter of credit (the “BofA Letter of Credit”) issued by Bank of America, N.A. (the “Bank”), which expires on June 22, 2019. Effective June 13, 2019 (the “Substitution Date”), the BofA Letter of Credit will be replaced by an irrevocable transferable letter of credit (the “BotW Letter of Credit” or the “Letter of Credit”) to be issued by Bank of the West (“BotW” or the “Bank”) pursuant to the terms of a Reimbursement Agreement, dated as of June 1, 2019 (the “Reimbursement Agreement”), by and among the Authority, the City of Modesto (the “City”) and BotW. *The 2008 Bonds are subject to mandatory purchase on the Substitution Date.*

This Supplement provides information concerning the substitution of the BotW Letter of Credit and execution and delivery of the Reimbursement Agreement. See “CREDIT FACILITY” herein.

This Supplement also provides information about the Bank of the West, which has been provided by Bank. See “INFORMATION CONCERNING BANK OF THE WEST” herein.

Information with respect to the 2008 Bonds is contained in the Original Official Statement, as supplemented by this Supplement. This Supplement should be read together with the Original Official Statement (a copy of which is attached hereto as Appendix A and incorporated herein by reference). To the extent that the information in this Supplement conflicts with the information in the Original Official Statement, this Supplement shall govern. No attempt has been made to update the Original Official Statement except as specifically set forth in this Supplement. Unless otherwise defined in this Supplement, all terms used herein shall have the same meanings as those terms in the Original Official Statement.

* This Supplement corrects and restates Supplement No. 3 dated May 23, 2019.

CREDIT FACILITY

POTENTIAL PURCHASERS OF THE 2008 BONDS SHOULD BASE ANY DECISION WITH RESPECT TO THE PURCHASE, HOLDING OR TENDER OF SUCH 2008 BONDS SOLELY UPON THE CREDIT OF BANK OF THE WEST AND NOT THE CITY OR THE AUTHORITY. NEITHER THE CITY NOR THE AUTHORITY HAS OBLIGATED ITSELF TO PURCHASE THE 2008 BONDS IN THE EVENT OF A MANDATORY OR OPTIONAL TENDER. CERTAIN INFORMATION INCLUDED IN THIS SUPPLEMENT WITH RESPECT TO THE CITY AND THE AUTHORITY IS FOR INFORMATIONAL PURPOSES ONLY.

PAYMENTS OF PRINCIPAL AND INTEREST ON THE 2008 BONDS WILL BE MADE FROM DRAWINGS UNDER THE BotW LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE 2008 BONDS WILL BE MADE FROM DRAWINGS UNDER THE BotW LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE BotW LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE 2008 BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE BANK AND ARE NOT GUARANTEED BY THE BANK. THE 2008 BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

Reference is made to each of the BotW Letter of Credit and the Reimbursement Agreement in its entirety for the detailed provisions thereof, copies of which are available for inspection from the Trustee.

BotW Letter of Credit

Effective on the Substitution Date, at the request and for the account of the City, the Bank will establish the Letter of Credit in favor of the Trustee. The Letter of Credit will authorize the Trustee to draw on Letter of Credit in an aggregate amount not exceeding \$51,484,133.00 (as reduced or reinstated from time to time in accordance with the provisions hereof, the "Stated Amount") of which an amount not exceeding \$50,915,000.00 (as reduced or reinstated from time to time in accordance with the terms hereof, the "Principal Portion"), may be drawn with respect to payment of the unpaid principal of or the portion of the purchase price corresponding to the unpaid principal of the 2008 Bonds and an initial amount not exceeding \$569,133.00 (as reduced or reinstated from time to time in accordance with the terms hereof, the "Interest Portion") may be drawn upon with respect to payment of interest actually accrued and unpaid on, or the portion of the purchase price corresponding to interest actually accrued and unpaid on, the 2008 Bonds on or prior to their stated maturity date, but in no event more than interest accrued and unpaid on the 2008 Bonds calculated at a maximum interest rate of 12% per annum (based on a year of 365 days) for the 34 days immediately preceding any drawing. The Stated Amount is comprised of the Principal Portion and the Interest Portion, as they may vary from time to time. The Letter of Credit is only available to be drawn upon with respect to 2008 Bonds bearing interest at a rate other than a fixed rate pursuant to the Indenture.

The Letter of Credit will expire at 4:00 p.m. (California time) on the date (the "Expiration Date") which is the earliest of: (i) June 13, 2023, unless extended by the Bank in its sole discretion (the "Stated Expiration Date"), (ii) the date on which the Bank honors a drawing which when added to all other drawings honored hereunder and not subject to reinstatement in the aggregate equals the Stated Amount, (iii) the first (1st) Business Day (defined below) which is five (5) days after the date of the Bank's receipt of a specified certificate from the Trustee stating that (x) the conditions precedent to the acceptance of an Alternate Credit Facility set forth in the Indenture have been satisfied and the Trustee has accepted an Alternate Credit Facility, or (y) no 2008 Bonds remain outstanding under the Indenture or all 2008 Bonds remaining

outstanding under the Indenture have been converted to bear interest at a fixed rate until maturity, (iv) the day the Bank delivers to the Trustee a specified certificate stating that an event of default under the Reimbursement Agreement has occurred and that the Letter of Credit has expired, or (v) the date when the Trustee surrenders the Letter of Credit to the Bank for cancellation. The Trustee will agree to surrender the Letter of Credit to the Bank, and not to make any drawing, after (a) the Expiration Date, or (b) the date on which there are no 2008 Bonds outstanding under the Indenture. Funds under the Letter of Credit will be paid with the Bank's own funds.

Reimbursement Agreement

General. The following summarizes certain provisions of the Reimbursement Agreement. The Reimbursement Agreement, among other things, sets the terms and conditions whereby the Authority and the City are required to repay to the Bank any amounts drawn by the Trustee under the Letter of Credit. Among other things, the Reimbursement Agreement also provides for the payment or reimbursement to the Bank of certain specified fees, costs and expenses, affirmative and negative covenants to be observed on the part of the Authority and the City and certain indemnification obligations on the part of the Authority and the City. ***The Reimbursement Agreement will not secure the Trustee, the holders of the 2008 Bonds, or the 2008 Bonds.***

For purposes of this summary, "Bankruptcy Law" shall mean Title 11, U.S. Code, as amended or supplemented, any successor statute thereto, or any similar Federal, state, or foreign law for the relief of debtors.

For purposes of this summary, "Related Documents" shall mean the Reimbursement Agreement, the related fee letter agreement, the Letter of Credit, the 2008 Bonds, the Indenture, the Lease Agreement, the Facilities Leases, the Remarketing Agreement, the Official Statement and the other documents, certificates and opinions executed and delivered in connection with issuance of the 2008 Bonds.

For purposes of this summary, "Successor Agency" means the City as the successor agency for the Redevelopment Agency of the City of Modesto as designated under Section 34173 of the California Health & Safety Code.

Events of Default. If any of the following events shall occur and be continuing, each such event shall be an "Event of Default" under the Reimbursement Agreement:

(a) The Authority or the City (by payment of Base Rental Payments or Additional Payments under the Lease Agreement) shall fail to pay when due any amount payable to the Bank under the Reimbursement Agreement or under the Lease Agreement (including any Base Rental Payment or Additional Payment) or under any of the Related Documents; or

(b) Any provision of the 2008 Bonds or any other Related Document ceases to be valid and binding against the Authority, the City, the Successor Agency or the Financing Agency (as the case may be) or shall be declared null and void or the Authority, the City, the Successor Agency or the Financing Agency repudiates its obligations under the Reimbursement Agreement or any of the Related Documents or the pledge and assignment pursuant to the Reimbursement Agreement and pursuant to the Indenture shall for any reason cease to be fully enforceable with the priority required under the Reimbursement Agreement and under the Indenture; or

(c) The Authority, the City, the Successor Agency or the Financing Agency shall either (i) become insolvent or generally fail to pay, or admit in writing its inability to pay, its debts as they become due; or (ii) voluntarily commence any proceeding or file any petition under the Bankruptcy Law or similar

law seeking dissolution or reorganization or the appointment of a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of an involuntary petition filed against it in any bankruptcy, insolvency or similar proceeding, or shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or shall consent to, or acquiesce in the appointment of, a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business; or (iii) take any action for the purpose of effectuating any of the foregoing; or

(d) Involuntary proceedings or an involuntary petition shall be commenced or filed against the Authority, the City, the Successor Agency or the Financing Agency under the Bankruptcy Law or similar law seeking the dissolution or reorganization of the Authority, the City, the Successor Agency or the Financing Agency or the appointment of a receiver, trustee, custodian or liquidator for the Authority, the City, the Successor Agency or the Financing Agency or of a substantial part of the property, assets or business of the Authority, the City, the Successor Agency or the Financing Agency, or any writ, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or business of the Authority, the City, the Successor Agency or the Financing Agency, and such proceedings or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded, within thirty (30) days after commencement, filing or levy, as the case may be; or

(e) Any judgments or arbitration awards are entered against the City, or the City enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of \$500,000 or more in excess of any insurance coverage, provided that the insurer has issued a letter of responsibility for payment up to the amount of insurance coverage; or

(f) The City shall fail to make a payment on any debt to any person or entity payable from the City's general fund in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date), or in connection with any credit the City has obtained from the Bank regardless of amount, or any interest or premium thereon when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such debt, or the City shall fail to perform or observe any term, covenant or condition in any agreement or instrument relating to any debt to any person or entity in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date) when required to be performed or observed, if the effect of such failure to perform or observe results in the acceleration, or ability to accelerate, the maturity of such debt (or, with respect to any Swap, which results in such Swap being terminated early or being capable of being terminated early); or

(g) Any default occurs under the Lease Agreement or any other Related Document, in each case after the passage of any notice and cure periods; or

(h) The City or the Authority fails to meet the conditions of, or fails to perform (i) any term, covenant, condition or agreement on its part to be performed or observed under certain affirmative covenants set forth in the Reimbursement Agreement, or (ii) any term, covenant, condition or agreement on its part to be performed or observed not specifically referred to in any of the Events of Default, and such default (solely in the case of clause (ii)) is not cured within thirty (30) days after the Bank has given the City or the Authority, as applicable, written notice of such default; or

(i) Any of the City's or the Authority's representations or warranties made in the Reimbursement Agreement or in any statement or certificate at any time made or deemed made by or on behalf of the City or the Authority pursuant thereto or in connection therewith, and/or in any of the other Related Documents, is false or misleading in any material respect when made or deemed made; or

(j) The ratings assigned to any long term, unenhanced general fund obligation of the City shall be withdrawn or suspended or otherwise unavailable for credit-related reasons or reduced below Baa1 by Moody's Investors Service, Inc., BBB+ by S&P Global Ratings or BBB+ by Fitch Ratings, Inc. In the event of split ratings, the default will be determined by reference to the lowest rating; or

(k) The leasehold interest of the Authority under either of the Parking Garage Facilities Lease or the City – County Administration Facilities Lease shall terminate; or

(l) A moratorium shall have been declared with respect to the payment of the debts of the Authority or the City; or

(m) Any of the funds or accounts established pursuant to the Indenture or the Lease Agreement or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City or the Authority and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within thirty (30) days after its issue or levy; or

(n) An event shall have occurred that in the opinion of the Bank has a material adverse effect on the financial condition, operations or prospects of the City or its ability to perform its obligations under the Reimbursement Agreement or any Related Document.

Remedies. If an Event of Default under the Reimbursement Agreement shall have occurred and be continuing, the Bank may (i) give notice to the Trustee under the Indenture of the Bank's election to cause a mandatory tender of the 2008 Bonds because of the occurrence and continuance of an Event of Default under the Reimbursement Agreement, (ii) 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 Bank under the Reimbursement Agreement to be immediately due and payable, without presentment, demand, protest or any notice of any kind, but subject to certain limitations on repayment set forth in the Reimbursement Agreement or (iii) exercise any and all rights and remedies available to the Bank under the Reimbursement Agreement or the Indenture, at law or in equity; provided, that the Bank may not cause the acceleration of Base Rental Payments under the Lease Agreement. In the event of the occurrence of an Event of Default described in paragraphs (c) or (d) above, all unpaid amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued thereon and all other amounts payable 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, but subject to certain limitations on repayment set forth in the Reimbursement Agreement.

INFORMATION CONCERNING BANK OF THE WEST

The information under this caption has been furnished by Bank of the West and no representation is made by the Authority or the City as to the accuracy or completeness or the adequacy of such information. Further, no representation is made by the Authority or the City or the Bank as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date. The delivery of this information shall not create any implication that there has been no change in

the affairs of the Bank since the date of the most recent filings referenced herein, or that the information contained or referred to under this caption is correct as of any time subsequent to the referenced date.

Bank of the West is a financial services company headquartered in San Francisco with \$87.4 billion in assets as of December 31, 2018. With community bank roots dating back more than 140 years, Bank of the West operates a network of retail, wealth, commercial and business banking branches and offices in 24 states. The Bank has more than 10,400 team members serving the needs of 2.06 million customers.

Through major business areas-Commercial Banking, Consumer Banking, and Wealth Management-Bank of the West originates commercial, small business and consumer loans and leases, and offers a wide range of banking, trust and investment solutions for individuals and businesses.

In addition to banking products offered by Bank of the West, investment and insurance services are offered through its subsidiary, BancWest Investment Services, a registered broker/dealer.

Bank of the West is a subsidiary of BNP Paribas, a leading bank in Europe, which has a presence in 72 countries with more than 200,000 employees.

As of the quarter ending December 31, 2018, Bank of the West had total assets of approximately \$87.4 billion and total deposits of \$66.3 billion. Bank of the West reported fourth 2018 earnings of \$182.2 million. As of December 31, 2018, the Tier I Risk-Based Capital Ratio was 12.32%; Total Risk-Based Capital Ratio was 13.27%; and Tier I Leverage Ratio 10.20%. As of the year ending December 31, 2018, Bank of the West had total assets of approximately \$87.4 billion and total deposits of \$66.3 billion. Bank of the West reported 2018 earnings of \$182.2 million. As of December 31, 2018, the Tier I Risk-Based Capital Ratio was 12.32%; Total Risk-Based Capital Ratio was 13.27%; and Tier I Leverage Ratio 10.20%.

The principal offices of the Bank are located at 180 Montgomery Street, San Francisco, California, 94104, and its telephone number is (925) 942-8300. The Bank files financial reports with the Federal Deposit Insurance System ("FDIC") and those reports may be viewed on the FDIC's web site at: <http://www.fdic.gov>.

Except for the contents under this heading, the Bank did not participate in the preparation of, or in any way verify the information in, any other part of this Supplement and assumes no responsibility for the nature, content, accuracy or completeness of the information set forth in this Supplement.

THE REMARKETING AGENT AND REMARKETING CONSIDERATIONS

Effective May 20, 2019, the Authority appointed Raymond James & Co. Associates, Inc. as remarketing agent for the 2008 Bonds, replacing Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Certain Considerations Regarding Remarketing and the Remarketing Agent.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the 2008 Bonds bearing interest at the applicable interest rate at par (without regard to accrued interest, if any) on and as of the applicable rate determination date. The interest rate will reflect, among other factors, the level of market demand for the 2008 Bonds (including whether the Remarketing Agent is willing to purchase 2008 Bonds for its own account). There may or may not be 2008 Bonds tendered and remarketed on a rate determination date, the Remarketing Agent may or may not be able to remarket any 2008 Bonds tendered for purchase on such date at par and the Remarketing Agent may sell 2008 Bonds at varying prices to

different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the 2008 Bonds at the remarketing price. In the event the Remarketing Agent owns any 2008 Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2008 Bonds on any date, including the rate determination date, at a discount to par to some investors.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2008 Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may at any time resign or be removed of its duties or may cease its remarketing efforts under circumstances described the Remarketing Agreement. Although the Authority has covenanted to appoint a new Remarketing Agent, it is possible that the Remarketing Agent may resign without a successor being appointed.

RATINGS

Fitch and S&P are expected to assign the 2008 Bonds the ratings of “AA/F1” and “A/A-1,” respectively, effective on the Substitution Date based on delivery of the BotW Letter of Credit supporting the 2008 Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Fitch Ratings, 33 Whitehall Street, New York, New York 10004 and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Neither the Authority nor the City makes any representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2008 Bonds.

MISCELLANEOUS

This Supplement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the 2008 Bonds. Any statements made in this Supplement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Supplement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or the Bank since the date hereof.

This Supplement has been duly approved, executed and delivered by the City and the Authority.

CITY OF MODESTO, CALIFORNIA

By: /s/ DeAnna Christensen
Director of Finance

MODESTO PUBLIC FINANCING AUTHORITY

By: /s/ DeAnna Christensen
Auditor and Treasurer

APPENDIX A

**COPY OF OFFICIAL STATEMENT, DATED AUGUST 26, 2008,
AS SUPPLEMENTED AS OF FEBRUARY 25, 2014 AND JUNE 22, 2016.**

SUPPLEMENT NO. 2, DATED JUNE 22, 2016, TO OFFICIAL STATEMENT, DATED AUGUST 26, 2008

NOT A NEW ISSUE

RATINGS:
See “RATINGS” herein

\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

Dated: Date of Original Delivery Price: 100% CUSIP[†] 607796BU2 Due: September 1, 2033
(August 28, 2008)

This Supplement No. 2 to Official Statement (this “Supplement”) sets forth certain information supplementary to that information contained in the Official Statement dated August 26, 2008, as supplemented on February 25, 2014 (together, the “Original Official Statement”), relating to the Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 (the “2008 Bonds”). The 2008 Bonds were issued pursuant to an Indenture, dated as of August 1, 2008, by and between the Modesto Public Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the 2008 Bonds and (iii) pay the costs of issuance of the 2008 Bonds.

Information with respect to the 2008 Bonds is contained in the Original Official Statement, as supplemented by this Supplement. This Supplement should be read together with the Original Official Statement (a copy of which is attached hereto as Appendix A and incorporated herein by reference). To the extent that the information in this Supplement conflicts with the information in the Original Official Statement, this Supplement shall govern. No attempt has been made to update the Original Official Statement except as specifically set forth in this Supplement. Unless otherwise defined in this Supplement, all terms used herein shall have the same meanings as those terms in the Original Official Statement.

The 2008 Bonds were issued in and are currently in a Weekly Mode, and interest on the 2008 Bonds accrues at the Weekly Rate. Regularly scheduled payments of the principal of and interest on the 2008 Bonds is supported by an irrevocable, direct-pay letter of credit (the “Letter of Credit”) issued by Bank of America, N.A. (the “Bank”) pursuant to the terms of an Amended and Restated Reimbursement Agreement, dated as of August 16, 2011, as amended from time to time (the “Reimbursement Agreement”), by and among the Authority, the City of Modesto (the “City”) and the Bank, upon which Letter of Credit the Trustee is instructed to draw whenever any such amount is payable on the 2008 Bonds. The Trustee may also draw funds under the Letter of Credit to pay the purchase price of 2008 Bonds tendered for payment and not remarketed to the extent other moneys are not available therefor. The Letter of Credit with respect to the 2008 Bonds had an original stated expiration date of August 1, 2011, which has been extended a number of times, most recently to March 31, 2017. The Authority recently requested the Bank to extend the stated expiration date again, this time to June 22, 2019, and the Bank has agreed to do so. See “CREDIT FACILITY” and “INFORMATION CONCERNING BANK OF AMERICA” herein.

Merrill Lynch, Pierce, Fenner & Smith Incorporated will continue to serve as remarketing agent for the 2008 Bonds (the “Remarketing Agent”).

Certain legal matters in connection with the extension of the stated expiration date of the Letter of Credit will be passed upon for the City by Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City and for the Bank by Hawkins Delafield & Wood LLP, Los Angeles, California.

BofA Merrill Lynch

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SUPPLEMENT NO. 2, DATED JUNE 22, 2016, TO OFFICIAL STATEMENT, DATED AUGUST 26, 2008

RELATING TO

\$65,170,000

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008**

INTRODUCTION

The purpose of this Supplement No. 2 to Official Statement (this “Supplement”) is to supplement the Official Statement dated August 26, 2008, as supplemented on February 25, 2014 (together, the “Original Official Statement”), relating to the \$65,170,000 Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 (the “2008 Bonds”). The 2008 Bonds are currently outstanding in the aggregate principal amount of \$56,305,000. This Supplement provides information concerning the extension to June 22, 2019 of the stated expiration date of the irrevocable direct-pay letter of credit (the “Letter of Credit”) issued by Bank of America, N.A. (the “Bank”) pursuant to the terms of an Amended and Restated Reimbursement Agreement, dated as of August 16, 2011, as amended from time to time (the “Reimbursement Agreement”), by and among the Bank, the Modesto Public Financing Authority (the “Authority”) and the City of Modesto (the “City”) to provide for the payment of principal, purchase price and optional and mandatory sinking fund redemption price of and interest on the 2008 Bonds. The Letter of Credit previously had a stated expiration date of March 31, 2017.

The 2008 Bonds were issued pursuant to an Indenture, dated as of August 1, 2008, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the 2008 Bonds and (iii) pay the costs of issuance of the 2008 Bonds.

In connection with the extension of the Letter of Credit’s stated expiration date by the Bank, the Reimbursement Agreement will be amended pursuant to an Amendment No. 3 to Reimbursement Agreement (“Amendment No. 3,” the Reimbursement Agreement, as amended to date, including as amended by Amendment No. 3, the “Reimbursement Agreement”). See “CREDIT FACILITY” herein.

This Supplement also provides information about the Bank, which has been provided by the Bank. See “INFORMATION CONCERNING BANK OF AMERICA” below.

Information with respect to the 2008 Bonds is contained in the Original Official Statement, as supplemented by this Supplement. This Supplement should be read together with the Original Official Statement (a copy of which is attached hereto as Appendix A and incorporated herein by reference). To the extent that the information in this Supplement conflicts with the information in the Original Official Statement, this Supplement shall govern. No attempt has been made to update the Original Official Statement except as specifically set forth in this Supplement. Unless otherwise defined in this Supplement, all terms used herein shall have the same meanings as those terms in the Original Official Statement.

CREDIT FACILITY

POTENTIAL PURCHASERS OF THE 2008 BONDS SHOULD BASE ANY DECISION WITH RESPECT TO THE PURCHASE, HOLDING OR TENDER OF SUCH 2008 BONDS SOLELY UPON THE CREDIT OF THE BANK AND NOT THE CITY OR THE AUTHORITY. NEITHER THE CITY NOR THE AUTHORITY HAS OBLIGATED ITSELF TO PURCHASE THE 2008 BONDS IN THE EVENT OF A MANDATORY OR OPTIONAL TENDER. CERTAIN INFORMATION INCLUDED IN THIS SUPPLEMENT WITH RESPECT TO THE CITY AND THE AUTHORITY IS FOR INFORMATIONAL PURPOSES ONLY.

Reference is made to each of the Letter of Credit and the Reimbursement Agreement in its entirety for the detailed provisions thereof, copies of which are available for inspection from the Trustee.

Initial Credit Facility

The Bank has established, at the request and for the account of the City, the Letter of Credit in favor of the Trustee. The Letter of Credit authorizes the Trustee to draw on the Letter of Credit in a current amount not exceeding \$56,934,382 (as reduced or reinstated from time to time in accordance with the provisions of the Letter of Credit, the "Stated Amount") of which an amount not exceeding \$56,305,000.00 may be drawn with respect to payment of the unpaid principal of or the portion of the purchase price corresponding to the unpaid principal of the 2008 Bonds and an amount not exceeding \$629,382 may be drawn upon with respect to payment of up to 34 days' interest on the 2008 Bonds or the portion of the purchase price corresponding to up to 34 days' interest on the 2008 Bonds, computed at 12% per annum on the principal thereof calculated on the basis of a 365 day year.

Drawings by the Trustee under the Letter of Credit and presentation of a reduction certificate by the Trustee to the Bank will reduce the Stated Amount available for subsequent drawings under the Letter of Credit, subject to reinstatement as provided in the Letter of Credit.

The Letter of Credit expires at the close of banking business at the Bank's Los Angeles, California office upon the earliest of (i) the Bank's honoring of a final draft presented under the Letter of Credit, (ii) the close of business on the effective date notified to the Bank by written notice from the Trustee of purchase of the 2008 Bonds upon mandatory tender thereof pursuant to the Indenture, (iii) the date on which the Bank receives written notice from the Trustee that there are no longer any 2008 Bonds Outstanding, and (iv) June 22, 2019, as extended by the Bank in its sole discretion by delivery of a specified certificate (the "Stated Expiration Date").

Reimbursement Agreement

General. The following summarizes certain provisions of the Reimbursement Agreement. The Reimbursement Agreement, among other things, sets the terms and conditions whereby the Authority and the City are required to repay to the Bank any amounts drawn by the Trustee under the Letter of Credit. Among other things, the Reimbursement Agreement also provides for the payment or reimbursement to the Bank of certain specified fees, costs and expenses, affirmative and negative covenants to be observed on the part of the Authority and the City and certain indemnification obligations on the part of the Authority and the City. ***The Reimbursement Agreement will not secure the Trustee, the holders of the 2008 Bonds, or the 2008 Bonds.***

For purposes of this summary, "Bankruptcy Law" shall mean Title 11, U.S. Code, as amended or supplemented, any successor statute thereto, or any similar Federal, state, or foreign law for the relief of debtors.

For purposes of this summary, “Related Documents” shall mean the Reimbursement Agreement, the related fee letter, the Letter of Credit, the 2008 Bonds, the Indenture, the Lease Agreement, the Facilities Leases, the Remarketing Agreement, the Official Statement and the other documents, certificates and opinions executed and delivered in connection with issuance of the 2008 Bonds.

Events of Default. If any of the following events shall occur and be continuing, each such event shall be an “Event of Default” under the Reimbursement Agreement:

(a) The Authority or the City (by payment of Base Rental Payments or Additional Payments under the Lease Agreement) shall fail to pay when due any amount payable to the Bank under the Reimbursement Agreement or under the Lease Agreement (including any Base Rental Payment or Additional Payment) or under any of the Related Documents; or

(b) Any provision of the 2008 Bonds or any other Related Document ceases to be valid and binding against the Authority, the City, the Redevelopment Agency or the Financing Agency (as the case may be) or shall be declared null and void or the Authority, the City, the Redevelopment Agency or the Financing Agency repudiates its obligations under the Reimbursement Agreement or any of the Related Documents or the pledge and assignment pursuant to the Reimbursement Agreement and pursuant to the Indenture shall for any reason cease to be fully enforceable with the priority required under the Reimbursement Agreement and under the Indenture; or

(c) The Authority, the City, the Redevelopment Agency or the Financing Agency shall either (i) become insolvent or generally fail to pay, or admit in writing its inability to pay, its debts as they become due; or (ii) voluntarily commence any proceeding or file any petition under the Bankruptcy Law or similar law seeking dissolution or reorganization or the appointment of a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of an involuntary petition filed against it in any bankruptcy, insolvency or similar proceeding, or shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or shall consent to, or acquiesce in the appointment of, a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business; or (iii) take any action for the purpose of effectuating any of the foregoing; provided, however, that any dissolution of the Redevelopment Agency pursuant to Section 34170 et seq. of the California Health & Safety Code shall not be considered an Event of Default described under this paragraph (c) so long as a successor agency for the Redevelopment Agency is designated under Section 34173 of the California Health & Safety Code and the Parking Garage Facilities Lease is binding on such successor agency; or

(d) involuntary proceedings or an involuntary petition shall be commenced or filed against the Authority, the City, the Redevelopment Agency or the Financing Agency under the Bankruptcy Law or similar law seeking the dissolution or reorganization of the Authority, the City, the Redevelopment Agency or the Financing Agency or the appointment of a receiver, trustee, custodian or liquidator for the Authority, the City, the Redevelopment Agency or the Financing Agency or of a substantial part of the property, assets or business of the Authority, the City, the Redevelopment Agency or the Financing Agency, or any writ, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or business of the Authority, the City, the Redevelopment Agency or the Financing Agency, and such proceedings or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded, within thirty (30) days after commencement, filing or levy, as the case may be; or

(e) Any judgments or arbitration awards are entered against the City, or the City enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of \$500,000 or more in excess of any insurance coverage, provided that the insurer has issued a letter of responsibility for payment up to the amount of insurance coverage; or

(f) The City shall fail to make a payment on any debt to any person or entity payable from the City's general fund in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date), or in connection with any credit the City has obtained from the Bank regardless of amount, or any interest or premium thereon when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such debt, or the City shall fail to perform or observe any term, covenant or condition in any agreement or instrument relating to any debt to any person or entity in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date) when required to be performed or observed, if the effect of such failure to perform or observe results in the acceleration, or ability to accelerate, the maturity of such debt (or, with respect to any Swap, which results in such Swap being terminated early or being capable of being terminated early); or

(g) Any default occurs under the Lease Agreement or any other Related Document, in each case after the passage of any notice and cure periods; or

(h) The City or the Authority fails to meet the conditions of, or fails to perform (i) any term, covenant, condition or agreement on its part to be performed or observed under certain affirmative covenants set forth in the Reimbursement Agreement, or (ii) any term, covenant, condition or agreement on its part to be performed or observed not specifically referred to in any of the Events of Default, and such default (solely in the case of clause (ii)) is not cured within thirty (30) days after the Bank has given the City or the Authority, as applicable, written notice of such default; or

(i) Any of the City's or the Authority's representations or warranties made in the Reimbursement Agreement or in any statement or certificate at any time made or deemed made by or on behalf of the City or the Authority pursuant thereto or in connection therewith, and/or in any of the other Related Documents, is false or misleading in any material respect when made or deemed made; or

(j) The ratings assigned to any long term, unenhanced general fund obligation of the City shall be withdrawn or suspended or otherwise unavailable for credit-related reasons or reduced below Baa1 by Moody's Investors Service, Inc., BBB+ by Standard & Poor's Rating Service or BBB+ by Fitch, Inc. In the event of split ratings, the default will be determined by reference to the lowest rating; or

(k) The leasehold interest of the Authority under either of the Facilities Leases with the Redevelopment Agency or the Financing Agency shall terminate; or

(l) A moratorium shall have been declared with respect to the payment of the debts of the Authority or the City; or

(m) Any of the funds or accounts established pursuant to the Indenture or the Lease Agreement or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City or the Authority and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within thirty (30) days after its issue or levy; or

(n) An event shall have occurred that in the opinion of the Bank has a material adverse effect on the financial condition, operations or prospects of the City or its ability to perform its obligations under the Reimbursement Agreement or any Related Document.

Remedies. If an Event of Default under the Reimbursement Agreement shall have occurred and be continuing, the Bank may (i) give notice to the Trustee under the Indenture of the Bank's election to cause a mandatory tender of the 2008 Bonds because of the occurrence and continuance of an Event of Default under the Reimbursement Agreement, (ii) 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 Bank under the Reimbursement Agreement to be immediately due and payable, without presentment, demand, protest or any notice of any kind, but subject to certain limitations on repayment set forth in the Reimbursement Agreement or (iii) exercise any and all rights and remedies available to the Bank under the Reimbursement Agreement or the Indenture, at law or in equity; provided, that the Bank may not cause the acceleration of Base Rental Payments under the Lease Agreement. In the event of the occurrence of an Event of Default described in paragraphs (c) or (d) above, all unpaid amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued thereon and all other amounts payable 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, but subject to certain limitations on repayment set forth in the Reimbursement Agreement.

INFORMATION CONCERNING BANK OF AMERICA

The information under this caption has been furnished by the Bank and no representation is made by the Authority or the City as to the accuracy or completeness or the adequacy of such information. Further, no representation is made by the Authority or the City or the Bank as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

The Bank is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Corporation") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of March 31, 2016, the Bank had consolidated assets of \$1.65 trillion, consolidated deposits of \$1.298 trillion and stockholder's equity of \$208.15 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov> which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its

entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE 2008 BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE 2008 BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE 2008 BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE 2008 BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date of the most recent filings referenced herein, or that the information contained or referred to under this caption is correct as of any time subsequent to the referenced date.

RATINGS

Fitch and S&P have assigned the 2008 Bonds the short term and joint ratings of “AA-/F1” and “A-/A-1”, respectively, based on the Bank’s Letter of Credit supporting the 2008 Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Fitch Ratings, One State Street Plaza, New York, New York 10004 and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Neither the Authority nor the City makes any representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2008 Bonds.

MISCELLANEOUS

This Supplement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the 2008 Bonds. Any statements made in this Supplement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change

without notice and neither the delivery of this Supplement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or the Bank since the date hereof.

This Supplement has been duly approved, executed and delivered by the City and the Authority.

CITY OF MODESTO, CALIFORNIA

By: /s/ Gloriette Genereux
Finance Director/Treasurer

MODESTO PUBLIC FINANCING AUTHORITY

By: /s/ Gloriette Genereux
Auditor and Treasurer

APPENDIX A

**COPY OF OFFICIAL STATEMENT, DATED AUGUST 26, 2008,
AS SUPPLEMENTED AS OF FEBRUARY 25, 2014**

SUPPLEMENT, DATED FEBRUARY 25, 2014, TO OFFICIAL STATEMENT, DATED AUGUST 26, 2008

NOT A NEW ISSUE

RATINGS:
See “RATINGS” herein

\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

Dated: Date of Original Delivery Price: 100% CUSIP[†] 607796BU2 Due: September 1, 2033
(August 28, 2008)

This Supplement to Official Statement (this “Supplement”) sets forth certain information supplementary to that information contained in the Official Statement dated August 26, 2008 (the “Original Official Statement”), relating to the Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 (the “2008 Bonds”). The 2008 Bonds were issued pursuant to an Indenture, dated as of August 1, 2008, by and between the Modesto Public Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the 2008 Bonds and (iii) pay the costs of issuance of the 2008 Bonds.

Information with respect to the 2008 Bonds is contained in the Original Official Statement, as supplemented by this Supplement. This Supplement should be read together with the Original Official Statement (a copy of which is attached hereto as Appendix A and incorporated herein by reference). To the extent that the information in this Supplement conflicts with the information in the Original Official Statement, this Supplement shall govern. No attempt has been made to update the Original Official Statement except as specifically set forth in this Supplement. Unless otherwise defined in this Supplement, all terms used herein shall have the same meanings as those terms in the Original Official Statement.

The 2008 Bonds were issued in and are currently in a Weekly Mode, and interest on the 2008 Bonds accrues at the Weekly Rate. Regularly scheduled payments of the principal of and interest on the 2008 Bonds is supported by an irrevocable, direct-pay letter of credit (the “Letter of Credit”) issued by Bank of America, N.A. (the “Bank”) pursuant to the terms of an Amended and Restated Reimbursement Agreement, dated as of August 16, 2011, as amended from time to time (the “Reimbursement Agreement”), by and among the Authority, the City of Modesto (the “City”) and the Bank, upon which Letter of Credit the Trustee is instructed to draw whenever any such amount is payable on the 2008 Bonds. The Trustee may also draw funds under the Letter of Credit to pay the purchase price of 2008 Bonds tendered for payment and not remarketed to the extent other moneys are not available therefor. The Letter of Credit with respect to the 2008 Bonds had an original stated expiration date of August 1, 2011, which has been extended a number of times, most recently to March 31, 2014. The Authority recently requested the Bank to extend the stated expiration date again, this time to March 31, 2017, and the Bank has agreed to do so. See “CREDIT FACILITY” and “INFORMATION CONCERNING BANK OF AMERICA” herein.

Merrill Lynch, Pierce, Fenner & Smith Incorporated will continue to serve as remarketing agent for the 2008 Bonds (the “Remarketing Agent”).

Certain legal matters in connection with the extension of the stated expiration date of the Letter of Credit will be passed upon for the City by Sidley Austin LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City and for the Bank by Hawkins Delafield & Wood LLP, Los Angeles, California.

BofA Merrill Lynch

[†] Copyright 2008, American Bankers Association. CUSIP data is provided by Standard & Poor’s CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc., and is set forth herein for convenience of reference only. None of the Authority, the City or the Remarketing Agent takes any responsibility for the accuracy of such numbers.

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SUPPLEMENT, DATED FEBRUARY 25, 2014, TO OFFICIAL STATEMENT, DATED AUGUST 26, 2008

RELATING TO

\$65,170,000

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008**

INTRODUCTION

The purpose of this Supplement to Official Statement (this “Supplement”) is to supplement the Official Statement dated August 26, 2008 (the “Original Official Statement”), relating to the \$65,170,000 Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 (the “2008 Bonds”). The 2008 Bonds are currently outstanding in the aggregate principal amount of \$59,475,000. This Supplement provides information concerning the extension to March 31, 2017 of the stated expiration date of the irrevocable direct-pay letter of credit (the “Letter of Credit”) issued by Bank of America, N.A. (the “Bank”) pursuant to the terms of an Amended and Restated Reimbursement Agreement, dated as of August 16, 2011, as amended from time to time (the “Reimbursement Agreement”), by and among the Bank, the Modesto Public Financing Authority (the “Authority”) and the City of Modesto (the “City”) to provide for the payment of principal, purchase price and optional and mandatory sinking fund redemption price of and interest on the 2008 Bonds. The Letter of Credit previously had a stated expiration date of March 31, 2014.

The 2008 Bonds were issued pursuant to an Indenture, dated as of August 1, 2008, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the 2008 Bonds and (iii) pay the costs of issuance of the 2008 Bonds.

In connection with the extension of the Letter of Credit’s stated expiration date by the Bank, the Reimbursement Agreement will be amended pursuant to an Amendment No. 2 to Reimbursement Agreement (“Amendment No. 2,” the Reimbursement Agreement, as amended to date, including as amended by Amendment No. 2, the “Reimbursement Agreement”). See “CREDIT FACILITY” herein.

This Supplement also provides information about the Bank, which has been provided by the Bank. See “INFORMATION CONCERNING BANK OF AMERICA” below.

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Reference is made to each of the Letter of Credit and the Reimbursement Agreement in its entirety for the detailed provisions thereof, copies of which are available for inspection from the Trustee.

Initial Credit Facility

The Bank has established, at the request and for the account of the City, the Letter of Credit in favor of the Trustee. The Letter of Credit authorizes the Trustee to draw on the Letter of Credit in an aggregate amount not exceeding \$60,139,816.44 (as reduced or reinstated from time to time in accordance with the provisions of the Letter of Credit, the "Stated Amount") of which an amount not exceeding \$59,475,000.00 may be drawn with respect to payment of the unpaid principal of or the portion of the purchase price corresponding to the unpaid principal of the 2008 Bonds and an amount not exceeding \$664,816.44 may be drawn upon with respect to payment of up to 34 days' interest on the 2008 Bonds or the portion of the purchase price corresponding to up to 34 days' interest on the 2008 Bonds, computed at 12% per annum on the principal thereof calculated on the basis of a 365 day year.

Drawings by the Trustee under the Letter of Credit and presentation of a reduction certificate by the Trustee to the Bank will reduce the Stated Amount available for subsequent drawings under the Letter of Credit, subject to reinstatement as provided in the Letter of Credit.

The Letter of Credit expires at the close of banking business at the Bank's Los Angeles, California office upon the earliest of (i) the Bank's honoring of a final draft presented under the Letter of Credit, (ii) the close of business on the effective date notified to the Bank by written notice from the Trustee of purchase of the 2008 Bonds upon mandatory tender thereof pursuant to the Indenture, (iii) the date on which the Bank receives written notice from the Trustee that there are no longer any 2008 Bonds Outstanding, and (iv) March 31, 2017, as extended by the Bank in its sole discretion by delivery of a specified certificate (the "Stated Expiration Date").

Reimbursement Agreement

General. The following summarizes certain provisions of the Reimbursement Agreement. The Reimbursement Agreement, among other things, sets the terms and conditions whereby the Authority and the City are required to repay to the Bank any amounts drawn by the Trustee under the Letter of Credit. Among other things, the Reimbursement Agreement also provides for the payment or reimbursement to the Bank of certain specified fees, costs and expenses, affirmative and negative covenants to be observed on the part of the Authority and the City and certain indemnification obligations on the part of the Authority and the City. ***The Reimbursement Agreement will not secure the Trustee, the holders of the 2008 Bonds, or the 2008 Bonds.***

For purposes of this summary, "Bankruptcy Law" shall mean Title 11, U.S. Code, as amended or supplemented, any successor statute thereto, or any similar Federal, state, or foreign law for the relief of debtors.

For purposes of this summary, “Related Documents” shall mean the Reimbursement Agreement, the related fee letter, the Letter of Credit, the 2008 Bonds, the Indenture, the Lease Agreement, the Facilities Leases, the Remarketing Agreement, the Official Statement and the other documents, certificates and opinions executed and delivered in connection with issuance of the 2008 Bonds.

Events of Default. If any of the following events shall occur and be continuing, each such event shall be an “Event of Default” under the Reimbursement Agreement:

(a) The Authority or the City (by payment of Base Rental Payments or Additional Payments under the Lease Agreement) shall fail to pay when due any amount payable to the Bank under the Reimbursement Agreement or under the Lease Agreement (including any Base Rental Payment or Additional Payment) or under any of the Related Documents; or

(b) Any provision of the 2008 Bonds or any other Related Document ceases to be valid and binding against the Authority, the City, the Redevelopment Agency or the Financing Agency (as the case may be) or shall be declared null and void or the Authority, the City, the Redevelopment Agency or the Financing Agency repudiates its obligations under the Reimbursement Agreement or any of the Related Documents or the pledge and assignment pursuant to the Reimbursement Agreement and pursuant to the Indenture shall for any reason cease to be fully enforceable with the priority required thereunder; or

(c) The Authority, the City, the Redevelopment Agency or the Financing Agency shall either (i) become insolvent or generally fail to pay, or admit in writing its inability to pay, its debts as they become due; or (ii) voluntarily commence any proceeding or file any petition under the Bankruptcy Law or similar law seeking dissolution or reorganization or the appointment of a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of an involuntary petition filed against it in any bankruptcy, insolvency or similar proceeding, or shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or shall consent to, or acquiesce in the appointment of, a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business; or (iii) take any action for the purpose of effectuating any of the foregoing; provided, however, that any dissolution of the Redevelopment Agency pursuant to Section 34170 et seq. of the California Health & Safety Code shall not be considered an Event of Default described under this paragraph (c) so long as a successor agency for the Redevelopment Agency is designated under Section 34173 of the California Health & Safety Code and the Parking Garage Facilities Lease is binding on such successor agency; or

(d) involuntary proceedings or an involuntary petition shall be commenced or filed against the Authority, the City, the Redevelopment Agency or the Financing Agency under the Bankruptcy Law or similar law seeking the dissolution or reorganization of the Authority, the City, the Redevelopment Agency or the Financing Agency or the appointment of a receiver, trustee, custodian or liquidator for the Authority, the City, the Redevelopment Agency or the Financing Agency or of a substantial part of the property, assets or business of the Authority, the City, the Redevelopment Agency or the Financing Agency, or any writ, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or business of the Authority, the City, the Redevelopment Agency or the Financing Agency, and such proceedings or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded, within thirty (30) days after commencement, filing or levy, as the case may be; or

(e) Any judgments or arbitration awards are entered against the City, or the City enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of

\$500,000 or more in excess of any insurance coverage, provided that the insurer has issued a letter of responsibility for payment up to the amount of insurance coverage; or

(f) The City shall fail to make a payment on any debt to any person or entity payable from the City's general fund in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date), or in connection with any credit the City has obtained from the Bank regardless of amount, or any interest or premium thereon when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such debt, or the City shall fail to perform or observe any term, covenant or condition in any agreement or instrument relating to any debt to any person or entity in excess of \$500,000 (measured in the case of any Swap, by the amount of any settlement amount that would be payable by the City if such Swap were terminated as of such date) when required to be performed or observed, if the effect of such failure to perform or observe results in the acceleration, or ability to accelerate, the maturity of such debt (or, with respect to any Swap, which results in such Swap being terminated early or being capable of being terminated early); or

(g) Any default occurs under the Lease Agreement or any other Related Document, in each case after the passage of any notice and cure periods; or

(h) The City or the Authority fails to meet the conditions of, or fails to perform (i) any term, covenant, condition or agreement on its part to be performed or observed under certain affirmative covenants set forth in the Reimbursement Agreement, or (ii) any term, covenant, condition or agreement on its part to be performed or observed not specifically referred to in any of the Events of Default, and such default (solely in the case of clause (ii)) is not cured within thirty (30) days after the Bank has given the City or the Authority, as applicable, written notice of such default; or

(i) Any of the City's or the Authority's representations or warranties made in the Reimbursement Agreement or in any statement or certificate at any time made or deemed made by or on behalf of the City or the Authority pursuant thereto or in connection therewith, and/or in any of the other Related Documents, is false or misleading in any material respect when made or deemed made; or

(j) The ratings assigned to any long term, unenhanced general fund obligation of the City shall be withdrawn or suspended or otherwise unavailable for credit-related reasons or reduced below Baa1 by Moody's Investors Service, Inc., BBB+ by Standard & Poor's Rating Service or BBB+ by Fitch, Inc. In the event of split ratings, the default will be determined by reference to the lowest rating; or

(k) The leasehold interest of the Authority under either of the Facilities Leases with the Redevelopment Agency or the Financing Agency shall terminate; or

(l) A moratorium shall have been declared with respect to the payment of the debts of the Authority or the City; or

(m) Any of the funds or accounts established pursuant to the Indenture or the Lease Agreement or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City or the Authority and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within thirty (30) days after its issue or levy; or

(n) An event shall have occurred that in the opinion of the Bank has a material adverse effect on the financial condition, operations or prospects of the City or its ability to perform its obligations under the Reimbursement Agreement or any Related Document.

Remedies. If an Event of Default under the Reimbursement Agreement shall have occurred and be continuing, the Bank may (i) give notice to the Trustee under the Indenture of the Bank's election to cause a mandatory tender of the 2008 Bonds because of the occurrence and continuance of an Event of Default under the Reimbursement Agreement, (ii) 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 Bank under the Reimbursement Agreement to be immediately due and payable, without presentment, demand, protest or any notice of any kind, but subject to certain limitations on repayment set forth in the Reimbursement Agreement or (iii) exercise any and all rights and remedies available to the Bank under the Reimbursement Agreement or the Indenture, at law or in equity; provided, that the Bank may not cause the acceleration of Base Rental Payments under the Lease Agreement. In the event of the occurrence of an Event of Default described in paragraphs (c) or (d) above, all unpaid amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued thereon and all other amounts payable 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, but subject to certain limitations on repayment set forth in the Reimbursement Agreement.

INFORMATION CONCERNING BANK OF AMERICA

The information under this caption has been furnished by the Bank and no representation is made by the Authority or the City as to the accuracy or completeness or the adequacy of such information. Further, no representation is made by the Authority or the City or the Bank as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

The Bank is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Corporation") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2013, the Bank had consolidated assets of \$1.43 trillion, consolidated deposits of \$1.11 trillion and stockholder's equity of \$178.73 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2012, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov> which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its

entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Letter of Credit has been issued by the Bank. Moody's Investors Service, Inc. ("Moody's"), as of January 31, 2014, rates the Bank's long-term debt as "A2" and short-term debt as "P-1." The outlook is stable. Standard & Poor's ("S&P"), as of January 31, 2014, rates the Bank's long-term debt as "A" and its short-term debt as "A-1." The outlook is negative. Fitch Ratings, Inc. ("Fitch"), as of January 31, 2014, rates long-term debt of the Bank as "A" and short-term debt as "F1." The outlook is stable. Further information with respect to such ratings may be obtained from Moody's, S&P, and Fitch respectively. No assurances can be given that the ratings of the Bank's instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE 2008 BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE 2008 BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE 2008 BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE 2008 BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date of the most recent filings referenced herein, or that the information contained or referred to under this caption is correct as of any time subsequent to the referenced date.

RATINGS

Fitch and S&P have assigned the 2008 Bonds the short term and joint ratings of "A/F1" and "A/A-1", respectively, based on the Bank's Letter of Credit supporting the 2008 Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Fitch Ratings, One State Street Plaza, New York, New York 10004 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Neither the Authority nor the City makes any representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if, in the judgment of

such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2008 Bonds.

MISCELLANEOUS

This Supplement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the 2008 Bonds. Any statements made in this Supplement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Supplement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or the Bank since the date hereof.

This Supplement has been duly approved, executed and delivered by the City and the Authority.

CITY OF MODESTO, CALIFORNIA

By: /s/ Gloriette Genereux
Finance Director/Treasurer

MODESTO PUBLIC FINANCING AUTHORITY

By: /s/ Gloriette Genereux
Auditor and Treasurer

APPENDIX A

COPY OF OFFICIAL STATEMENT, DATED AUGUST 26, 2008

In the opinion of Sidley Austin LLP, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

Dated: Date of Delivery**Price: 100%****CUSIP[†] No. 607796BU2****Due: September 1, 2033**

The Lease Revenue Refunding Bonds, Series 2008 are being issued pursuant to an Indenture, dated as of August 1, 2008, by and between the Modesto Public Financing Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the Bonds and (iii) pay the costs of issuance of the Bonds, as more fully described herein.

The Bonds will be initially issued in the Weekly Mode, and interest on the Bonds in the Weekly Mode will accrue at the Weekly Rate. In general, the Weekly Rate is the rate of interest per annum determined by Banc of America Securities LLC, as Remarketing Agent, on and as of the applicable Rate Determination Date to be the minimum rate of interest which would result in the sale of the Bonds at a price equal to 100% of the principal amount thereof. Such interest is payable on the first Business Day of each month. The Bonds are subject to conversion to a different interest rate mode pursuant to the Indenture. *This Official Statement describes the Bonds only while they are in the Weekly Mode.*

Regularly scheduled payments of the principal of and interest on the Bonds will be initially supported by an irrevocable, direct-pay Letter of Credit upon which the Trustee is instructed to draw whenever any such amount is payable on the Bonds. The Trustee may also draw funds under the Credit Facility to pay the purchase price of Bonds tendered for payment and not remarketed to the extent other moneys are not available therefor. The Credit Facility with respect to the Bonds will be issued by Bank of America, N.A., and has a scheduled expiration date of August 1, 2011 subject to earlier termination under conditions described herein.



The Bonds are being issued in book-entry form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of interests in the Bonds will not receive certificates representing their beneficial ownership of the Bonds. Principal of, redemption premium, if any, and interest on the Bonds are payable directly by the Trustee to DTC, which is obligated in turn to remit such principal, redemption premium, if any, and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as described herein.

The Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption prior to their maturity as described herein.

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues (as hereinafter defined) pledged thereto in the Indenture. The Revenues consist of: (i) Base Rental Payments payable by the City, as lessee, to the Authority, as lessor, pursuant to a Lease Agreement, dated as of August 1, 2008, for the use and possession of the Leased Property (as defined in the Lease Agreement); (ii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Indenture or the Lease Agreement; (iii) the Swap Revenues (as defined in the Indenture) and (iv) any additional security provided for a Series of Bonds in a Supplemental Indenture.

The Base Rental Payments are calculated to be sufficient to pay the principal of and interest on the Bonds when due as well as any Regular Swap Payments required to be made by the Authority. The obligation of the City to make Base Rental Payments is a general fund obligation of the City, subject to abatement and to certain other conditions of the Lease Agreement.

The Bonds are not a debt of the Authority, the City, the State of California or any of its political subdivisions except the Authority to the extent described herein. Neither the Authority, the City, the State nor any of its political subdivisions, except the Authority to the extent described herein, is liable thereon. In no event shall the Bonds or any interest or redemption premium thereon be payable out of any funds or properties other than those of the Authority as set forth in the Indenture. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limit or restriction. No members of the Authority or the City Council of the City and no persons executing the Bonds are personally liable on the Bonds by reason of their issuance.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF THE SECURITY FOR OR THE TERMS OF THE BONDS. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED SHALL HAVE THE MEANINGS SET FORTH HEREIN.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of validity by Sidley Austin LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel; for the Trustee by Philip K. Jensen, Esq.; and for the Bank by Kathleen C. Johnson, Attorney at Law. It is anticipated that the Bonds, in book-entry form, will be available for delivery to DTC or its agent on or about August 28, 2008.

Banc of America Securities LLC

Dated: August 26, 2008

[†] CUSIP[®] is a registered trademark of the American Bankers Association. Copyright© 2008 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP[®] data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP[®] numbers are provided for convenience of reference only. The Authority, the City and the Underwriter take no responsibility for the accuracy of such numbers.

MODESTO PUBLIC FINANCING AUTHORITY

1010 10th Street
P.O. Box 642
Modesto, California 95353
(209) 577-5369
TDD (209) 526-9211 Hearing and Speech Impaired Only

CITY COUNCIL

Jim Ridenour, Mayor
Garrad Marsh, Vice Mayor
Dave Lopez
Janice Keating
Will O'Bryant
Kristin Olsen
Brad Hawn

CITY OFFICIALS

Greg Nyhoff, City Manager
Susana Alcala Wood, City Attorney
Wayne Padilla, Finance Director/Treasurer

SPECIAL SERVICES

Bond Counsel

Sidley Austin LLP
San Francisco, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

Financial Advisor

Public Financial Management, Inc.
San Francisco, California

Disclosure Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

All the information which the Modesto Public Financing Authority and the City of Modesto intend to present investors regarding the City and the Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision, or to provide any continuing information, with respect to the Bonds or any other obligations of the City. Moreover, none of the information on the website is incorporated herein by reference. No dealer, broker, salesperson or other person has been authorized by the Authority, the City, the Bank or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the City, the Bank or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Bank since the date hereof. All summaries of documents contained herein are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "Forward-Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" and other similar words and include, but are not limited to, statements that describe possible future revenues and expenses of the City.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the offering by the Modesto Public Financing Authority (the “Authority”) of its Lease Revenue Refunding Bonds, Series 2008 (the “Bonds”). This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Descriptions and summaries of various documents set forth herein do not purport to be comprehensive or definitive, and references made to each such document for complete details of all terms and conditions thereof. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — Definitions.”

General

The Bonds are being issued by the Authority in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) fund the Reserve Fund for the Bonds and (iii) pay the costs of issuance of the Bonds, as more fully described herein. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Authority previously issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refunding Project) (the “Series 1998 Bonds”) and its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Series 2007 Bonds” and, together with the Series 1998 Bonds, the “Prior Bonds”) in order to assist in the financing of certain public capital improvements in the City of Modesto, California (the “City”). The Bonds are being issued for the purposes, among others, of refunding all of the Prior Bonds. See “THE REFUNDING PLAN.”

In connection with the issuance of the Bonds, each of (i) the City, (ii) the Redevelopment Agency of the City of Modesto (the “Redevelopment Agency”) and (iii) the City-County Capital Improvements and Financing Agency (the “City-County JPA”) will lease its respective interest in certain real property, facilities and/or improvements to the Authority pursuant to separate leases (collectively, the “Facility Leases”), each dated as of August 1, 2008. The Authority in turn will lease such real property, facilities and/or improvements (collectively, the “Leased Property”), to the City pursuant to the terms of a Lease Agreement, dated as of August 1, 2008, by and between the Authority and the City (the “Lease Agreement”). The City is required pursuant to the Lease Agreement to make payments in consideration of the use and possession of the Leased Property (the “Base Rental Payments”). The Base Rental Payments are designed to be sufficient in both time and amount to pay, when due, the principal of and interest on the Bonds and amounts due with respect to Related Obligations (as hereinafter defined).

Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (Article 4, commencing with Section 6584, of Chapter 5, Division 7, Title 1 of the California Government Code), as amended from time to time (the “Bond Law”), resolutions adopted by the governing board of the Authority and the City Council of the City, and an Indenture, dated as of August 1, 2008 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

The Bonds

The Bonds will be dated the date on which they are issued and will mature on September 1, 2033 (the “Maturity Date”), subject to redemption prior thereto. See “THE BONDS — Redemption.” The Bonds will be initially issued in the Weekly Mode, and interest on the Bonds in the Weekly Mode will accrue at the Weekly Rate. In general, the Weekly Rate is the rate of interest per annum determined by Banc of America Securities LLC, as Remarketing Agent (the “Remarketing Agent”), on and as of the applicable Rate Determination Date to be the minimum rate of interest which would result in the sale of the Bonds at a price equal to 100% of the principal amount thereof. Such interest is payable on the first Business Day of each month. See “THE BONDS.” The Bonds are subject to conversion to a different interest rate mode pursuant to the Indenture. *This Official Statement describes the Bonds only while they are in the Weekly Mode.*

While the Bonds are in the Weekly Mode, they are subject to optional and mandatory tender for purchase under the circumstances described herein. See “THE BONDS — Optional Tender,” “— Mandatory Tender for Purchaser upon Change of Mode” and “— Other Mandatory Tenders.”

Security and Sources of Payment for the Bonds

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues (as hereinafter defined) pledged therefor in the Indenture. The Revenues consist of: (i) Base Rental Payments payable by the City, as lessee, to the Authority, as lessor, for the use and possession of the Leased Property; (ii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Indenture or the Lease Agreement; (iii) the Swap Revenues (as defined in the Indenture) and (iv) any additional security provided for a Series of Bonds in a Supplemental Indenture.

The Leased Property consists of the following, each of which is a “Leased Unit” under the Lease Agreement: (i) the Redevelopment Agency’s parking garage (the “Public Parking Garage”), which is located at the corner of 11th and K Streets and which contains approximately 700 parking spaces in a five story structure, (ii) the City’s one-half interest in the City-County JPA’s administration building (the “City-County Administration Building”), which is located on 10th Street and which consists of a seven story structure a portion of which is owned by the Redevelopment Agency and the remainder of which is owned by the City-County JPA, (iii) the City’s police headquarters building and police operations building (collectively, the “Police Facilities”), an approximately 40,000 square foot structure which is occupied by the City’s Police Department as its headquarters and a 25,000 square foot annex that serves as its operations building, (iv) certain miscellaneous City properties consisting of Fire Station Nos. 3, 5, 6, 7, 9 and 11, the Senior Citizen Center, Parking Lot No. 25, a 4-story parking structure located at 11th and I Streets, McHenry Mansion and the Corporation Yard (collectively, the “Miscellaneous Properties”) and (v) the City’s

one-half undivided interest in the Communications Dispatch Center (the “Communications Dispatch Center”), which is located on Oakdale Road in the City. The Lease Agreement permits real property to be added or substituted in place of any of the foregoing under the circumstances described therein. See APPENDIX A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE LEASE AGREEMENT — Removal or Substitution of Leased Property.”

Pursuant to the terms of the Lease Agreement, the City is required to make the Base Rental Payments from any source of legally available funds in each year in which the City has use and possession of the Leased Property. The Base Rental Payments are designed to be sufficient in both time and amount to pay, when due, (i) the principal of and interest on the Bonds and (ii) the Authority’s Related Obligations (as defined in the Lease Agreement), including the Regular Swap Payments (as defined in the Indenture). Pursuant to the Lease Agreement, the City is also required to pay certain additional amounts (collectively, the “Additional Payments”), which include, among other things, all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease Agreement or any pledge of Base Rental Payments payable under the Lease Agreement, the Indenture, the Credit Facility, the Authority’s interest and the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Related Obligations (as defined in the Lease Agreement), the Leased Property, including, among other things, all fees and expenses of the Bank of America, N.A., including all fees payable pursuant to the Reimbursement Agreement (as hereinafter defined). See APPENDIX A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE LEASE AGREEMENT — Additional Payments.” The City has covenanted in the Lease Agreement to take such action as may be necessary to include the Base Rental Payments and Additional Payments in its annual budget and has further covenanted to make the necessary appropriations for all such Base Rental Payments and Additional Payments.

The amount of Base Rental Payments which the City is obligated to pay under the Lease Agreement is subject to abatement during any period in which, by reason of any damage or destruction (other than by condemnation), there is substantial interference with the City’s use and occupancy of the Leased Property or any component thereof. Such adjustment or abatement will end with the substantial completion of the work of repair or reconstruction of the Leased Property or the affected portion thereof. The Base Rental Payments will not be abated to the extent that moneys held by the Trustee under the Indenture that are to be credited toward the payment of the Base Rental Payments are available, the City having determined that such moneys constitute special funds for payment of the Base Rental Payments. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Abatement.”

The obligation of the City to pay the Base Rental Payments does not constitute either (a) an obligation for which the City is obligated to pledge any form of taxation or for which the City has pledged any form of taxation or (b) indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The City has assumed responsibility under the Lease Agreement for the operation, maintenance and repair of the Leased Property; and it is required to maintain, or cause to be maintained, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance, all subject to exceptions, exclusions and deductibles as set forth in the Lease Agreement. See “SECURITY AND SOURCES OF PAYMENT

FOR THE BONDS — Property Insurance.” Information with respect to the City is included in Appendix B — “CERTAIN INFORMATION REGARDING THE CITY” and Appendix C — “THE CITY’S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006-07.”

Credit Facility

Principal of and interest on the Bonds will be paid from draws on the irrevocable, direct-pay Letter of Credit, dated as of the Date of Issuance (the “Credit Facility”), issued by Bank of America, N.A. (the “Bank”) pursuant to a Reimbursement Agreement dated as of August 1, 2008 and described below (the “Reimbursement Agreement”). Such draws are to be repaid to the Bank by the City pursuant to the terms of the Reimbursement Agreement. The purchase price on the Bonds tendered for purchase as described under the caption “THE BONDS — Optional Tender” and not remarketed is also to be paid from draws on the Credit Facility, subject to the terms of the Reimbursement Agreement. The Credit Facility and Reimbursement Agreement will expire on August 1, 2011 unless terminated sooner or extended.

Swap Agreement

In connection with the issuance of the Series 2007 Bonds, the Authority entered into an interest rate swap agreement in the form of an ISDA Master Agreement (Local Currency – Single Jurisdiction), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex and a Confirmation, each dated as of and entered into on April 11, 2007 (collectively, the “2007 Swap Agreement”), with Bank of America, N.A. (the “Swap Provider”). In connection with the issuance of the Bonds, the City and the Swap Provider will amend and restate in its entirety the 2007 Swap Agreement (as so amended and restated, the “2008 Swap Agreement”). The 2008 Swap Agreement is scheduled to expire on the Maturity Date of the Bonds; and the notional amount of the 2008 Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal of the Bonds is scheduled to be reduced. Pursuant to the 2008 Swap Agreement, the City will be required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest on an initial notional amount equal to the principal amount of the Bonds. In return, the Swap Provider will be required to make periodic payments to the City calculated on the basis of a variable rate of interest equal to a percentage of LIBOR on the same notional amount. The amounts payable by each party pursuant to the 2008 Swap Agreement are netted against the payments to be received by such party thereunder. The Authority’s obligation under the 2008 Swap Agreement to make scheduled payments is secured by a pledge of Revenues on a parity with the pledge thereof securing the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — 2008 Swap Agreement.”

Bank of America, N.A., the Swap Provider and Credit Facility Provider, and Banc of America Securities LLC, the Underwriter and Remarketing Agent, are affiliates, both being subsidiaries of the Bank of America Corporation.

The City

The City, which has an estimated population of over 209,000 as of January 1, 2008, is the county seat of Stanislaus County and was incorporated in 1884. It includes an area of approximately 36 square miles. The City operates under a council-manager form of government pursuant to a charter adopted in 1963. The City is located in central California, approximately 93 miles east of San Francisco. See Appendix B — “CERTAIN INFORMATION REGARDING THE CITY.”

The Authority

The Authority was established pursuant to the provisions of Sections 6500 *et seq.* of the California Government Code and a Joint Exercise of Powers Agreement, dated as of December 1, 1989, by and between the City and the Industrial Development Authority of the City of Modesto. The Authority was established for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements. The governing board of the Authority consists of the City Council of the City.

Tax Matters

For a description of the tax treatment of interest on the Bonds, see “TAX MATTERS” and the proposed form of the opinion of Sidley Austin LLP, Bond Counsel, set forth in Appendix D.

No Continuing Disclosure

While they are in the Weekly Mode, the Bonds are exempt from the continuing disclosure requirements of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

Disclosure of Identity of Purchasers

Any person who purchases a beneficial interest in a Bond in connection with the initial offering thereof agrees that the Underwriter of the Bonds may disclose such person’s identity to the City and the Authority unless such person advises his or her sales representative otherwise.

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinion contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

THE REFUNDING PLAN

A portion of the Bond proceeds, together with certain funds made available through the defeasance of the Series 1998 Bonds, will be deposited in trust with The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. (the “1998 Escrow Agent”), pursuant to the 1998 Escrow Agreement, dated the date of closing with respect to the Bonds, by and between the Authority and the 1998 Escrow Agent (the “1998 Escrow Agreement”). The funds so deposited with the 1998 Escrow Agent will be applied to the purchase of Federal Securities (as defined in the 1998 Escrow Agreement) (the “1998 Escrow Securities”) or held in cash, as provided in the 1998 Escrow Agreement. The 1998 Escrow Securities, together with interest thereon, and such cash are calculated to be sufficient to pay the principal of and interest on the Series 1998 Bonds coming due through September 29, 2008 and to pay the Redemption Price of the Series 1998 Bonds on said date. The accuracy of the aforesaid calculations will be verified by Grant Thornton, LLP, Minneapolis, Minnesota (the “Verification Agent”). See “VERIFICATION OF MATHEMATICAL ACCURACY.”

Another portion of the Bond proceeds, together with certain funds made available through the defeasance of the Series 2007 Bonds, will be deposited in trust with The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. (the “2007 Escrow Agent”), pursuant to the 2007 Escrow Agreement, dated the date of closing with respect to the Bonds, by and between the Authority and the 2007 Escrow Agent (the “2007 Escrow Agreement”). The funds so deposited with the 2007 Escrow Agent will be applied to the purchase of Federal Securities (as defined in the 2007 Escrow Agreement) (the “2007 Escrow Securities”) or held in cash, as provided in the 2007 Escrow Agreement. The 2007 Escrow Securities, together with interest thereon, and such cash are calculated to be sufficient to pay the principal of and interest on the Series 2007 Bonds coming due through September 3, 2008 and to pay the Redemption Price of the Series 2007 Bonds on said date. The accuracy of the aforesaid calculations will be verified by the Verification Agent. See “VERIFICATION OF MATHEMATICAL ACCURACY.”

On the basis of the foregoing, upon the issuance of the Bonds and the deposits of proceeds from the sale thereof described above with the 1998 Escrow Agent and the 2007 Escrow Agent, the Prior Bonds will no longer be outstanding.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Bonds.

Sources of Funds

Principal Amount of the Bonds	\$ 65,170,00.00
Amounts Held for Prior Bonds	6,726,724.91
Less: Underwriter’s Discount	<u>(198,867.94)</u>
Total Sources	<u>\$71,697,856.97</u>

Uses of Funds

Reserve Fund ⁽¹⁾	\$ 4,787,871.08
Costs of Issuance Fund ⁽²⁾	406,466.47
Transfer to 1998 Escrow Agent for Defeasance of Series 1998 Bonds	3,898,057.94
Transfer to 2007 Escrow Agent for Defeasance of Series 2007 Bonds	<u>62,605,461.48</u>
Total Uses	<u>\$71,697,856.97</u>

⁽¹⁾ Equal to the Reserve Fund Requirement.

⁽²⁾ Includes legal and advisory fees, the Credit Facility fee, printing costs, rating agency fees and other miscellaneous expenses.

THE BONDS

General

The Bonds will be dated as of their date of issuance and will mature on the Maturity Date, subject to redemption prior thereto as described below under “Redemption.” The Bonds will be initially issued in the Weekly Mode, and interest on the Bonds in the Weekly Mode will accrue at the Weekly Rate. See “Interest Rate Provisions” below.

Upon delivery, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book entry form only. See “Book-Entry-Only System” below. While the Bonds are in the Weekly Mode such ownership

interests may be purchased in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof.

Book-Entry-Only System

The Bonds will be executed and delivered in book-entry form only. Purchasers of the Bonds will not receive certificates representing their ownership interests in the Bonds purchased. All payments with respect to the Bonds are to be made by the Trustee directly to DTC. DTC is expected to credit such payments to the respective accounts of its Direct Participants which, in turn, are expected to make payment thereof to the purchasers of the Bonds.

As long as Cede & Co. is the registered owner of the Bonds, references herein to the Owners of the Bonds shall refer to Cede & Co. and not to the beneficial owners of the Bonds (the “Beneficial Owners”). *Neither the Authority nor the City gives any assurance that DTC, its Direct Participants or others will distribute payments with respect to the Bonds or notices concerning the Bonds to the Beneficial Owners thereof or that DTC will otherwise serve and act in the manner described in this Official Statement.* See Appendix E — “BOOK-ENTRY SYSTEM” for a further description of DTC and its book-entry system. The information presented therein is based solely on information provided by DTC.

The Authority may decide to discontinue the use of book-entry transfers through DTC (or a successor Securities Depository). In that event, the Bonds will be printed and delivered to the Beneficial Owners and will be governed by the provisions of the Indenture with respect to the payment of principal and interest and rights of exchange and transfer.

Interest Rate Provisions

Establishment of the Weekly Rate. The Bonds will be issued in the Weekly Mode. The interest rate for the Bonds while they are in the Weekly Mode will be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date (each Wednesday or, if Wednesday is not a Business Day, then the Business Day next succeeding such Wednesday) as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Bonds at a price equal to 100% of the principal amount thereof. While the Bonds are in the Weekly Mode, the Remarketing Agent is obligated to establish the Weekly Rate by 4:00 p.m. New York City time on each Rate Determination Date; and the Weekly Rate shall be in effect during the applicable Weekly Rate Period (generally, the period commencing on Thursday of each week to and including Wednesday of the following week). The interest rate on the Bonds cannot exceed 12% per annum.

Notification of the Weekly Rate. The Remarketing Agent is required to make the Weekly Rate available no later than 5:00 p.m. New York City time on the Business Day following the Rate Determination Date by telephone or Electronic Means to the Authority, each other Notice Party and any Beneficial Owner requesting such rate.

Alternate Rate. When the Bonds are in the Weekly Mode, in the event (i) the Remarketing Agent fails or is unable to determine the interest rate for the Bonds, (ii) the method by which the Remarketing Agent determines the interest rate with respect to the Bonds shall be held to be unenforceable by a court of law of competent jurisdiction, or (iii) the Remarketing Agent suspends its remarketing effort in accordance with the provisions of the Remarketing Agreement (as

hereinafter defined), then the Bonds shall evidence interest during each subsequent Interest Period for the Bonds at the Alternate Rate in effect on the first day of such Weekly Rate Period. The Alternate Rate for the Bonds in the Weekly Mode as of any Rate Determination Date is a rate per annum equal to (a) the SIFMA Municipal Swap Index (the “SIFMA Rate”) most recently available as of the date of determination, or (b) if such index is no longer available, or if the SIFMA Rate is no longer published, the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or (c) if neither the SIFMA Rate nor the S&P Weekly High Grade Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Securities Industry and Financial Markets Association (“SIFMA”) to determine the SIFMA Rate just prior to when the SIFMA stopped publishing the SIFMA Rate. If there is no Remarketing Agent for the Bonds, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement, then the Trustee shall make the determinations required by this definition, or if the Trustee shall decline to make such determination, a financial advisor, investment banker or other qualified party shall make such determination at the expense of the Authority. Such provisions will continue to apply until such time as the Remarketing Agent (or the Authority, if applicable) resumes making such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Authority, if applicable) shall resume making such determination at such time as there is delivered to the Remarketing Agent or the Authority, as applicable, an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against the Remarketing Agent or Authority, as applicable, making such determinations.

Optional Tender

Subject to the availability of sufficient funds from either the remarketing of such Bonds or the Credit Facility, while the Bonds are in the Weekly Mode, any Bond shall be purchased on the demand of the owner thereof on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date, upon written notice to the Trustee, at its Principal Office not later than 11:00 a.m. New York City time on a Business Day not later than the seventh day prior to the Purchase Date, which notice states: (i) the number and principal amount of the Bonds to be purchased pursuant to the optional tender provisions of the Indenture; (ii) the Purchase Date on which such Bond are to be purchased; and (iii) an irrevocable request for such purchase and agreement to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Trustee at or prior to 10:00 a.m. New York City time on such Purchase Date. The Trustee shall promptly, but in no event later than 11:30 a.m. New York City time on the next succeeding Business Day, notify the Remarketing Agent, the Credit Facility Provider or the Liquidity Facility Provider by Electronic Means of the receipt of the notice referred to in the preceding sentence. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Owners of Bonds may be exercised only by a Direct Participant of DTC acting, directly or indirectly, on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the time and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Trustee.

If funds sufficient to pay the Purchase Price of any Bond are held by the Trustee on any Purchase Date, such Bond shall be deemed to have been purchased and shall be purchased according to the terms of the Indenture, for all purposes of the Indenture, irrespective of whether or not such Bond shall have been delivered to the Trustee; and neither the former Owner of such Bond nor any

other person shall have any claim thereon, under the Indenture or otherwise, for any amount other than the Purchase Price thereof.

Mandatory Tender for Purchase upon Change of Mode

Changes in Mode. At the option of the Authority, the Bonds in the Weekly Mode may be changed to another Mode (other than a Fixed Rate Mode) as set forth below, provided that all the Bonds shall be converted.

Unless otherwise specified in the Indenture, notice of the proposed change in Mode must be given by the Trustee to the Owners of the Bonds not less than the 15th day next preceding the applicable Mode Change Date. Such notice must state the Mode to which the conversion will be made and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the Indenture. The new Mode shall commence on the Mode Change Date and the interest rate(s), together, in the case of a change to the Flexible Mode, with the Interest Period or Interest Period(s), as applicable, shall be determined by the Remarketing Agent (or the Authority in the case of the Interest Period for the Bonds being converted to a Term Rate Mode) in the manner provided in the Indenture.

In the case of a change from the Weekly Mode, the Mode Change Date can be any Business Day. The Bonds shall be subject to mandatory tender for purchase on such Mode Change Date as described below, and, except as is otherwise described herein, the Bonds shall be purchased on the Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof plus accrued interest, if any; provided, however, that if the Bonds are to be purchased on an Interest Payment Date other than the last Interest Payment Date applicable to the Bonds, and if the Bonds would otherwise be subject to optional prepayment on such Mode Change Date at a prepayment price of more than 100% of the principal amount thereof plus accrued interest, if any, then the Bonds shall be purchased at a Purchase Price equal to such prepayment price.

Conditions Precedent. It is a condition precedent to a change in Mode that certain items shall have been delivered to the Authority, Trustee and the Remarketing Agent on or prior to the Mode Change Date. Those items include (a) in the case of a change from the Weekly Mode to any Mode other than the Daily Mode, a Favorable Opinion of Bond Counsel dated the Mode Change Date and (b) a notice from the Rating Agencies of the rating(s) to be assigned to the Bonds on such Mode Change Date.

Failure to Satisfy Conditions. In the event that the Authority has not withdrawn any election by it to change a Mode as described below and the conditions referred to above have not been satisfied by the applicable Mode Change Date, then the New Mode shall not take effect (although any mandatory purchase shall be made on such date if notice has been sent to the Owners stating that the Bonds would be subject to mandatory purchase on such date). In the case of a failed change in Mode from the Weekly Mode, the Bonds shall remain in the Weekly Mode with interest rates established in accordance with the provisions described above under “Interest Rate Provisions” on and as of the failed Mode Change Date.

Rescission of Election to Change Mode. The Authority may rescind any election by it to change a Mode prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of the Bonds, then such notice of change in Mode shall be

of no force and effect. If the Trustee receives notice from the Authority of rescission of a Mode change after the Trustee has given notice thereof to the Owners of the Bonds, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date. If the proposed change in Mode was from the Weekly Mode, the Bonds shall remain in the Weekly Mode with interest rates established in accordance with the provisions described above under “Interest Rate Provisions” on and as of the proposed Mode Change Date.

Mandatory Tender for Purchase on Change of Mode. A change from the Weekly Mode to any other Mode will result in the mandatory purchase of the Bonds on the Mode Change Date. The Trustee is required to give notice of each such mandatory purchase by mail to the Owners of the Bonds subject to mandatory purchase no less than 15 days prior to the applicable Mandatory Purchase Date, which is the Mode Change Date. Such notice is required to state the Mandatory Purchase Date, set forth the Purchase Price applicable on such Mandatory Purchase Date, and identify the Bonds to be purchased. Such notice must also state that interest on the Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory purchase of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner.

Other Mandatory Tenders

The Bonds are subject to mandatory tender for purchase on each Mandatory Purchase Date. In addition to Mode Change Dates, Mandatory Purchase Dates applicable to Bonds in the Weekly Mode are: (i) any Substitution Date (the date on which an Alternate Credit Facility or Alternate Liquidity Facility is substituted for the Credit Facility or Liquidity Facility then in effect); (ii) the fifth Business Day prior to an Expiration Date (the stated expiration date of a Credit Facility or Liquidity Facility, as it may be extended from time to time as provided in such Credit Facility or Liquidity Facility, or any earlier date on which such Credit Facility or Liquidity Facility shall terminate at the direction of the Authority, expire or be cancelled, other than the date on which a Credit Facility or Liquidity Facility shall terminate as a result of an Automatic Termination Event or an event of default under the Reimbursement Agreement entered into in connection with such Credit Facility or Liquidity Facility) upon failure by the Trustee to receive an extension of the Credit Facility by the 30th day prior to the Expiration Date; (iii) the date specified by the Trustee following the occurrence of an event of default with respect to a Liquidity Facility which requires or gives the Liquidity Facility Provider the option to terminate the Liquidity Facility, upon notice and requires that all Outstanding Bonds secured by such Liquidity Facility be tendered for purchase under the applicable Liquidity Agreement, which date shall be a Business Day not less than 20 days after the Trustee’s receipt of notice of such event of default from the applicable Liquidity Facility Provider and in no event later than the Business Day preceding the termination date specified in the notice of event of default delivered to the Trustee by such Liquidity Facility Provider; (iv) any Business Day specified by the Authority in a notice delivered to the Trustee, which Mandatory Purchase Date shall be not less than 20 days after the Trustee’s receipt of such notice from the Authority; and (v) any date specified for a Mandatory Credit Tender, which includes the mandatory tender of Bonds pursuant to the Indenture upon receipt by the Trustee of written notice from the Credit Facility Provider that an event of default with respect to the Reimbursement Agreement has occurred and directing the Trustee to call the Bonds for mandatory tender.

Except in the case of a mandatory purchase on a Mandatory Purchase Date, as described in clauses (iii) or (v) of the immediately preceding paragraph, the Trustee is required to give notice of

each such mandatory purchase at the same time and in the same manner as is described above under “Mandatory Tender for Purchase upon Change of Mode - *Mandatory Tender for Purchase on Change of Mode.*”

Purchase Fund

The Indenture requires the Trustee to establish and maintain a separate fund to be designated as the “Bond Purchase Fund” (the “Bond Purchase Fund”) and separate accounts therein to be designated as the “Remarketing Proceeds Account,” the “Credit Facility Account,” the “Liquidity Facility Account” and the “Authority Account.” The Bond Purchase Fund shall be held in trust solely for the benefit of the Owners of tendered Bonds.

Upon receipt of the proceeds of a remarketing of any Bond on the date such Bond is to be purchased, the Trustee is required to deposit such remarketing proceeds in the Remarketing Proceeds Account to be applied to the payment of the Purchase Price of such Bond. Upon receipt of the proceeds of a draw on the Credit Facility, the Trustee is required to deposit such Credit Facility proceeds in the Credit Facility Account to be applied to the payment of the Purchase Price of Bonds to the extent that the moneys on deposit in the Remarketing Proceeds Account are not sufficient. Any amounts deposited in the Credit Facility Account and not needed for the payment of the Purchase Price of the Bonds shall be immediately returned to the Credit Facility Provider. Upon receipt of funds from the Authority provided at its sole discretion for such purpose, the Trustee is required to deposit such funds in the Authority Account to be applied to the payment of the Purchase Price of the Bonds. Any amounts deposited in an Authority Account and not needed for the payment of the Purchase Price of the Bonds shall be immediately returned to the Authority. Amounts held in the Remarketing Proceeds Account, the Credit Facility Account, the Liquidity Facility Account and the Authority Account are not permitted to be commingled with any other funds held by the Trustee and must be held uninvested.

Each of the Remarketing Proceeds Account, the Credit Facility Account and the Liquidity Facility Account shall meet the requirements of an Eligible Account.

Credit Facility

Requirement. While the Bonds are in the Weekly Mode, the Authority may provide a Credit Facility or a Liquidity Facility. Each such Credit Facility or Liquidity Facility (and any Alternate Credit Facility or Alternate Liquidity Facility provided in replacement thereof) must (i) be in an amount equal to the Required Stated Amount, (ii) be provided by a Credit Facility Provider or a Liquidity Facility Provider and (iii) provide for the purchase of the Bonds upon their optional or mandatory tender in accordance with the provisions of the Indenture. The Authority is not permitted to voluntarily terminate such Credit Facility or Liquidity Facility without providing at least 30 days written notice to the Trustee and each of the other Notice Parties.

Draws. If a Credit Facility or Liquidity Facility is in effect with respect to the Bonds, on each date on which a Bond is to be purchased, the Trustee, by demand given by Electronic Means before 11:30 a.m. New York City time, is required to draw on the applicable Credit Facility or Liquidity Facility in accordance with the terms thereof so as to receive thereunder by 2:30 p.m. New York City time on such date an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of such Bonds on such date, to enable the Trustee to pay the Purchase

Price in connection therewith. The proceeds of such draw shall be paid to the Trustee, who shall deposit said proceeds in the applicable Credit Facility Account or Liquidity Facility Account.

Alternate Facility. The Authority may provide an Alternate Credit Facility or Alternate Liquidity Facility on any Business Day not later than the fifth Business Day prior to the Expiration Date of the Credit Facility or Liquidity Facility then in effect for the Bonds. The Authority must give at least 30 days' written notice to the Trustee and each of the Notice Parties of its intent to furnish an Alternate Credit Facility or Alternate Liquidity Facility, which notice shall specify the nature of such Alternate Credit Facility or Liquidity Facility, the identity of the Credit Facility Provider or Liquidity Facility Provider and the proposed Substitution Date. The Trustee must then give notice of each Mandatory Purchase Date resulting from the proposed delivery of an Alternate Credit Facility or Alternate Liquidity Facility in accordance with the provisions set forth in the Indenture.

On or before the Substitution Date, there must be delivered to the Trustee: (i) the Alternate Credit Facility in substitution for the Credit Facility then in effect or the Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, as applicable (ii) a Favorable Opinion of Bond Counsel and (iii) a written Opinion of Counsel for the provider of the Alternate Credit Facility or Alternate Liquidity Facility, as applicable, to the effect that such Alternate Credit Facility or Alternate Liquidity Facility, as applicable, is a legal, valid, and binding obligation of the provider thereof and covering such other matters as the Authority shall require. Upon the satisfaction of such conditions, the Trustee must accept such Alternate Credit Facility or Alternate Liquidity Facility, as applicable, and surrender the Credit Facility or Liquidity Facility, as applicable, then in effect to the provider thereof on the Substitution Date; provided that if there are insufficient remarketing proceeds to pay the Purchase Price of all Bonds subject to mandatory purchase on such Substitution Date, the Trustee may not surrender the Credit Facility or Liquidity Facility, as applicable, then in effect until the Trustee shall have drawn upon the existing Credit Facility or Liquidity Facility, as applicable, to pay the Purchase Price for the Bonds subject to mandatory purchase on such Substitution Date. If any condition precedent to the substitution of an Alternate Credit Facility or Alternate Liquidity Facility is not satisfied, the substitution shall not occur, but the affected Bonds shall remain subject to mandatory purchase on the proposed Substitution Date.

Delayed Remarketing Period

If sufficient funds are not available to pay the Purchase Price of all tendered Bonds ("Tendered Bonds") to be purchased on any Purchase Date: (i) no purchase of such Tendered Bonds shall be consummated on such Purchase Date; (ii) all such Tendered Bonds shall be returned to the Owners thereof; (iii) all remarketing proceeds shall be returned to the Remarketing Agent for return to the persons providing such moneys; and (iv) such insufficiency and the failure to pay the Purchase Price on any Payment Date shall *not* constitute an Event of Default under the Indenture. All such Tendered Bonds shall evidence interest at the Maximum Rate during the period of time from and including the applicable Purchase Date to (but not including) the date that all such Tendered Bonds are successfully remarketed (the "Delayed Remarketing Period").

The Authority may direct the conversion of such Tendered Bonds to a different Mode during a Delayed Remarketing Period in accordance with the provisions of the Indenture, but the Authority is not required to comply with the notice requirements otherwise applicable to a change of Mode.

During a Delayed Remarketing Period, the Remarketing Agent shall continue to use its best efforts to remarket such Tendered Bonds. Once the Remarketing Agent has advised the Trustee that

it has a good faith belief that it is able to remarket all of such Tendered Bonds, the Trustee shall give written notice by mail to the Owners of such Tendered Bonds not later than five Business Days prior to the proposed Purchase Date, which notice shall state: (i) that such Tendered Bonds will be subject to mandatory tender for purchase on the proposed Purchase Date; (ii) the proposed Purchase Date; (iii) the Mode applicable to such Tendered Bonds from and after the proposed Purchase Date; (iv) the procedures for such mandatory tender for purchase; (v) the Purchase Price applicable to such Tendered Bonds; and (vi) the consequences of a failed remarketing.

Interest on Tendered Bonds shall be paid to the Owners thereof (i) on the first Business Day of each calendar month occurring during a Delayed Remarketing Period and (ii) on the day after the last day of such Delayed Remarketing Period.

Redemption

The Bonds are subject to mandatory tender for purchase under various circumstances. See “ — Mandatory Tender for Purchase upon Change of Mode” and “ — Other Mandatory Tenders.” The Bonds are also subject to redemption as described under this caption.

Optional Redemption. While the Bonds are in the Weekly Mode they are subject to redemption at the option of the Authority, which option must be exercised at least 20 days prior to the date fixed for redemption, in whole or in part, in Authorized Denominations on any Business Day, at a Redemption Price equal to 100% of the principal amount thereof, plus, accrued interest, if any, to the redemption date, without premium.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory redemption from Sinking Fund Installments prior to the Maturity Date, in part by lot, on September 1 of each year on and after September 1, 2009, in accordance with the schedule set forth below upon notice hereinafter described, at a Redemption Price equal to the sum of the principal amount thereof plus accrued and unpaid interest thereon to the redemption date, without a redemption premium. In addition, if any Bonds have been optionally redeemed, the amounts of such Sinking Fund Installments shall be reduced as directed by the Authority, or if not so directed, proportionality in increments of Authorized Denominations, by the principal amount evidenced and represented by all such Bonds so optionally redeemed.

<i>Mandatory Sinking Fund Installment Date (September 1)</i>	<i>Sinking Fund Installment</i>	<i>Mandatory Sinking Fund Installment Date (September 1)</i>	<i>Sinking Fund Installment</i>
2009	\$ 895,000	2022	\$2,585,000
2010	1,020,000	2023	2,785,000
2011	1,125,000	2024	2,990,000
2012	1,260,000	2025	3,240,000
2013	1,395,000	2026	3,470,000
2014	1,505,000	2027	3,730,000
2015	1,665,000	2028	3,815,000
2016	1,835,000	2029	3,970,000
2017	1,695,000	2030	4,155,000
2018	1,860,000	2031	4,340,000
2019	2,000,000	2032	4,530,000
2020	2,170,000	2033 (maturity)	4,745,000
2021	2,390,000		

Notwithstanding the foregoing, no Bond (other than a Credit Facility Bond or Liquidity Facility Bond) shall be optionally redeemed while any Credit Facility Bond or Liquidity Facility Bond, as applicable, is Outstanding unless all Outstanding Credit Facility Bonds or Liquidity Facility Bonds, as applicable, are redeemed or purchased by the Trustee and cancelled concurrently with such redemption or purchase.

Extraordinary Redemption from Insurance or Condemnation Proceeds. The Bonds are also subject to extraordinary redemption prior to the Maturity Date, at the option of the Authority, which option must be exercised at least 45 days prior to the date fixed for redemption, in whole or in part, in such amounts as are selected by the Authority, on any date, from hazard insurance or condemnation proceeds or other insurance received with respect to the Leased Property and deposited in the Special Redemption Account, at a Redemption Price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption, without premium.

Notice of Redemption. When the redemption of Bonds is authorized as described above, the Trustee is required to give notice thereof. Such notice must state the date of such notice, the redemption date, the Redemption Price, the place of redemption (including the name and appropriate address of the Trustee), the maturity, the CUSIP numbers (if any) of the Bonds to be redeemed, and, if less than all of the Bonds are to be redeemed, the distinctive certificate numbers thereof to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount evidenced and represented thereby 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 and, in the case of a Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with accrued and unpaid interest thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue; and such notice shall require that said Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

Such notice must be mailed by the Trustee, at least 10 but not more 60 days before the redemption date to the respective Owners of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. Such notice is also required to be provided to Securities Depositories and Information Services. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

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

Effect of Redemption. If notice of redemption has been duly given as described above and money for the payment of the Redemption Price of the Bonds called for redemption together with any accrued interest to the date fixed for redemption is held by the Trustee, then on the redemption date designated in such notice, the Bonds so called for redemption will become due and payable on the date fixed for redemption at the Redemption Price specified in such notice; and from and after the date so designated, interest evidenced and represented by such Bonds so called for redemption shall cease to accrue, and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price thereof.

Purchase in Lieu of Prepayment

Subject to the provisions of the Indenture, the Authority has the option to purchase any Bond on any date on which it would be subject to optional redemption at a purchase price equal to the then applicable Redemption Price plus accrued interest thereon to the date of purchase.

Parity Obligations

The Authority's obligation to make the scheduled payments required pursuant to the 2008 Swap Agreement is secured by a pledge of the Revenues on a parity with the pledge thereof securing the Bonds; and the Authority may issue or incur additional obligations in the future that will also be secured on a parity with the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Additional Bonds and Parity Debt."

The Lease Agreement does not limit the power of the City to enter into other leases or contracts or to incur other liabilities payable from its general revenues.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor in the Indenture, together with amounts on deposit from time to time in certain funds and accounts held by the Trustee under the Indenture. The term "Revenues" is defined in the Indenture to include: (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Lease Agreement (but not Additional Payments), (ii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Indenture or the Lease Agreement, (iii) Swap Revenues, if any, and (iv) any additional security provided for a Series of Bonds in a Supplemental Indenture.

Pursuant to the Indenture, the Authority has assigned to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers, all of the rights of the Authority under the Lease Agreement to receive and collect Base Rental Payments and other amounts (except for the right to receive any Additional Payments to the extent payable to the Authority and any rights of the Authority to indemnification), and the right to enforce all provisions, covenants and agreements of the Lease Agreement with respect to the payment of Base Rental Payments.

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY. THE BONDS ARE NOT A DEBT OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS EXCEPT THE AUTHORITY TO THE EXTENT DESCRIBED HEREIN. NEITHER THE AUTHORITY, THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS, EXCEPT THE AUTHORITY TO THE EXTENT DESCRIBED HEREIN, IS LIABLE THEREON. IN NO EVENT SHALL THE BONDS OR ANY INTEREST OR REDEMPTION PREMIUM THEREON BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY AS SET FORTH IN THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION. NO MEMBERS OF THE AUTHORITY OR THE CITY COUNCIL OF THE CITY AND NO

EXECUTING THE BONDS ARE PERSONALLY LIABLE ON THE BONDS BY REASON OF THEIR ISSUANCE.

Base Rental Payments

Under the Lease Agreement, the City agrees to pay to the Authority as rental for the use and possession of each Leased Unit, the Base Rental Payments with respect thereto fifteen (15) days prior to the date, and in the amounts set forth and in accordance with the schedules set forth on Exhibit A to the Lease Agreement, provided that the City shall receive credits towards such Base Rental Payments as provided in the Indenture and provided further that (except as otherwise provided under the Lease Agreement) Base Rental Payments are subject to abatement as described below under the caption "Abatement." The Base Rental Payments payable on each payment date shall equal the principal and interest due on the Bonds, together with any amounts due and payable under the Credit Facility, provided that in no event shall the cumulative amount of such payments by the City in any fiscal year exceed the lesser of (i) 150% of the estimated Base Rental Payment for such Rental Payment Period or (ii) the Maximum Annual Base Rental Payment, as adjusted for Deferred Rental (as defined below) for such Rental Payment Period, as provided for in the Lease Agreement. To the extent that the cumulative payments payable on the Bonds and under the Credit Facility and Reimbursement Agreement exceed the fair rental value in any year, such amounts shall be deferred for payment in the next fiscal year, but only so long as the City's cumulative Base Rental Payments do not exceed the maximum fair rental value.

The Lease Agreement also requires the City to pay Additional Payments, which include, among other things, all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease Agreement or any pledge of Base Rental Payments payable under the Lease Agreement, the Indenture, the Credit Facility, the Authority's interest and the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Obligations (as defined in the Lease Agreement), the Leased Property, including, among other things, all fees and expenses of the Bank, including all fees payable pursuant to the Reimbursement Agreement. Such Additional Payments will be billed to the City by the Authority or the Trustee from time to time. Additional Payments so billed are required to be paid by the City to the billing party within 30 days after receipt of the bill by the City. See APPENDIX A — "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE LEASE AGREEMENT — Additional Payments."

The Lease Agreement provides that the payment of up to the Maximum Annual Base Rental Payments (as defined in the Lease Agreement) and Additional Payments for each rental period during the term of the Lease Agreement shall constitute the total rental for said rental period and shall be paid by the City in each Rental Payment Period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The City and the Authority have agreed and determined that such total rental payable for each Rental Payment Period, up to the Maximum Annual Base Rental Payment (as defined in the Lease Agreement), as such amount may be adjusted for Deferred Rental (as defined in the Lease Agreement), represents the fair rental value of the Leased Property for each such period. In making such determination, consideration has been given to the appraised value of the Leased Property, costs of acquisition, demolition, site preparation, design, construction and financing of the Leased Property, other obligations of the parties under this Lease Agreement, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

In the event that the amount needed in a Rental Payment Period by the Authority to pay the principal of and interest on the Bonds and any Related Obligations is more than the Estimated Base Rental Payments (as defined in the Lease Agreement) for such Rental Payment Period, the City will be obligated to pay up to the Maximum Annual Base Rental Payment (as defined in the Lease Agreement) for such Rental Payment Period. Further, the City agrees that if in any year the Maximum Annual Base Rental Payment exceeds the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period, the excess amount may be deferred by the Authority, at its sole option, on such terms and conditions as it shall determine are necessary to protect the interests of the owners of the Bonds and the providers of any Related Obligations (as defined in the Lease Agreement), and thereupon such excess amount (the "Deferred Rental") need not be paid by the City to the Authority at that time, but instead shall be deferred until such subsequent time as the Authority shall have need for such payment; provided that the Deferred Rental shall not cause the Maximum Annual Base Rental Payment in any Rental Payment Period to exceed the lesser of (i) 150% of the estimated Base Rental Payment for such Rental Payment Period or (ii) the Maximum Annual Base Rental Payment, as adjusted for Deferred Rental for such Rental Payment Period, as provided for in the Lease Agreement.

Under the Lease Agreement, the City covenants to take such action as may be necessary to include all estimated Base Rental Payments and Additional Payments due under the Lease Agreement in its annual budgets, and to make necessary annual appropriations for such payments, and for such additional amounts as required by the Lease Agreement. The City will deliver to the Authority and the Trustee within 90 days of adoption of the City budget copies of the portion of each annual City budget relating to the payment of estimated Base Rental Payments and Additional Payments as so calculated. If in any fiscal year, the amount initially budgeted is insufficient to pay actual debt service on the Bonds and payments with respect to Related Obligations (as defined in the Lease Agreement), the City shall, by supplemental budget in such fiscal year, appropriate and pay such additional amounts until the total amount appropriated for Base Rental Payments equals Maximum Annual Base Rental Payments for such year. The aforesaid covenants on the part of the City are deemed under the Lease Agreement to be and are required to be construed to be duties imposed by law and it is required to be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the aforesaid covenants and agreements.

Notwithstanding the foregoing, the obligation of the City to pay Base Rental Payments and Additional Payments shall not constitute a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor shall the Lease Agreement constitute a pledge of the general tax revenues, funds or moneys of the City. Base Rental Payments and Additional Payments shall be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments or other payments due under the Lease Agreement as consideration for use of the Leased Property. The Lease Agreement shall not create an immediate indebtedness for any aggregate payments which may become due in the event that the term of the Lease Agreement is continued. The City has not pledged the full faith and credit of the City, the State of California or any agency or department thereof to the payment of the Base Rental Payments and Additional Payments or any other payments due under the Lease Agreement.

Abatement

The Lease Agreement provides that the Base Rental Payments and Additional Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation, which is discussed below) there is substantial interference with the use and occupancy of the Leased Property by the City, in the proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. Notwithstanding the foregoing, such abatement shall not result to the extent of moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, Principal Account and Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance. The Lease Agreement also provides that the Lease Agreement will continue in full force and effect in the event of any such damage or destruction, and the City waives the benefits of California Civil Code Section 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all other rights to terminate the Lease Agreement by virtue of any such damage or destruction.

In connection with eminent domain, the Lease Agreement provides that if the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used by the City is taken under the power of eminent domain, the term of the Lease Agreement will cease as of the day that possession shall be so taken. If less than the whole of the Leased Property is taken under the power of eminent domain and the remainder of the Leased Units is usable for the purposes for which it was used by the City at the time of such taking, then the Lease Agreement will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary. In such event there shall be a partial abatement of the Base Rental Payments due in an amount equivalent to the amount by which the annual payments of principal and interest on the outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of outstanding Bonds. The Lease Agreement further provides that, so long as any of the Bonds remain outstanding, any award made in eminent domain proceedings for taking the Leased Property or any of the Leased Units thereof shall be paid to the Trustee and applied to the prepayment of the Base Rental Payments. Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, shall be paid to the City.

Reserve Fund

The Trustee is required by the Indenture to establish and maintain and hold in trust, so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the "Reserve Fund." Upon the delivery of the Bonds, there will be deposited in the Reserve Fund an amount equal to the Reserve Fund Requirement.

"Reserve Fund Requirement" means with respect to all Outstanding Bonds an amount equal to the lesser of (a) the maximum annual Debt Service attributable to the Outstanding Bonds and (b) one hundred twenty-five percent (125%) of the average annual Debt Service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of an Additional Series of Bonds the amount calculated shall be the least of (a) or (b) above, or the amount derived by the addition of ten percent (10%) of the proceeds from the sale of such Series of Additional Bonds to the Reserve Fund and provided further, that the Reserve Fund

Requirement shall be reduced to the extent necessary so that all amounts therein may be deposited from Bond Proceeds without requiring a portion thereof to be yield restricted in accordance with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”). For purposes of determining the Reserve Fund Requirement, unless otherwise specified in a Supplemental Indenture, the fixed interest rate assumed for Variable Rate Bonds shall be The Bond Buyer Revenue Bond Index published the week preceding the sale of such Variable Rate Bonds, as certified by the Authority. For purposes of determining the Reserve Fund Requirement, the fixed interest rate assumed for Bonds shall be the fixed swap rate under the 2008 Swap Agreement. The Reserve Fund Requirement shall be determined upon the issuance of a Series of Bonds, the defeasance or optional redemption of Bonds and the retirement of a Series of Bonds. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE INDENTURE – Reserve Fund.”

All money in the Reserve Fund is to be used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a Principal Payment Date or Interest Payment Date or Swap Payment Date. Money on deposit in the Interest Account is available to be used and withdrawn by the Trustee for the purpose of paying both interest on the Bonds and any Regular Swap Payments as they become due and payable. Notwithstanding the foregoing, as long as the Authority is not in default under the Indenture, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement are to be withdrawn from the Reserve Fund and transferred to the Revenue Fund or, if so directed by the Authority, deposited into a Project Fund during the construction of any Project on each July 1 following the payment of any amounts due on such date and on each date Bonds are redeemed or defeased.

The Indenture permits the Authority to satisfy the Reserve Fund Requirement, in whole or in part, at any time by depositing with the Trustee for the credit of the Reserve Fund a Reserve Facility. If the Reserve Fund Requirement is satisfied by a Reserve Facility, the Trustee is to draw on such Reserve Facility in accordance with its terms and the terms of the Indenture, in a timely manner, to the extent necessary to fund any deficiency in the Interest Account or the Principal Account. The Authority shall repay any draws under a Reserve Facility and any Reserve Facility Costs related thereto solely from Revenues.

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

At any time one or more Reserve Facilities are on deposit in the Reserve Fund, the Trustee is required to withdraw and use all cash, if any, on deposit in the Reserve Fund prior to using and withdrawing any amounts derived from payments under any Reserve Facility. Amounts received by the Trustee from the Authority as a replenishment of amounts withdrawn from the Reserve Fund shall be applied first to reimburse draws on any Reserve Facilities and then to replenish cash withdrawn from the Reserve Fund.

Property Insurance

The Lease Agreement requires the City to maintain throughout the term thereof insurance against loss of or damage to any structures constituting any part of the Leased Property, fire and lightening, with extended coverage insurance, vandalism and malicious insurance and sprinkler system leakage insurance, if available on the open market from reputable insurance companies at a reasonable cost, as determined by the City. Such insurance must be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, exclude the cost of excavations, of grading and filling, and of land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$500,000 or a comparable amount adjusted for inflation, or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Indenture), in the event of a total or partial loss, to enable all outstanding Bonds to be redeemed. Unless otherwise consented to by the Credit Facility Provider, the insurance policies required under the Lease Agreement, other than self-insurance, must be provided by a commercial insurer rated 'A' or better by A.M. Best.

Except as hereinafter described, in the event of any damage to or destruction of any part of the Leased Property which is caused by any of the perils covered by such insurance the Authority shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property; and the Trustee shall hold said proceeds separate and apart from all other funds in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of such proceeds. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments.

As an alternative to providing the insurance described above or any portion thereof, the City may provide a self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City.

Substitution and Release of Property

The Indenture and the Lease Agreement allow the City to remove or substitute real property as part of the Leased Property, but only after satisfying certain conditions, including the consent of the Bank and filing with the Authority and the Trustee (with copies to each rating agency then providing a rating for the Bonds) a Certificate of the City evidencing that the annual fair rental value of the Leased Property which will constitute the Leased Property after such removal or substitution will be at least equal to 100% of the maximum amount of Base Rental Payments for all Series of Bonds becoming due in the then-current year ending August 14 through and including each year during which any Series of Bonds would be Outstanding or in any subsequent year ending August 15 through and including each year during which any Series of Bonds would be Outstanding.

Additional Bonds and Parity Debt

The Indenture permits the Authority to issue Additional Bonds and to enter into any Related Obligations with respect thereto payable, in each case, from and secured by a pledge of and lien and

charge upon the Revenues equal to the pledge, charge and liens securing the Outstanding Bonds theretofore issued under the Indenture upon the satisfaction of certain specific conditions. Included among these conditions is a requirement that the Lease Agreement shall have been amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year shall at least equal projected Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

Nothing in the Indenture prevents the Authority from issuing bonds or incurring other obligations which are secured by a pledge of and lien on the Revenues subordinate to the lien established under the Indenture.

2008 Swap Agreement

In connection with the issuance of the Series 2007 Bonds, the Authority entered into an interest rate swap agreement in the form of an ISDA Master Agreement (Local Currency – Single Jurisdiction), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex and a Confirmation, each dated as of and entered into on April 11, 2007 (collectively, the “2007 Swap Agreement”), with Bank of America, N.A. (the “Swap Provider”). In connection with the issuance of the Bonds, the City and the Swap Provider will amend and restate in its entirety the 2007 Swap Agreement (as so amended and restated, the “2008 Swap Agreement”). The 2008 Swap Agreement is scheduled to expire on the Maturity Date of the Bonds; and the notional amount of the 2008 Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal of the Bonds is scheduled to be reduced. Pursuant to the 2008 Swap Agreement, the City will be required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest on an initial notional amount equal to the principal amount of the Bonds. In return, the Swap Provider will be required to make periodic payments to the City calculated on the basis of a variable rate of interest equal to a percentage of LIBOR on the same notional amount. The amounts payable by each party pursuant to the 2008 Swap Agreement are netted against the payments to be received by such party thereunder.

The Authority’s obligations under the 2008 Swap Agreement to make Regular Swap Payments is secured by a pledge of Revenues on a parity with the pledge thereon securing the Bonds. No arrangements made in respect of the 2008 Swap Agreement will alter the Authority’s obligation to pay the principal of or interest on the Bonds.

Both the Authority and the Swap Provider have the right to terminate the 2008 Swap Agreement prior to its stated termination date under certain conditions. Any such termination could result in an obligation on the part of the Authority or the Swap Provider to make termination payments to the other party, and the amount of such termination payments could be substantial. Any obligation on the part of the Authority to make such a termination payment will be subordinate to the Authority’s liabilities with respect to the Bonds or the Credit Facility.

Although the Authority has agreed and covenanted in the Indenture that all Swap Revenues will be transferred when received to the Trustee for deposit in the Revenue Fund, neither the Trustee nor the Holders of the Bonds will have any rights under the 2008 Swap Agreement or against the Swap Provider.

CREDIT FACILITY

The following information has been provided by Bank of America, N.A. It has not been verified by the Authority or the City, and neither the Authority nor the City guarantees its accuracy or completeness.

Initial Credit Facility

General. Principal of and interest on the Bonds will be paid from draws on the Credit Facility pursuant to the Reimbursement Agreement. Such draws will be repaid to the Bank by the Authority and the City (by payment of Lease Payments under the Lease Agreement) pursuant to the terms of the Reimbursement Agreement. The purchase price on the Bonds tendered for purchase as described under the caption “THE BONDS — Optional Tender” and not remarketed will also be paid from draws on the Credit Facility, subject to the terms of the Reimbursement Agreement. The Credit Facility and Reimbursement Agreement will expire on August 1, 2011 unless terminated sooner or extended. Certain provisions of the Credit Facility and Reimbursement Agreement are summarized below, but such summary is qualified in its entirety by reference to the Credit Facility and the Reimbursement Agreement.

Under the Reimbursement Agreement, the Authority and the City (by payment of Base Rental Payments) are required to reimburse the Bank for draws on the Credit Facility on the same day the amount drawn is paid by the Bank, except as provided in the following paragraph. Amounts owed to the Bank shall bear interest at a specified rate. The City shall pay certain fees to the Bank, including a letter of credit fee, drawing and transfer fees, in addition to the Bank’s costs, expenses and certain taxes, as Additional Payments (as defined in the Lease Agreement).

In the event that there is a drawing on the Credit Facility to purchase Bonds which are tendered for purchase by the holders thereof in accordance with the Indenture, the Reimbursement Agreement provides that the Bank shall become the holder of such Bonds (“Bank Bonds”), and the City shall be required to pay to the Bank an amount equal to such drawing in equal semi-annual installments of principal together with interest thereon at a specified rate, such that the full amount drawn is paid, and all Bank Bonds with respect to such drawing are redeemed, by the earlier to occur of: (i) the fifth anniversary of the sixty-first day following the date on which such Bank Bonds were purchased; or (ii) the fifth anniversary of the date of issuance of such Credit Facility (or if the Credit Facility has been extended, the fifth anniversary of the then most recent extension). Notwithstanding the foregoing, upon the remarketing of all or any portion of the Bank Bonds purchased with amounts drawn under any Credit Facility pursuant to such drawing, an amount of such drawing equal to the principal of such remarketed Bank Bonds shall be immediately due and owing to the Bank, together with interest thereon at the specified rate. In addition, all amounts owed to the Bank pursuant to the respective Reimbursement Agreement shall be immediately due and payable in full on the date of delivery to the Trustee of any letter of credit (as provided in the Indenture) as a substitution for the Credit Facility.

Default. The occurrence of any of the following events constitutes an event of default by the City, unless waived by the Bank in writing:

(a) The Authority shall fail to pay when due any amount payable by the Authority to the Bank under the Reimbursement Agreement.

(b) The Bonds or any other Related Document (as such term is defined in the Reimbursement Agreement) ceases to be valid and binding against the City or the City repudiates its obligations under the Reimbursement Agreement or any of the Related Documents.

(c) The City files a bankruptcy petition or the City makes a general assignment for the benefit of creditors.

(d) Any judgments or arbitration awards are entered against the City, or the City enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Ten Million Dollars (\$10,000,000) or more in excess of any insurance coverage, provided that the insurer has issued a letter of responsibility for payment up to the amount of insurance coverage.

(e) Any default occurs under any agreement in connection with any credit which the City has obtained from anyone else or which the City has guaranteed in the amount of Ten Million Dollars (\$10,000,000) or more in the aggregate, if such default consists of failing to make a payment when due or gives the other lender the right to accelerate the obligation.

(f) Any default occurs under the Lease Agreement or any other Related Document, in each case after the passage of the applicable notice and cure period, if any.

(g) The City fails to meet the conditions of, or fails to perform any obligation under, any term of the Reimbursement Agreement not specifically referred to in this list of events of default, and such default is not cured within thirty (30) days after the Bank has given the City written notice of such default.

(h) The City has given the Bank false or misleading information or representations.

(i) The issuer general obligation credit ratings of the City shall fall below “BBB-” by Standard & Poor’s Rating Service (“S&P”) or “BBB-” by Fitch Ratings (“Fitch”). If either S&P or Fitch shall rate the issuer general obligation credit ratings of the City lower than the other rating agency, the default will be determined by reference to the lower rating.

Remedies. If an event of default shall have occurred and be continuing under the Reimbursement Agreement, the Bank may: (i) give notice to the Trustee under the Indenture of the Bank’s election to cause a mandatory tender of the Bonds because of the occurrence and continuance of an event of default under the Reimbursement Agreement; (ii) declare all unpaid amounts drawn under the Credit Facility and the corresponding Bank Bonds, together with all interest accrued and unpaid thereon and all other amounts payable to the Bank hereunder to be immediately due and payable, without presentment, demand, protest or any notice of any kind; or (iii) exercise any and all rights and remedies available to the Bank under the Reimbursement Agreement or the Indenture, at law or in equity; provided, however, that the Bank may not accelerate Base Rental Payments under the Lease Agreement. In the event of the occurrence of an event of default under the Reimbursement Agreement, all amounts drawn under the Credit Facility 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.

Control of Remedies by the Bank. So long as the Bank has not failed to make any payments under the Credit Facility following presentation of drafts and certificates in strict compliance with the

Credit Facility, the Bank shall have the right, at any time, by written instrument delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the remedies under the Indenture.

Bank of America, N.A.

The Bank is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “Corporation”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2008, the Bank had consolidated assets of \$1,327 billion, consolidated deposits of \$807 billion and stockholder’s equity of \$109 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, together with any subsequent documents it filed with the Securities and Exchange Commission (the “SEC”) pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Recent Development. On July 1, 2008, the Corporation acquired Countrywide through its merger with a subsidiary of the Corporation. Under the terms of the agreement, Countrywide shareholders received 0.1822 of a share of Bank of America Corporation common stock in exchange for one share of Countrywide common stock. As provided by the merger agreement, 583 million shares of Countrywide common stock were exchanged for 106 million shares of the Corporation’s common stock. This represents approximately two percent of the Corporation’s outstanding common stock. Countrywide shareholders also received cash of \$346 thousand in place of any fractional shares of the Corporation’s common stock that would have otherwise been issued on July 1, 2008. The \$2.0 billion of Countrywide’s Series B convertible preferred shares that were previously held by the Corporation were cancelled.

Additional information regarding the foregoing is available from the filings made by the Corporation with the SEC, which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Bank and the foregoing merger contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Liquidity Facility has been issued by the Bank. Moody’s Investors Service, Inc. (“Moody’s”) currently rates the Bank’s long-term debt as “Aaa” and short-term debt as “P-1.” The outlook is stable. Standard & Poor’s currently rates the Bank’s long-term debt as “AA+” and its short-term debt as “A-1+.” The outlook is negative. Fitch Ratings, Inc. (“Fitch”) currently rates long-term debt of the Bank as “AA-” and short-term debt as “F1+.” The outlook is stable. Further

information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of the Bank's instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to: Bank of America Corporate Communications, 100 North Tryon Street, 18th Floor, Charlotte, North Carolina 28255, Attention: Corporate Communication.

PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE CREDIT FACILITY IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE CREDIT FACILITY IS A BINDING OBLIGATION OF THE BANK, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

REMARKETING

Remarketing Agreement. The Authority has entered into a Remarketing and Interest Services Agreement, dated as of August 1, 2008 (the "Remarketing Agreement"), with Banc of America Securities LLC as the Remarketing Agent. Under the Remarketing Agreement and subject to the limitations set forth therein, the Remarketing Agent has agreed to use its best efforts to offer for sale all Bonds tendered in accordance with the provisions of the Indenture.

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are tendered by the owners thereof either pursuant to an optional or mandatory tender (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Authority and is paid by the Authority for its services. As a result, the interests of the Remarketing Agent may differ from those of existing owners and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, routinely acquires such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing

so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may cause the interest rate to be lower than it would be if the Remarketing Agent did not purchase Bonds and may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including a Rate Determination Date. Pursuant to the Remarketing Agreement and the Indenture, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, will result in the sale of the Bonds at a price equal to the principal amount thereof as of the Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). The purchase of the Bonds by the Remarketing Agent may cause the interest rate to be lower than it would be if the Remarketing Agent did not purchase Bonds. There may or may not be Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. If the Authority shall deliver a Favorable Opinion of Bond Counsel, the Remarketing Agent may set the interest rate set for some or all of the Bonds at a premium or a discount.

The Ability to Sell the Bonds other than Through Tender Process May Be Limited. The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require owners that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

The Remarketing Agent May Be Removed, Resign or Transfer its Rights and Obligations at any Time. The Remarketing Agent may be removed or resign at any time, without a successor having been named, subject to the terms of the Remarketing Agreement and the Indenture. With prior written notice to (but without the consent of) the Authority, the Trustee, the Credit Facility Provider and the Owners of the Bonds, the Remarketing Agent may assign or transfer any or all of its rights and obligations as remarketing agent under the Remarketing Agreement and under the Trust Agreement to any other direct or indirect wholly owned subsidiary of Bank of America Corporation so long as such subsidiary meets the qualifications for a Remarketing Agent set forth in the Indenture and is otherwise permitted to perform such obligations under all applicable federal and state banking and securities laws, rules and regulations.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Bonds. It is not meant to be an exhaustive list of the risks associated with the purchase of the

Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The Bonds are payable solely from, and are secured solely by, a pledge of Revenues and certain amounts on deposit from time to time in various funds and accounts. The Revenues consist primarily of: (i) Base Rental Payments payable by the City, as lessee, to the Authority, as lessor, for the use and possession of the Leased Property; (ii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Indenture or the Lease Agreement; (iii) the Swap Revenues (as defined in the Indenture) and (iv) any additional security provided for a Series of Bonds in a Supplemental Indenture. If for any of the reasons described herein, or for any other reason, the Authority does not collect sufficient Revenues to pay debt service on the Bonds, and the Related Obligations neither the Authority nor the City will be obligated to utilize any other of its resources, other than moneys on deposit in the Reserve Funds and in certain other funds and accounts, to pay debt service on the Bonds and the Related Obligations.

Although the Base Rental Payments are payable from all funds lawfully available to the City, the Base Rental Payments are not secured by any pledge of or lien or taxes or other revenue of the City. Subsequent to the defeasance of the Prior Bonds, the City will remain liable on other obligations that are payable from its general revenues, including: its 1993 Refunding Certificates of Participation (Community Center Project) in an outstanding principal amount of \$19,935,000 with a final maturity of November 1, 2023 and its 1993 Refunding Certificates of Participation (Golf Course Project) in an outstanding principal amount of \$5,435,000 with a final maturity of November 1, 2023. In addition, the City will retain the ability to enter into other obligations which may constitute additional charges against its revenues. In the event the City's revenue sources are less than its total obligations, the City could choose or could be required to pay those other obligations or to make expenditures necessary to preserve the health and welfare of the residents of the City before making the Base Rental Payments. The same results could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. See "Constitutional Limitations on Taxes and Expenditures."

Abatement Risk

During any period in which, by reason of material damage or destruction, there is substantial interference with the use and possession by the City of any portion of the Lease Property, Base Rental Payments due under the Lease Agreement will be abated proportionately. Notwithstanding the foregoing, such abatement shall not result to the extent of any moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, the Principal Account and the Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance. However, as noted above under the caption "Subordinate Obligation," insurance proceeds would be applied first to pay the obligations of the City under the 1998 Lease and would therefor inure to the benefit of the owners of the 1998 Bonds before being made available to pay Base Rental Payments. The City waives any and all right to terminate the Lease Agreement by virtue of any such interference and the Lease Agreement will continue in full force and effect.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could damage or destroy portions or all of the Leased Property and thereby result in an abatement of the City's obligation to pay the Base Rental Payments as discussed above under the caption "Abatement Risk." The City is not required to insure the Leased Property against damage caused by earthquakes. Natural disasters could also adversely affect economic activity in the City thereby negatively impacting the City's finances. Property within the City has been damaged by floods from time to time, most recently in January 1997; and there are several geological faults in the greater San Francisco Bay area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges and other property within the City.

State Budgets Concerns

As discussed below, the Governor has declared a fiscal emergency under the State Constitution and has called a special session of the State Legislature to address it. Whatever the outcome, the State is likely to continue to face significant budget issues for the foreseeable future. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

The following information concerning the State's budgets has been obtained from publicly available information which the City believes to be reliable; however, neither the City nor the Underwriter takes responsibility as to the accuracy or completeness of this information and has not independently verified such information.

The State Budget Process. The State's fiscal year begins on July 1 and ends on June 30. Pursuant to the State Constitution, the Governor of the State is required to propose a budget for the next fiscal year (the "Governor's Budget") to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor. The State's final budget is adopted after the beginning of the new fiscal year on July 1.

Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the State Legislature takes up the proposal. Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the State Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the State Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the State Legislature. Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the State Legislature and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in

anticipation of their receipt. However, delays in the adoption of a final State budget in any fiscal year may affect payments of State funds during such budget impasse.

Governor's Proposed Fiscal Year 2008-09 State Budget. On January 10, 2008, the Governor released his proposed budget for Fiscal Year 2008-09 (the "2008-09 Governor's Budget"). The 2008-09 Governor's Budget projects an estimated \$14.5 billion budget shortfall by the end of Fiscal Year 2008-09, in the absence of any changes to State law or policy to reduce spending, which the Governor proposes to address with more than \$17 billion in corrective actions. In particular, the 2008-09 Governor's Budget projects State General Fund revenues and transfers for Fiscal Year 2008-09 of \$102.9 billion, an increase of approximately 2.1 percent above the anticipated revenues and transfers for Fiscal Year 2007-2008, and State General Fund expenditures of \$101.0 billion, a decrease of approximately 2.3 percent below the anticipated expenditures for Fiscal Year 2007-08. With proposed expenditures of \$2.6 billion more than revenues, the 2008-09 Governor's Budget projects ending Fiscal Year 2007-08 with a State General Fund balance of \$1.76 billion, of which \$885 will be reserved for the liquidation of encumbrances and \$872 will be deposited in a reserve for economic uncertainties, and ending Fiscal Year 2008-09 with a State General Fund balance of \$3.67 billion, of which \$885 million will be reserved for the liquidation of encumbrances and \$2.78 billion will be deposited in a reserve for economic uncertainties, provided various budget-balancing proposals are approved.

The Governor's revised economic forecasts for the State reflects weaker economic performance than was previously forecast. State personal income growth (considered the broadest single measure available of the State's overall economic activity) is predicted to slow from 5.6 percent in 2007, to 4.8 percent in 2008, and then increase to 5.2 percent in 2009. Job growth within the State is expected to drop from 0.8 percent for 2007, to 0.7 percent for 2008, and then increase to 1 percent for 2009. New housing permits in the State are expected to be 95,000 in 2008, compared to an average of more than 160,000 annually for the past ten years.

The Governor has declared a fiscal emergency under the State Constitution and called the Legislature into special session to, among other things, consider the Governor's proposals for balancing the State budget, which includes issuing approximately \$3.3 billion in deficit financing bonds, suspending a \$1.5 billion supplementary payment on outstanding deficit financing bonds, accruing in Fiscal Year 2008-09 \$2 billion in tax revenues that are currently reflected as Fiscal Year 2009-10 revenues, reducing K-14 education spending in the current year by \$400 million, suspending the Proposition 98 minimum guarantee in the amount of \$4 billion in Fiscal Year 2008-09, saving approximately \$758 million by Fiscal Year 2009-10 by releasing certain nonviolent prisoners and no longer actively supervising nonviolent offenders on parole, and making 10 percent across-the-board reductions (aggregating to approximately \$5 billion in savings) in most other State programs, excepting only program reductions that are deemed to be in conflict with the State Constitution or impractical.

In addition, the Governor proposes that a constitutional amendment be put before the State's voters, which amendment would provide for a creation of a third State reserve fund to receive revenues from the General Fund of any amount over the average long-term trend of revenue growth rate (which amounts would be transferred back to the General Fund in any year in which revenue growth was below the average) and provide the Governor with the power to make program reductions when he predicts the State to be in a budget deficit. The Governor also seeks legislation that would allow him to make reductions to the services of statutory entitlement programs.

Features of the 2008-09 Governor's Budget include the following:

1. The 2008-09 Governor's Budget proposes to fully fund the Proposition 1A loan repayment for Fiscal Year 2008-09 and the approximately \$1.5 billion Proposition 42 transfer, which is proposed to be allocated as follows: \$82.7 million to the Traffic Congestion Relief Fund, \$594.2 million to the State Transportation Improvement Program, \$297.1 million to the Public Transportation Account and \$594.2 million to cities and counties for local streets and roads maintenance.

2. The 2008-09 Governor's Budget includes the elimination of \$75 million in estimated reimbursement claims but does not subject unreimbursed pre-2004 mandate reimbursements to the proposed 10 percent reductions.

3. The 2008-09 Governor's Budget includes changes to CalWORKs that are expected to result in net savings of \$74 million in 2007-08 and \$389 million in 2008-09, including the increase of economic sanctions for families with adults who do not comply with program requirements and the elimination of the children's safety net grant unless their parent(s) meeting federal work participation requirements.

4. The 2008-09 Governor's Budget provides for the July 2008 CalWORKs COLA in the amount of \$ 131 million but proposes the deletion of the June 2008 State COLA for SSI / SSP recipients, which is expected to result in savings of \$23 million in Fiscal Year 2007-08 and \$271 million in Fiscal Year 2008- 09.

5. The 2008-09 Governor's Budget proposes reducing provider rates for Medi-Cal to generate Fiscal Year 2007-08 State General Fund savings of \$33 million and Fiscal Year 2008-09 savings of \$602 million, which savings would be achieved through a 10 percent provider payment reduction to most fee-for-service providers (generally physicians). The 2008-09 Governor's Budget also proposes to change from a weekly reimbursement schedule to an annual reimbursement schedule for a one-time State General Fund savings of \$165 million.

On January 14, 2008, the Legislative Analyst's Office (the "LAO") released a report entitled "Overview of the Governor's Budget" (the "LAO Proposed Budget Overview"), which provides an analysis by the LAO of the 2008-09 Governor's Budget.

In the LAO Proposed Budget Overview, the LAO states that the 2008-09 Governor's Budget's revenue forecast is generally reasonable (although recent cash trends and continued negative economic reports may cause actual results to be lower than forecasted) and its spending proposals are built upon solid assumptions about caseload and program requirements. However, the LAO states that, in the context of the amount of corrective actions that are proposed, the ongoing revenue-raising proposals set forth in the 2008-09 Governor's Budget are minimal, indicated that the proposed across-the-board reductions may cause many programs to operate in a less than optimal manner thus providing lower quality services to the public, and questioned whether certain proposed accruals comply with generally accepted accounting principles. The LAO recommends that the Legislature, among other things, focus on early decisions that will allow State programs to achieve desired savings in the current year, identify additional revenue solutions, balance the budget proposals set forth in the 2008-09 Governor's Budget against the programmatic impacts from delaying payments to schools and local governments. In addition, the LAO stated that the reforms included in

the 2008-09 Governor's Budget represent a "serious diminution of the Legislature's appropriation authority" and "limit future policy makers' options to craft budgets" and suggests the exploration of other budgetary options.

The Fiscal Year 2008-09 State Budget ("Fiscal Year 2008-09 State Budget") is expected to be subject to significant negotiation and revision prior to its ultimate adoption. There can be no assurances that the final Fiscal Year 2008-09 State Budget will not place additional burdens on local governments, including cities, or will not significantly reduce revenues to such local governments. The Fiscal Year 2008-09 State Budget is subject to approval by the State Legislature, and the City cannot predict the ultimate impact of the final approved Fiscal Year 2008-09 State Budget on the City's financial situation. In the event the final Fiscal Year 2008-09 State Budget includes decreases in City revenues or increases in required City expenditures from the levels assumed by the City, the City will be required to generate additional revenues, curtail programs and/or services, or spend down its reserves to ensure a balanced budget.

On February 20, 2008 the LAO released several documents containing more detailed analyses of the Governor's proposed budget, including a summary entitled "Highlights of the 2008-09 Analysis" (the "2008-09 Analysis"). The 2008-09 Analysis contains an economic forecast that is "somewhat weaker" than that of the administration reflected in the proposed budget. Based on this updated economic forecast, but assuming the revenue-related proposals in the proposed budget, the LAO forecasts that General Fund revenues will be \$1.5 million below the administration's estimate for the current and budget years combined. The 2008-09 Analysis contains the following assessments of the proposed budget:

1. Larger Budget Shortfall. Over the current and budget years, the Governor identified a gap of \$14.5 billion between revenues and expenditures. Due principally to the LAO's lower revenue estimates, it projects the state would face roughly a \$16 billion shortfall, absent corrective actions.

2. Structural Shortfalls Would Return. Even if the legislature adopted the Governor's budget in whole, the state would face multibillion dollar shortfalls in future years. The LAO projects that the state would face about a \$4 billion operating shortfall in 2009-10, shrinking to between \$2 billion and \$3 billion in the two following years.

3. Budget Fails to Set Priorities. The administration's across-the-board budget reductions reflect little effort to prioritize and determine which state programs provide essential services or are most critical to California's future.

4. Revenue Solutions Are Minimal. By focusing almost exclusively on the spending side, the administration's plan unnecessarily limits the range of budget solution options.

The 2008-09 Analysis proposes alternatives to the Governor's proposed budget, including what it characterizes as a more balanced and targeted approach to addressing the State's budget shortfall.

On May 14, 2008, the Governor released his May Revision to the Proposed 2008-09 Budget (the "May 2008 Revision"). On May 19, 2008, the LAO released its Overview of the May 2008

Revision. The following information is adapted from the LAO's Overview of the May 2008 Revision.

The Governor's estimate of the gap between revenues and expenditures identified as \$14.5 billion in January 2008, grew to \$22 billion in the May 2008 Revision due to a projected decline in revenue of \$6 billion and additional expenses of \$1.7 billion. At the special session of the legislature in February 2008, the legislature and the Governor adopted \$7 billion in solutions, leaving a gap of \$15 billion to be addressed. In addition to solutions proposed in the Governor's proposed budget, the May 2008 Revision puts forth \$8 billion in new solutions including an expected \$5.1 billion in additional revenue from the securitization of future State lottery revenues. The remaining solutions include expanding a redirection of public transit funds for general fund purposes, reducing funding for the compensation offer to correctional officers, loans from special funds, and other reductions in spending.

The LAO considers the reduced forecasts for expenditures to be reasonable and the LAO projects that if all of the May 2008 Revision solutions were adopted the reserve would be \$1.5 billion, compared to the Governor's projection of \$2 billion. The \$500 million difference is based on differing assumptions of the Governor and the LAO about expenses and revenues. However, if the lottery securitization proposal is not adopted, the May 2008 Revision proposes a 1% sales tax increase which would not take effect until January 1, 2009. Since the 2008-09 fiscal year would only have six months remaining, the LAO projects \$3 billion in revenue would be raised by the sales tax increase, or \$2 billion less than the anticipated revenue from the lottery securitization proposal, eliminating the projected reserve. Also, if taxes were raised, the Proposition 98 funding obligation would increase as well.

The LAO concludes that balancing the budget will be challenging due to the structural deficits the State faces, and projects that the reserve in the current year, even if the lottery securitization proposal is accepted, would be approximately \$1.5 billion.

As of the date of this Official Statement, the Legislature had not approved the budget for Fiscal Year 2008-09.

There have been certain published reports of legislative considerations to implement revenue shifts under Proposition 1A. Such a shift can have adverse effects on the District's Fiscal Year 2009 budget. See "*Proposition 1A*" below.

Future State Budgets. No prediction can be made by the City as to whether the State will encounter budgetary problems in this or in any future Fiscal Years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations, the outcome or impact of future ballot measures and legislation, or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decrease in such revenues may have an adverse impact on the City's ability to pay Base Rental Payments.

Certain information about the State budgeting process and the State Budget is available through several State of California sources. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

The California State Treasurer's Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget. The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget," includes the text of proposed and adopted State Budgets. The State Legislative Analyst's Office prepares analyses of the proposed and adopted State Budgets. All information from the LAO office is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference.

Proposition 1A. On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Given the magnitude of the State's budgetary deficit, it is possible that the Governor will from time to time proclaim that a shift of additional local property tax revenue, including tax revenue of the City, is needed due to severe financial hardship.

ERAF Shift. Receipt of the City's share of the 1% property tax is subject to State law and can be reduced or eliminated altogether. In Fiscal Year 2005 and 2006 State Budgets shifted a portion of the share of the one percent property tax collected to the Educational Revenue Augmentation Fund ("ERAF"). As a result, in Fiscal Years 2005 and 2006, the share of the City property tax revenues was transferred to ERAF. The ERAF shift expired in Fiscal Year 2007. It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the ad valorem property taxes paid to the City. Given the possible shortfalls that exist in the State's budget, it is possible that the State will again look to shift property taxes away from certain local agencies in an effort to arrive at a balanced budget.

Vehicle License Fees. Vehicle license fees ("VLF") imposed for the operation of vehicles on state highways are collected by the State Department of Motor Vehicles. VLF were historically assessed in the amount of two percent of a vehicle's depreciated market value for the privilege of operating a vehicle on the State's public highways. Beginning in 1999, the VLF paid by vehicle owners was offset (or reduced) to the effective rate of 0.65 percent. In connection with the offset of

the VLF, the State Legislature authorized appropriations from the State General Fund to “backfill” the offset so that local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient State General Fund moneys to fully “backfill” the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be underfunded.

In June 2003, the State Director of Finance ordered the suspension of VLF offsets due to a determination that insufficient State General Fund moneys would be available for this purpose, and, beginning in October 2003, the VLF paid by vehicle owners were restored to the two percent level. However, the offset suspension was rescinded by the Governor on November 17, 2003, and State offset payments to local governments resumed. Local governments received “backfill” payments totaling \$3.80 billion in Fiscal Year 2003. “Backfill” payments totaling \$2.65 billion were paid to local governments in Fiscal Year 2004.

As part of the 2004 Budget Act negotiations, an agreement was reached between the State and local government officials (the “State-local Agreement”) under which the VLF rate was permanently reduced from two percent to 0.65 percent. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change was replaced by an increase in the amount of property tax local governments receive. Under the State-local Agreement, for Fiscal Years 2005 and 2006 only, the replacement property taxes that cities and counties receive were reduced by \$700 million. Commencing in Fiscal Year 2005, local governments began to receive their full share of replacement property taxes, and those replacement property taxes now enjoy constitutional protection against certain transfers by the State due to the approval of Proposition 1A at the November 2004 election. See “RISK FACTORS — State Budget Concerns – Proposition 1A” below. See also Appendix B — “CERTAIN INFORMATION REGARDING THE CITY – Motor Vehicle License Fees.”

Impact of Sales and Use Tax Redirection. Commencing in Fiscal Year 2005, the State started to temporarily redirect local sales and use taxes to the State, including 0.25% that would otherwise be available to the City, to pay debt service on its “economic recovery” bonds. The State will increase local governments’ share of local property tax by a corresponding amount.

However, it should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Base Rental Payments. First, there may be a timing issue associated with the “backfill” of redirected sales and use taxes with property tax revenue: while sales and uses taxes are distributed by the State Board of Equalization on a monthly basis, the County of Stanislaus (the “County”) would only backfill with property taxes on a semi-annual basis. This timing issue would not only impact the City’s cash flow, but would cause the City to lose investment earnings on the sales and uses taxes it otherwise would have received on a monthly basis.

Second, it is possible that the fees charged by the County for property tax administration, which are subtracted from property tax revenue collected by the County before it is allocated to the City, could increase as a result of the various tasks required of the County by the redirection. In addition, the State Board of Equalization administration fee is likely to increase as a percentage of local sales and use tax received by the City unless the State Board of Equalization reduces its fee, which it is unlikely to do because the cost of collecting the sales and use taxes on a per-transaction basis is unlikely to go down.

Third, the redirection of sale and use taxes by the State reflects the vulnerability of local government to the State budget process. If, in the future, the State elects to further reallocate sales and use taxes or property tax revenue, or any other source of revenue used by the City to make Base Rental Payments, such redirecting may adversely impact the City's finances and reduce the amount of revenue available to pay Base Rental Payments.

Constitutional Limitations on Taxes and Expenditures

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

On June 18, 1992, following a number of challenges to the provisions of Article XIII A, the United States Supreme Court upheld the decision in *Nordlinger v. Hahn*, a case involving residential property taxation decided by the State Court of Appeals. The 8 to 1 majority held that the Article XIII A assessment method serves a rational state interest by providing certainty regarding property taxes to homeowners and therefore does not violate provisions of the Equal Protection Clause codified in the 14th Amendment of the U.S. Constitution.

The effect of Article XIII A on the City's finances, then, has been to restrict ad valorem tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy ad valorem taxes in whatever rate or amount may be required to pay debt service on its general obligation bonds. The City cannot predict whether any further challenges to the State's present system of property tax assessment will be made, or what the outcome of impact on any of the City of any such challenge might be.

Article XIII B of the California Constitution. An initiative amendment to the California Constitution (Article XIII B) was approved by the California electorate on November 6, 1979. This amendment establishes limits on certain annual appropriations of state and local government entities. Initially, the limits are based generally on appropriations for the Fiscal Year 1978-79 with future adjustments permitted for changes in the cost of living, population and certain other factors. The definition of appropriations subject to limitation is stated so as to exclude, among other things, (1) appropriations of proceeds received by a government entity from user fees to the extent such proceeds do not exceed the costs reasonably borne by such entity in providing the product or service, (2) the appropriations of any special district "which did not as of the 1977-78 fiscal year levy an ad

valorem tax on property in excess of 12½ cents per \$100 of assessed value”, and (3) “appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or a bonded indebtedness thereafter approved . . .” by vote of the electors of the issuing entity. In addition, the amendment provides that nothing in it “will be construed to impair the ability of the State or any local government to meet its obligations with respect to existing or future bonded indebtedness.”

Articles XIIC and XIID of the California Constitution. An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIIC prohibits local governments from imposing, extending or increasing: (i) any general tax unless and until that tax is submitted to the electorate and approved by a majority vote or (ii) any special tax unless and until that tax is submitted to the electorate and approved by a two thirds vote. In addition, Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments.

Article XIID defines the terms “fee” and “charge” to mean “any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it.

In addition, Article XIID includes a number of limitations applicable to pre-existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on the City’s revenues.

Other Initiative Measures

Articles XIII A, XIII B, XIII C and XIII D were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the City to increase revenues.

Limited Recourse on Default

If an event of default occurs and is continuing under the Lease Agreement, there is no remedy of acceleration with respect to any Base Rental Payments which have not come due and payable in accordance with the Lease Agreement. The City will continue to be liable for Base Rental Payments as they become due and payable in accordance with the Lease Agreement, and the Trustee will be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest.

Bankruptcy

In addition to the limitations on remedies contained in the Indenture and the Lease Agreement, the rights and remedies provided in those documents may be limited by, and are subject to, provisions of federal bankruptcy laws as the same currently exist or may be hereafter amended, as well as other laws and equitable principles that may affect creditors' rights. In the event of the bankruptcy of the City, its obligations under the Lease Agreement could be set aside.

TAX MATTERS

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Indenture and the Lease Agreement and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest with respect to, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax

consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture and the Lease Agreement may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the 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 Sidley Austin LLP with respect to the exclusion from gross income of the interest represented by the Bonds for federal income tax purposes.

Information Reporting and Backup Withholding

Interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Bonds to be subject to backup withholding if such interest is paid to beneficial owners that (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 Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Further, legislation or regulatory actions and proposals may affect the economic value of the federal or state tax exemption or the market value of the Bonds.

Prospective purchasers of the Bonds should consult their tax advisors regarding pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

ABSENCE OF LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority or the City, threatened against the Authority or the City, affecting the existence of the Authority or the City, or the titles of their respective officers to their respective offices or seeking to restrain or enjoin the sale or issuance of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or effecting the validity of the Bonds, the Indenture, the Lease Agreement or the Facility Leases, or any action of the Authority or the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement hereto, or contesting the powers of the Authority or the City or their respective authority with respect to the Bonds, nor to the knowledge of the Authority and the City is there any basis therefor.

INDEPENDENT AUDITORS

The basic financial statements of the City as of June 30, 2007 portions of which are included in Appendix C to this Official Statement, have been audited by Maze & Associates (the "Auditor"), independent certified public accountants, as set forth in their report. The Auditor's consent is not required for the inclusion of the City's financial statements in this Official Statement, and no such consent has been requested or obtained.

RATINGS

Fitch Ratings ("Fitch") and Standard & Poor's Ratings Services ("S&P") have assigned the Bonds the underlying long-term ratings of "A+" and "A", respectively. Fitch and S&P are also expected to assign the Bonds the short term and joint ratings of "AA/F1+" and "AA+/A-1+", respectively, with the understanding that the Bank will deliver the Credit Facility to the Trustee upon issuance of the Bonds. See the caption "CREDIT FACILITY." Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Fitch Ratings, One State Street Plaza, New York, New York 10004 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. The City makes no representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by Banc of America Securities LLC (the "Underwriter"), under a Purchase Contract pursuant to which the Underwriter has agreed to purchase all, but not less than all, of the Bonds for an aggregate purchase price of \$64,971,132.06 (representing the principal amount of the Bonds, less Underwriter's discount of \$198,867.94).

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., San Francisco, California, as financial advisor with respect to the issuance of the Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel. A copy of the proposed form of the opinion of Bond Counsel is attached as Appendix 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 Authority and the City by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel, for the Trustee by Philip K. Jensen, Esq. and for the Bank by Kathleen C. Johnson, Attorney at Law.

VERIFICATION OF MATHEMATICAL ACCURACY

Concurrently with the issuance of the Bonds, Grant Thornton, LLP, will deliver a report with respect to the mathematical accuracy of certain computations, contained in schedules provided to them, which were prepared by the Underwriter, relative to the sufficiency of moneys and securities deposited into the escrow fund established pursuant to the 1998 Escrow Agreement to pay, when due the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the Series 1998 Bonds. Grant Thornton, LLP, will also deliver a report with respect to the mathematical accuracy of certain computations, contained in schedules provided to them, which were prepared by the Underwriter, relative to the sufficiency of moneys and securities deposited into the escrow fund established pursuant to the 2007 Escrow Agreement to pay, when due the principal, whether at maturity or upon prior redemption, and interest requirements of the Series 2007 Bonds. Each report of Grant Thornton, LLP will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the aforesaid computations and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of the report.

CERTAIN RELATIONSHIPS

Banc of America Securities LLC, the Underwriter and Remarketing Agent, and Bank of America, N.A., the Swap Provider and the Credit Facility Provider, are affiliates, both being subsidiaries of Bank of America Corporation.

MISCELLANEOUS

Reference is made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and complete statement of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holder of any Bonds.

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

MODESTO PUBLIC FINANCING AUTHORITY

By: /s/ Wayne Padilla
Auditor and Treasurer

CITY OF MODESTO

By: /s/ Wayne Padilla
Finance Director/Treasurer

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Lease Agreement and the Facility Leases which are not described elsewhere in this Official Statement. These summaries do not purport to be to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions. See “THE BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” for further descriptions of certain terms and provisions of the Bonds. All capitalized terms not defined in this Official Statement have the meanings set forth in the Indenture.

DEFINITIONS

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

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

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

“Additional Payments” means the payments so designated and required to be made by the City pursuant to the Lease Agreement.

“Alternate Credit Facility” means an irrevocable direct-pay letter of credit for the applicable Series of Bonds, issued by a commercial bank or other financial institution providing for draws or claims at least equal to the Required Stated Amount for such Series and delivered to the Trustee in accordance with the Indenture, which replaces the Credit Facility then in effect for such Series.

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

“Alternate Rate” means, on any Rate Determination Date, for any Series of Bonds in a Daily Mode, a Weekly Mode, a Flexible Rate Mode or a Term Rate Mode, a rate per annum equal to (a) the SIFMA Municipal Swap Index (the “SIFMA Rate”) most recently available as of the date of determination, or (b) if such index is no longer available, or if the SIFMA Rate is no longer published, the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or (c) if neither the SIFMA Rate nor the S&P Weekly High Grade Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under

the circumstances to the criteria used by the Securities Industry and Financial Markets Association (“SIFMA”) to determine the SIFMA Rate just prior to when the SIFMA stopped publishing the SIFMA Rate. If there is no Remarketing Agent for a Series of Bonds, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement, then the Trustee will make the determinations required by this definition, or if the Trustee will decline to make such determination, a financial advisor, investment banker or other qualified party will make such determination at the expense of the Authority.

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

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

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

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

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

“Available Amount” means the amount available under the Credit Facility to pay the principal of and interest on the applicable Series of Bonds or the Purchase Price of such Bonds.

“Available Moneys” means (a) with respect to any date on which a payment is due on any Series of Bonds during the term of any Credit Facility or Liquidity Facility with respect thereto (i) moneys which have been paid to the Trustee by the Authority and have been on deposit with the Trustee in a fund or an account under the Indenture for at least 124 days (and not commingled with any moneys so held for less than said period) and investment earnings thereon during and prior to which no Event of Bankruptcy shall have occurred; (ii) moneys drawn under the Credit Facility or Liquidity Facility with respect thereto which at all times since their receipt by the Trustee were held in a separate segregated account or accounts or sub-accounts in which no moneys (other than those drawn under such Credit Facility or Liquidity Facility) were at any time held; and (iii) the proceeds of the sale of refunding obligations if, in the opinion of nationally recognized counsel experienced in bankruptcy matters (which opinion shall be acceptable to each rating agency then providing a rating on any Series of Bonds), the application of such moneys will not constitute a voidable preference in the event of the occurrence of an event of bankruptcy; and (b) with respect to any payment date on any Series of Bonds occurring other than during the term of a Credit Facility or a Liquidity Facility

with respect thereto, any moneys furnished to the Trustee (other than remarketing proceeds) and the proceeds from the investment thereof.

“Base Rental Payments” means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Lease Agreement.

“Basic Bond Rate” means the rate of interest applicable to any Series of Bonds that are not Liquidity Facility Bonds or Credit Facility Bonds.

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

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

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

“Bond Insurer Failure” means: (i) a failure of a Bond Insurer to pay any amount due under a Bond Insurance Policy; (ii) the filing or commencement of any bankruptcy or insolvency proceedings by or against a Bond Insurer, provided such proceeding has not been dismissed within 60 consecutive days; (iii) the declaration by a Bond Insurer of a moratorium on the payment of its unsecured debt obligations; or (iv) the written repudiation by a Bond Insurer of its Bond Insurance Policy.

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

“Bond Purchase Fund” means the fund by that name established pursuant to the Indenture.

“Bonds” means, collectively, the Series 2008 Bonds and any Additional Bonds issued, and at any time Outstanding pursuant to the Indenture.

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

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

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

will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

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

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

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

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

“Credit Facility” means an irrevocable direct-pay letter of credit, issued by a commercial bank or other financial institution with respect to a Series of Bonds providing for draws or claims at least equal to the Required Stated Amount for such Series and delivered to the Trustee in accordance with the Indenture or, in the event of the delivery of an Alternate Credit Facility, such Alternate Credit Facility.

“Credit Facility Account” means an Eligible Account by that name in the Bond Purchase Fund established pursuant to the Indenture and held in the name of the Trustee for the benefit of the Owners of the applicable Series of Bonds.

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

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

“Credit Facility Provider Failure” means (i) a failure of the Credit Facility Provider to pay a properly presented and conforming draw or request for advance under the Credit Facility or (ii) the filing or commencement of any bankruptcy or insolvency proceedings by or against the Credit Facility Provider or (iii) the Credit Facility Provider shall declare a moratorium on the payment of its unsecured debt obligations or shall repudiate the Credit Facility.

“Credit Facility Rate” means the rate per annum, if any, specified in the Credit Facility as applicable to Credit Facility Bonds of any Series.

“Credit Facility Reimbursement Agreement” means the Initial Credit Facility Reimbursement Agreement and any other similar agreement entered into in connection with the issuance of any

Alternate Credit Facility and any and all modifications, alterations, amendments and supplements thereto.

“Current Interest Bonds” means the Series 2008 Bonds and Bonds of any other Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and which pay interest at least semiannually to the Owners thereof excluding the first payment of interest thereon.

“Current Mode” means, at any given time, the Mode then prevailing in accordance with the terms of the Indenture.

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

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

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

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

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

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

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

(3) with respect to Variable Rate Bonds, the interest payments will be calculated at a rate equal to 150% of the highest rate borne by such Bonds in the last 12 months or with respect to the

initial issuance of such Variable Rate Bonds at 150% of the highest rate borne by a comparable issue of bonds as certified to by the Remarketing Agent.

“Delayed Remarketing Period” has the meaning specified in the Indenture.

“DTC” means The Depository Trust Company, New York, New York, and its successors or assigns.

“Escrow Agent” means the Bank of New York Mellon Trust Company, N.A.

“Escrow Agreements” means the Series 1998 Escrow Agreement and the Series 2007 Escrow Agreement.

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

“Eligible Account” means an account that is either (i) maintained with a federal or state-chartered depository institution or trust company that has a Standard & Poor’s short-term debt rating of at least “A-2” (or, if no short-term debt rating, a long-term debt rating of “BBB+”); or (ii) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

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

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

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

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

“Facilities Leases” has the meaning set forth in the Lease Agreement.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the Authority, the Trustee, the Remarketing Agent, if any, the Credit Facility Provider, if any, and the Liquidity Facility Provider, if any, to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of California and the Indenture and will not result in the loss of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

“Federal Securities” means (i) United States of America Treasury bills, notes, bonds or certificates of indebtedness; or (ii) obligations for which the full faith and credit of the United States

is pledged for the payment of principal and interest; or (iii) securities evidencing direct ownership interests in securities enumerated in clauses (i) or (ii) of this definition or in specified portions of the interest on or principal of such securities that are held by a custodian in safekeeping on behalf of the owners of such securities and which interests have been stripped by the U.S. Treasury itself; or (iv) tax-exempt obligations of a state or a political subdivision thereof that have been defeased under irrevocable escrow instructions with securities enumerated in clause (i) or (ii) of this definition and that are rated in the highest rating category by any one of the Rating Agencies.

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

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

“Fixed Rate” means the per annum interest rate or interest rates evidenced by Fixed Rate Bonds determined pursuant to the Indenture.

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

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

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

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

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

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

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

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

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

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

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

“Initial Credit Facility” means the irrevocable direct-pay letter of credit securing payment of the Bonds that is issued by Bank of America, N.A., to the Trustee pursuant to the Initial Credit Facility Reimbursement Agreement.

“Initial Credit Facility Provider” means Bank of America, N.A., as the Credit Facility Provider for the Series 2008 Bonds.

“Initial Credit Facility Reimbursement Agreement” means the Reimbursement, dated as of August 1, 2008, among the Initial Credit Facility Provider, the Authority and the City, as originally executed or as it may from time to time be supplemented or amended.

“Insurance and Condemnation Fund” means the fund by that name in the Revenue Fund established pursuant to the Indenture.

“Insured Bonds” means any Series of Bonds identified as Insured Bonds pursuant to a Supplemental Indenture and insured by a Bond Insurance Policy.

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

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

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

Liquidity Agreement; and (vi) with respect to any Credit Facility Bonds, the day set forth in the applicable Credit Facility Reimbursement Agreement.

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

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

“Lease Agreement” means that certain lease entitled “Lease Agreement” by and between the Authority and the City, dated as of August 1, 2008, which lease or a memorandum thereof was recorded in the office of the County Recorder of the County of Stanislaus, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions in the Indenture.

“Lease Default Event” means any Event of Default occurring under the Lease Agreement.

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

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

“Liquidity Facility” means a standby bond purchase agreement or similar liquidity facility for a particular Series of Bonds issued by a commercial bank or other financial institution or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

“Liquidity Facility Account” means an Eligible Account by that name in the Bond Purchase Fund established pursuant to the Indenture and held in the name of the Trustee for the benefit of the Owners of the applicable Series of Bonds.

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

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

“Liquidity Facility Provider Failure” means (i) a failure of the Liquidity Facility Provider to pay a properly presented and conforming draw or request for advance under the Liquidity Facility or (ii) the filing or commencement of any bankruptcy or insolvency proceedings by or against the Liquidity Facility Provider or (iii) the Liquidity Facility Provider shall declare a moratorium on the payment of its unsecured debt obligations or shall repudiate the Liquidity Facility.

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

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

“Mandatory Credit Tender” means the mandatory tender of a Series of Bonds pursuant to the Indenture upon receipt by the Trustee of written notice from (i) the Credit Facility Provider that an event of default with respect to the Credit Facility Reimbursement Agreement has occurred and directing the Trustee to call the Bonds of the applicable Series for mandatory tender.

“Mandatory Purchase Date” means: (i) with respect to a Flexible Rate Bond, the first Business Day following the last day of each Flexible Rate Period with respect to such Flexible Rate Bond; (ii) for any Series of Bonds in a Term Rate Mode, the first Business Day following the last day of each Term Rate Period for such Bonds; (iii) any Mode Change Date; (iv) any Substitution Date; (v) the fifth (5th) Business Day prior to an Expiration Date upon failure by the Trustee to receive an extension of the Credit Facility by the thirtieth (30th) day prior to the Expiration Date; (vi) the date specified by the Trustee following the occurrence of an event of default with respect to a Liquidity Facility which requires or gives the Liquidity Facility Provider the option to terminate the Liquidity Facility upon notice and requires that all Outstanding Bonds secured by such Liquidity Facility be tendered for purchase under the applicable Liquidity Agreement, which date will be a Business Day not less than twenty (20) days after the Trustee’s receipt of notice of such event of default from the applicable Liquidity Facility Provider and in no event later than the Business Day preceding the termination date specified in the notice of event of default delivered to the Trustee by such Liquidity Facility Provider; and (vii) for a Series of Bonds in a Daily Mode or a Weekly Mode, any Business Day specified by the Authority in a notice delivered to the Trustee, which Mandatory Purchase Date will be not less than twenty (20) days after the Trustee’s receipt of such notice from the Authority; and (viii) any date specified for a Mandatory Credit Tender.

“Maturity Date” means the final date upon which principal is due on a Series of Bonds, which is September 1, 2033 with respect to the Series 2008 Bonds.

“Maximum Annual Base Rental Payment” means the maximum annual payment which the City may be obligated to make with respect to the Base Rental Payments for the 2008 Project, as provided in the Lease Agreement, or for any Subsequent Project, as provided and determined in a supplement to the Lease Agreement.

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

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

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

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

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

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

“New Mode” means the Mode in effect after a change in the Mode then prevailing, in accordance with the terms of the Indenture.

“Noticed Termination Date” means the date on which a Liquidity Facility Provider’s obligation to advance funds or purchase Bonds of the applicable Series under a Liquidity Facility terminates as stated in the Liquidity Facility Providers notice of termination delivered pursuant to the Liquidity Facility due to a default under specified sections of the Liquidity Facility, which date of termination will be not less than twenty (20) days (or such longer period as is specified in the Liquidity Facility) after the date of receipt by the Trustee of such notice.

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

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

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

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

“Permitted Encumbrances” means (1) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Lease Agreement, permit to remain unpaid; (2) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Lease Agreement in the office of the County Recorder of the County of Stanislaus and which the City certifies in writing will not materially impair the use of the Leased Property; (3) the Indenture, as it may be amended from time to time; (4) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (5) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions

to which the Authority and the City consent in writing and certify to the Trustee will not materially impair the ownership interests of the Authority or use of the Leased Property by the City; and (6) subleases and assignments of the City which will not adversely affect the exclusion from gross income of interest on the Bonds.

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

- (1) Federal Securities;
- (2) Obligations, participations, or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Government National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal);
- (3) Bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee or any of its affiliates), otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System and which are drawn on any bank the short-term obligations of which are rated in the highest letter and numerical rating category as provided by Moody’s and by S&P; provided, that purchases of eligible bankers acceptances may not exceed 270 days’ maturity;
- (4) Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating category as provided by Moody’s and by S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of \$500,000,000 and that have an “A1” or higher rating for the issuer’s unsecured debentures, other than commercial paper, as provided by Moody’s and by S&P; provided, that purchases of eligible commercial paper may not exceed 180 days’ maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;
- (5) Non-negotiable certificates of deposit issued by a state or national bank (including the Trustee or any of its affiliates) that have maturities of not more than 365 days or deposit accounts with a state or national bank and that are fully insured by the Federal Deposit Insurance Corporation or the short term obligations of which state or national bank are rated no lower than “A1” by Moody’s and “A+” by S&P;
- (6) Any repurchase agreement of any securities enumerated in subdivisions (1) and (2) with any state or national bank (including the Trustee or any of its affiliates) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is either (A) with any institution which has debt rated no lower than “A1” by Moody’s and “A+” by S&P or whose commercial paper is rated no lower than “P 1” by Moody’s and no lower than “A 1” by S&P; (B) with any corporation or other entity that falls under the jurisdiction of the Federal Bankruptcy Code; provided, that (a) the term of such repurchase agreement is less than one (1) year or due on demand; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the market value of the collateral (as determined at least once in every 14 days) exceeds the principal amount of the repurchase agreement plus accrued interest and the market value of the collateral is maintained at levels acceptable to Moody’s and to S&P; (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately; and (e) the repurchase agreement securities are free and clear of any third-party lien or claim; or (C) with financial institutions insured by the Federal Deposit

Insurance Corporation or any broker-dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation; provided, that: (a) the market value of the collateral (as determined at least once in every 14 days) exceeds the principal amount of the repurchase agreement plus accrued interest and the market value of the collateral is maintained at levels acceptable to Moody’s and to S&P; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the Trustee has a perfected first priority security interest in the collateral; (d) the collateral is free and clear of third-party liens and in the case of a Securities Investors Protection Corporation broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement; and (e) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral immediately;

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

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

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

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

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

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

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

“Principal Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

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

“Prior Bonds” means the Series 1998 Bonds and the Series 2007 Bonds.

“Project” means the Series 2008 Project and any Subsequent Project.

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

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

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

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

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

“Rate Determination Date” means any date on which the interest rate with respect to a Series of Bonds will be determined, which: (i) in the case of a Flexible Mode, will be the first day of an Interest Period; (ii) in the case of a Daily Mode, will be each Business Day commencing with the first day (which must be a Business Day) a Series of Bonds become subject to the Daily Mode; (iii) in the case of the initial conversion to a Weekly Mode, will be no later than the Business Day prior to the Mode Change Date for a Series of Bonds, and thereafter, will be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next succeeding such Wednesday; (iv) in the case of a Term Rate Mode, will be a Business Day no earlier than fifteen (15) Business Days and no later than the Business Day next preceding the first day of an Interest Period for such Series of Bonds, as determined by the Remarketing Agent; and (v) in the case of a Fixed Rate Mode, will be a date determined by the Remarketing Agent which will be at least one (1) Business Day prior to the Mode Change Date.

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

“Rating Confirmation Notice” means a written notice from the Rating Agencies then rating a Series of Bonds, confirming that the rating on such Bonds (without giving effect to any Liquidity Facility) will not be lowered or withdrawn (other than a withdrawal of a short-term rating upon a change to a Fixed Rate Mode) as a result of the action proposed to be taken.

“Rebate Fund” means the Rebate Fund established pursuant to the Indenture.

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

“Redemption Date” means the date fixed for redemption of any Series of Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Indenture.

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

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

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

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

“Remarketing Agent” means, with respect to any Series of Bonds, any Remarketing Agent or successor or additional Remarketing Agent appointed in accordance with the Indenture with respect to such Series of Bonds. “Principal Office” of the Remarketing Agent means the address for the Remarketing Agent designated in writing to the Trustee and the Authority.

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

“Remarketing Proceeds Account” means an Eligible Account by that name within the Bond Purchase Fund established pursuant to the Indenture and held in the name of the Trustee for the benefit of the Owners.

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

“Reserve Facility” means, with respect to any Series of Bonds, (i) a surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, of such Series, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds of such Series if such entity will be rated in the highest rating categories issued by Moody’s and by S&P, or (ii) a letter of credit issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the United States, which has outstanding an issue of unsecured

long term debt securities rated at least equal to the second highest rating category by Moody's and S&P, or any combination thereof, deposited with the Trustee by the Authority to satisfy the Reserve Fund Requirement.

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

"Reserve Facility Provider" means the provider of a Reserve Facility.

"Reserve Fund" means the fund of that name established pursuant to the Indenture.

"Reserve Fund Requirement" means with respect to all Outstanding Bonds an amount equal to the lesser of (i) the maximum annual Debt Service attributable to the Outstanding Bonds and (ii) 125% of average annual Debt Service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of an Additional Series of Bonds the amount calculated will be the least of (i) or (ii) above, or the amount derived by the addition of 10% of the proceeds from the sale of such Series of Additional Bonds to the Reserve Fund and provided further that the Reserve Fund Requirement will be reduced to the extent necessary so that all amounts therein may be deposited from Bond proceeds without requiring a portion thereof to be yield restricted in accordance with requirements of the Code. For purposes of determining the Reserve Fund Requirement, unless otherwise specified in a Supplemental Indenture, the fixed interest rate assumed for Variable Rate Bonds will be The Bond Buyer Revenue Bond Index published the week preceding the sale of such Variable Rate Bonds, as certified by the Authority. For purposes of determining the Reserve Fund Requirement, the fixed interest rate assumed for Series 2008 Bonds shall be the fixed swap rate under the Series 2008 Interest Rate Swap Agreement.

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

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

"Securities Depository" means DTC or another recognized securities depository selected by the Authority as set forth in the Indenture which maintains a book-entry system for the Bonds.

"Serial Bonds" means the Bonds of any Series, maturing in specified years, for which no mandatory Sinking Fund Installments are provided.

"Series" when used with respect to the Bonds, means all the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter

authenticated and delivered upon a transfer or exchange or in lieu of or substitution for such Bonds as provided in the Indenture.

“Series 1998 Bonds” means the Modesto Public Financing Authority Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project).

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

“Series 2008 Bonds” means the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008.

“Series 2008 Interest Rate Swap Agreement” means, collectively, the ISDA Master Agreement (Local Currency–Single Jurisdiction 1992), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex, and a confirmation each dated August 22, 2008, between Bank of America, N.A., as a Qualified Counterparty, and the Authority.

“Series 2008 Project” means the refunding of all of the 1998 Bonds and the 2007 Bonds and payment of any costs associated with financing of said project, as the same may be amended from time to time.

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

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

“State” means the State of California.

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

“Substitution Date” means date on which Alternate Credit Facility or Alternate Liquidity Facility is substituted for the Credit Facility or Liquidity Facility then in effect.

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

“Swap” means an interest rate swap, including the Series 2008 Interest Rate Swap Agreement, cap, floor, collar or other hedging transaction which is entered into by the Authority for the purpose of managing interest rate risk with respect to specified Bonds which are being issued concurrently with the execution of the Swap, which are proposed to be issued in connection with such Swap, or which are Outstanding at the time of execution of such Swap.

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

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

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

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

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

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

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

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

“Term Rate” means the per annum interest rate for any Series of Bonds in the Term Rate Mode determined pursuant to the Indenture.

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

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

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

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

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

“Weekly Rate” means the per annum interest rate with respect to a Series of Bonds in the Weekly Mode determined pursuant to the Indenture.

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

“2008 Project” means the refunding of all of the Prior Bonds, all to be financed with proceeds of the Series 2008 Bonds.

THE INDENTURE

Pledge and Assignment

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, there are pledged all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture (other than the Bond Purchase Fund and the Rebate Fund) to (1) secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions thereof and of the Indenture, and (2) secure the payment of any Related Obligations. Said pledge will constitute a first lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers, all of the Revenues and other assets pledged in the Indenture and all of the rights of the Authority under the Lease Agreement to receive and collect Base Rental Payments and other amounts (except for (1) the right to receive any Additional Payments to the extent payable to the Authority and (2) any rights of the Authority to indemnification), and the right to enforce, whether by action at law or in equity or by other means, all provisions, covenants and agreements of the Lease Agreement with respect to the payment of Base Rental Payments. The Trustee will be entitled to and will collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. The Trustee also will be entitled to and will take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the City under the Lease Agreement.

The Authority will notify the Trustee of the execution of any Related Obligations. With respect to the Series 2008 Bonds, the Authority is executing a Series 2008 Interest Rate Swap Agreement. The Swap Revenues will be deposited in the Revenue Fund and Regular Swap Payments will be paid from the Interest Account. Any Extraordinary Swap Payments owed to the Swap Provider will be paid from the applicable subaccount of the Provider Payment Account on a subordinate basis to any amounts then due and owing on the Bonds payable under the Indenture or to the Credit Facility Provider under the Credit Facility Reimbursement Agreement.

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

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

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

Allocation of Revenues

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

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

SECOND: to the Principal Account, on or before each September 1 commencing September 1, 2009 the amount of the principal payment or Sinking Fund Installment becoming due and payable on such September 1 (or the succeeding Interest Payment Date if September 1 is not an Interest Payment Date), until the balance in said account is equal to said amount of such principal or Sinking Fund Installment; and

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

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

Application of Interest Account

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

Application of Principal Account

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

Reserve Fund

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

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

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

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

If the Authority causes a cash-funded Reserve Fund to be replaced with a Reserve Facility, amounts on deposit in the Reserve Fund will, upon Written Request of the Authority to the Trustee, be transferred to the City and applied for any lawful purpose, subject, in the case where such moneys are proceeds of Bonds, to the receipt by the Authority of an Opinion of Counsel that such transfer

will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation.

Notwithstanding anything to the contrary contained in the Indenture, at any time one or more Reserve Facilities are on deposit in the Reserve Fund, the Trustee will withdraw and use all cash, if any, on deposit in the Reserve Fund prior to using and withdrawing any amounts derived from payments under any Reserve Facilities. Amounts received by the Trustee from the Authority as a replenishment of amounts withdrawn from the Reserve Fund will be applied (i) first to reimburse draws on any Reserve Facilities and (ii) to replenish cash withdrawn from the Reserve Fund.

Application of Insurance Proceeds

In the event of any damage to or destruction of any part of the Leased Property covered by insurance, the Authority will cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee will hold said proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds designated the Insurance and Condemnation Fund, to the end that such proceeds will be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Authority will file a Certificate with the Trustee that sufficient funds from insurance proceeds or from any funds legally available to the Authority, or from any combination thereof, are available in the event it elects to repair reconstruct or replace the Leased Property. The Trustee will invest said proceeds in Permitted Investments pursuant to the Request of the Authority, as agent for the Authority under the Lease Agreement, and withdrawals of said proceeds will be made from time to time upon the filing with the Trustee of a Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein stated for the purpose of the repair, reconstruction or replacement of the Leased Property, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of such proceeds not required for such repair reconstruction or replacement and the proceeds of use and occupancy insurance will be paid to the Trustee as Base Rental Payments and applied in the manner provided by the Indenture. Alternatively, the Authority, if the proceeds of such insurance together with any other moneys then available for such purpose are sufficient to prepay all, in case of damage or destruction in whole of the Leased Property, or that portion, in the case of partial damage or destruction of the Leased Property, of the Base Rental Payments and all other amounts relating to the damaged or destroyed portion of the Leased Property, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon will cause said proceeds to be deposited in the Special Redemption Account and used for the redemption of Outstanding Bonds pursuant to the applicable provisions of the Indenture. The Authority will not apply the proceeds of insurance as set forth in the Indenture to redeem the Bonds in part due to damage or destruction of a portion of the Leased Property unless the Base Rental Payments on the undamaged portion of the Leased Property will be sufficient to pay the scheduled principal and interest on the Bonds remaining unpaid after such redemption.

Application of Redemption Fund

(A) The Trustee will establish maintain and hold in trust a fund separate from any other fund established and maintained under the Indenture designated as the Redemption Fund and within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption

Account. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account will be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in Article IV of the Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account respectively; provided that, at any time prior to giving such notice of redemption, the Trustee will, upon direction of the Authority, apply such amounts to the purchase of Bonds pursuant to the Indenture; and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Base Rental Payments in order of their due date as set forth in a Request of the Authority.

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

Rebate Fund

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

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

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

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

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

(F) Notwithstanding any other provision of the Indenture, including in particular the provisions relating to defeasance, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of the Indenture and the Tax Certificate will survive the defeasance or payment in full of the Bonds.

Investment of Moneys

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

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

Application of Provider Payment Account

The Trustee will establish a sub-account for each Provider within the Provider Payment Account. All amounts in the Provider Payment Account will be used and withdrawn by the Trustee solely for the purpose of paying any amounts owed to Providers, including Extraordinary Swap Payments, when due. To the extent amounts deposited therein are insufficient to pay all amounts owed to Providers, such amounts will be applied on a pro rate basis to the payment of amounts owed to Providers. Payments of fees and termination payments for any Swap are subordinate to payments to a Credit Facility Provider.

Payments from Credit Facility

Notwithstanding anything to the contrary in the Indenture, so long as any Series of Bonds are secured by a Credit Facility, the Trustee will pay the following from draws made under such Credit Facility, as and to the extent provided in such Credit Facility:

- (1) the principal of such Bonds due upon the maturity thereof;
- (2) the interest on such Bonds;
- (3) the Mandatory Sinking Account Payments for such Bonds pursuant to the Indenture, in the case of the Series 2008 Bonds or the applicable Supplemental Indenture, in the case of Additional Bonds secured by a Credit Facility;
- (4) the Redemption Price and any accrued interest due on such Bonds upon the optional redemption thereof;
- (5) the principal and interest due upon the acceleration of such Bonds pursuant to the Indenture, in the case of the Series 2008 Bonds or Supplemental Indenture, in the case of Additional Bonds secured by a Credit Facility;

provided, however, that if the Trustee has not received sufficient funds for making payments due under clauses (1), (2), (3), (4) and (5) from the Credit Facility Provider by 3:00 p.m., New York City time, due to default, repudiation or dishonor by the Credit Facility Provider, the Trustee will notify the City by Electronic Means of such deficiency no later than 4:00 p.m., New York City time, and will compensate for such deficiency by immediately transferring any necessary amounts from the Revenue Fund to the Interest Account and to the Principal Account, as appropriate, to make such payments as provided in the Indenture. The Trustee will make draws under the Credit Facility in accordance with its terms and in sufficient time so that proceeds from the Credit Facility will be available to make such payment on such Bonds on a timely basis. The Trustee will deposit in the appropriate subaccount of the Credit Facility Account all proceeds of draws made under the Credit Facility and will make payments on the applicable Series of Bonds from the appropriate subaccount of the Credit Facility Account to the extent described in the Indenture. The Trustee will immediately reimburse the Credit Facility Provider from moneys in the Principal Fund and Interest Fund, as applicable, or from moneys in the Reserve Fund as required.

In no event will the Trustee draw on a Credit Facility with respect to any payments made in connection with Bonds not secured by a Credit Facility or Bonds owned by the City.

Particular Covenants

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

Extension of Payment of Bonds. Except as set forth in the Indenture, the Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest will be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which will not have been so extended. Nothing in the Indenture will be deemed to limit the

right of the Authority to issue obligations for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of Bonds.

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

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

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

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

The Authority will not use or permit the use of any proceeds of the Series 2008 Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, which would cause any of the Series 2008 Bonds to be an arbitrage bond within the meaning of Section 148 of the Code private activity bond within the meaning of Section 141(a) of the Code, or federally guaranteed within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. The

Authority will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority will comply with all requirements of Section 148 and 149(b) of the Code to the extent applicable to the Series 2008 Bonds. In the event that at any time the Authority is of the opinion that for purposes of the Indenture, it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority will so instruct the Trustee under the Indenture in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

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

The Authority will not use or permit the use of any proceeds of the Series 2008 Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any of the Series 2008 Bonds to be treated as an obligation not described in Section 103(a) of the Code.

Notwithstanding any provisions of the Indenture, if the Authority will provide to the Trustee an Opinion of Counsel that any specified action required under the Indenture or the Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2008 Bonds the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of the Indenture, and, notwithstanding the provisions of the Indenture, the covenants under the Indenture will be deemed to be modified to that extent.

The Authority covenants that, in the event of any change in the Indenture or other relevant documents relating to the Series 2008 Bonds, or any other actions taken or omitted by the Authority, upon the advice or with the approving Opinion of Counsel other than Sidley Austin LLP, Bond Counsel in connection with the original execution and delivery of the Series 2008 Bonds, the Authority will, upon the making of any such change, or the taking or omission of any such other action, cause to be delivered an Opinion of Counsel nationally recognized in the area of municipal bonds to the effect that the interest on the Series 2008 Bonds is excluded from gross income for federal income tax purposes.

Amendments to Lease Agreement. The Authority will not supplement, amend, modify or terminate any of the terms of the Lease Agreement, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee, the Bond Insurer, if any, and the Credit Facility Provider, if any. The Trustee will give such written consent (a) if such supplement, amendment, modification or termination will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security given for the payment of the Bonds (provided that such supplement amendment or modification will not be deemed to have such adverse effect or to cause such material impairment solely by reason of substitution of real property pursuant to the Lease Agreement), (b) to accommodate the issuance of Additional Bonds pursuant to a Supplemental Indenture, (c) to add to the agreements, conditions, covenants and terms required to be observed or performed thereunder by any party thereto, or to surrender any right or power therein reserved to the Authority or the City, (d) to cure, correct or supplement any ambiguous or defective provision contained therein, which action does not materially adversely affect the interests of the Bondholders, (e) to accommodate any removal or substitution of the Leased Property in accordance with the Lease Agreement, (f) to modify the legal description of the Leased Property to conform to

the requirements of title insurance or otherwise to add or delete property descriptions to reflect accurately the description of the parcels intended or preferred to be included therein, or (g) the Trustee first obtains the written consent of the Bondholders of a majority in principal amount and Accreted Value, as the case may be, of the Bonds then Outstanding to such settlement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination will reduce the amount of Base Rental Payments to be made to the Authority or the Trustee by the City pursuant to the Lease Agreement, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by the Indenture on the Base Rental Payments (except as expressly provided in the Lease Agreement), in each case without the written consent of all of the Bondholders of the Bonds then Outstanding, the Bond Insurer, if any, and the Credit Facility Provider, if any.

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

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

Without allowance for any days of grace which may or might exist or be allowed by law or granted pursuant to any terms or conditions of the Lease Agreement, the Authority will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions covenants, conditions and agreements of the Lease Agreement to be kept, performed and complied with by it. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for declaring a forfeiture of the Lease Agreement, or would or might be a ground for cancellation or termination of the Lease Agreement by the lessee thereunder. The Authority will promptly deposit with the Trustee (to be held by the Trustee until the title and rights of the Trustee under the Indenture will be released or reconvened) any and all documentary evidence received by it showing compliance with the provisions of the Lease Agreement to be performed by the Authority. The Authority, immediately upon its receiving or giving any notice, communication or other document in any way relating to or affecting the Lease Agreement, or the leasehold estate thereby created, which may or can in any manner affect the estate of the lessor or of the Authority in or under the Lease Agreement, will deliver the same, or a copy thereof, to the Trustee.

The Trustee will promptly collect all amounts due from the City pursuant to the Lease Agreement, will perform all duties imposed upon it pursuant to the Lease Agreement and will

diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of, all of the rights of the Authority and all of the obligations of the City.

Waiver of Laws. The Authority 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 Authority to the extent permitted by law.

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

Events of Default

The following events will 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 will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor;

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

(C) default in any material respect by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default will have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Authority and the City by the Trustee, or to the Authority, the City and the Trustee by any applicable Bond Insurer or the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the applicable series of Bonds at the time Outstanding; or

(D) an Event of Default occurring under the Lease Agreement; or

(E) the Trustee will receive notice from the Credit Facility Provider that an Event of Default has occurred under the Credit Facility Reimbursement Agreement and such notice will be accompanied by a Tender Notice as required under the Credit Facility Reimbursement Agreement.

Upon actual knowledge of the existence of any Event of Default, the Trustee will notify the Authority, the City, and the Bond Insurer, if any, and the Credit Facility Provider, if any, in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any event of default that is a Lease Default Event if the City has expressly acknowledged the existence of such Lease Default Event in a writing delivered to the Trustee, the Bond Insurer, if any, and the Credit Facility Provider, if any, and the Authority. Additionally, the Trustee will immediately notify the applicable Bond Insurer, if any, and the Credit Facility Provider, if any, if at any time there are insufficient moneys to make any payments of principal of and/or interest on the Insured Bonds

insured by such Bond Insurer, if any, and the Credit Facility Provider, if any, and immediately upon the occurrence of any Event of Default under the Indenture and will provide such additional information as such Bond Insurer, if any, and the Credit Facility Provider, if any, will reasonably request.

Acceleration of Maturities

Whenever any Event of Default referred to in the Indenture will have happened and be continuing, the Trustee may take the following remedial steps:

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

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

(C) In the case of an Event of Default described in the Indenture, the Trustee may take whatever action the Authority would be entitled to take, and will take whatever action the Authority would be required to take, pursuant to the Lease Agreement in order to remedy the Lease Default Event.

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

Application of Revenues and Other Funds After Default

If an Event of Default will occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to the provisions of the Indenture relating to disqualified bonds and other than moneys required to be deposited in the Rebate Fund or the Bond Purchase Fund) will be applied by the Trustee as follows and in the following order:

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

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

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

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

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

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

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

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

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

Trustee to Represent Bondholders

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

Bondholders' Direction of Proceedings

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

Limitation on Bondholders' Right to Sue

(A) No Holder of any Bond will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Lease Agreement, the Act or any other applicable law with respect to such Bond, unless (1) such Holder will have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee will follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in

excess of twenty-five percent (25%); (3) such Holder or said Holders will have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee will have refused or omitted to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee.

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

Absolute Obligation of Authority

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

Termination of Proceedings

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

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Holders of the Bonds or to any Provider is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will 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 Holder of the Bonds or of any Provider to exercise any right or power arising upon the occurrence of any default will impair any such right or power or will be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient. No Event of Default requiring a draw on a Credit Facility or Liquidity Facility may be waived unless the Trustee has received written notice that the applicable Credit Facility or Liquidity Facility is reinstated to the Required Stated Amount and in the case of an Event of Default described herein in Section (E) in the Section entitled "Events of Default," the Trustee has received a written rescission of the Tender Notice from the Credit Facility Provider.

Control of Remedies by Bond Insurer, if any, and the Credit Facility Provider, if any, or Liquidity Facility Provider

Provided that the Bond Insurance Policy or the Liquidity Facility remain in effect, notwithstanding anything in the Indenture to the contrary, the Bond Insurer, if any, and the Credit Facility Provider, if any, will have the right to direct all remedies upon the occurrence of an Event of Default. If the Bond Insurance Policy is no longer in effect or a default has occurred with respect to the Bond Insurance Policy, the Liquidity Facility Provider will have the right to direct all remedies upon the occurrence of an Event of Default.

Trustee

Duties, Immunities and Liabilities of Trustee.

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

(B) The Authority may, upon written request of the City will, remove the Trustee at any time unless an Event of Default will have occurred and then be continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with (E) of this Section, 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.

(C) The Trustee may at any time resign by giving written notice of such resignation to the Authority, the Bond Insurer, if any, and the Credit Facility Provider, if any, the Liquidity Facility

Provider (if any), the City and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation the Authority will promptly appoint a successor Trustee by an instrument in writing. The Trustee will not be relieved of its duties until such successor Trustee has accepted appointment.

(D) Any removal or resignation of the Trustee and appointment of a successor Trustee will only become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of such Bondholder and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering an instrument in writing to the Authority, the Notice Parties, and to its predecessor Trustee. 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 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, Credit Facility, Liquidity Facility or other property subject to the trusts and conditions set forth in the Indenture. Upon the request of the successor Trustee, the Authority 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 the acceptance of appointment by a successor Trustee as provided in the Indenture, the Authority will mail, or cause to be mailed, a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Authority.

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

(F) In the event that the Trustee breaches its obligations under the Indenture or under any other financing document in connection with the issuance of the Bonds, at the request of the Bond Insurer, if any, and the Credit Facility Provider, if any, the Authority will remove and replace the Trustee in accordance with the terms of the foregoing clause (B).

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 will 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 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.

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

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

(C) 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 Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

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

(E) Except with respect to Events of Default specified (A) and (B) of the Section herein, entitled "Events of Default," the Trustee will not be deemed to have knowledge of any Event of Default unless and until an officer at the Principal Office responsible for the administration of its duties under the Indenture will have actual knowledge thereof or the Trustee will have received written notice thereof at the Principal Office. The Trustee will not be bound to ascertain or inquire as

to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Trustee will not be responsible for the validity or effectiveness of any collateral given to or held by it.

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

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

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

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

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

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee and of any Swap Provider may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into when, the City will have filed with the Trustee the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding and the written consent of the Credit Facility Provider, if any. No such modification or amendment will (1) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the

redemption thereof or change the Purchase Price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds or the Swap Provider of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding and the Swap Provider. It 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 by the Authority and the Trustee of any Supplemental Indenture pursuant to this paragraph, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

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

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

(2) to make such provisions for the purpose of curing any ambiguity inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable;

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

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

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

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

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

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

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

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

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

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Holders of Bonds Outstanding will thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance

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

(A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds then Outstanding and (i) the Bonds are in Fixed Rate Mode at the time moneys or Federal Securities are deposited, (ii) the deposit of Available Moneys and Federal Securities purchased with Available Moneys is sufficient to pay the Bonds at the Maximum Rate to the earlier of the first possible mandatory tender or redemption date, or (iii) the City will have received a Rating Confirmation

Notice from each Rating Agency then rating such Bonds on any Bonds that will remain Outstanding following such redemption, or

(C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority will also pay or cause to be paid all other sums payable under the Indenture by the Authority and under any Related Obligations and all Swaps have been terminated and are no longer outstanding, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided in the Indenture) will cease, terminate become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee will cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and will execute and deliver to the Authority all such instruments as may be necessary 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 are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund will be subject to the provisions of the Indenture.

In connection with any defeasance of any of the Bonds pursuant to this Article of the Indenture, the Bond Insurer, if any, and the Credit Facility Provider, if any will receive (i) a Favorable Opinion of Bond Counsel and (ii) an escrow agreement and an Opinion of Counsel regarding the validity and enforceability of the escrow agreement, such escrow agreement will provide that: (1) any substitution of securities will require a verification by an independent certified public accountant and the prior written consent of the Bond Insurer, if any, and the Credit Facility Provider, if any; (2) the Authority will not exercise any optional redemption of the Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (a) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding obligations, and (b) as a condition of any such redemption there will be provided to the Bond Insurer, if any, and the Credit Facility Provider, if any a verification of an independent certified public accountant as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption; and (3) the Authority will not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Bond Insurer, if any, and the Credit Facility Provider, if any.

Notice of discharge of the Indenture under the related provisions of the Indenture will be provided to the Rating Agencies by the Trustee.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond) and pay any amounts due and payable on any Swaps then Outstanding, provided that, if such Bond is to be redeemed prior to maturity (a) notice of such redemption will have been given as in the Indenture provided or provision satisfactory to the Trustee will have been made for the giving of such notice, and (b) the Trustee, the Bond Insurer, if any, and the Credit Facility Provider, if any, the

Swap Provider and the Authority will have received (i) verification report prepared by independent certified public accountants, or other verification agent (which may be the Remarketing Agent) satisfactory to the Trustee and the Authority, to the effect that the payment of the principal of and premium, if any, and interest on such Bonds then Outstanding and any and all other amounts required to be paid under the provisions of this Bond Indenture has been provided for in the manner set forth in this Bond Indenture and the Swap Agreement, and (ii) an Opinion of Bond Counsel addressed and delivered to the Trustee and the Authority to the effect that so providing for the payment of such Bond will not adversely affect the exclusion of the interest on such Bond from gross income for federal income tax purposes, then all liability of the Authority in respect of such Bond will cease, terminate and be completely discharged, except only that thereafter the Holder thereof will be entitled to payment of the principal of and interest on such Bond by the Authority, and the Authority will remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

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

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture (other than the Rebate Fund) and 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 (based on an assumed interest rate equal to the Maximum Rate for periods for which the actual interest rate on the Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given as in the Indenture provided or provision satisfactory to the Trustee will have 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) United States Government Obligations, the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity (based on an assumed interest rate equal to the Maximum Rate for periods for which the actual interest rate on the Bonds cannot be determined), or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as in the Indenture provided or provision satisfactory to the Trustee will have been made for the giving of such notice;

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

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

Limited Liability of Authority

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

THE LEASE AGREEMENT

Commencement of Lease Term as to Project; Possession; Occupancy; Abatement.

The term of the Lease Agreement will commence on the date of recordation of the Lease Agreement in the office of the County Recorder of Stanislaus County, State of California, or on August 28, 2008, whichever is earlier, and will end on September 1, 2033, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on such termination date, the Series of Bonds corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit, and all other amounts then due under the Lease Agreement with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility

Costs and amounts due under any Related Obligations, will not be fully paid, or if the rental payable under the Lease Agreement with respect to such Leased Property or Leased Unit (as the case may be) will have been abated at any time and for any reason, then the term of the Lease Agreement with respect to such Leased Property or Leased Unit (as the case may be) will be extended until all Bonds and Related Obligations of such Series corresponding to the Base Rental Payments attributable to such Leased Property or Leased Unit (as the case may be) and all other amounts then due under the Lease Agreement with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, will be fully paid, except that the term of the Lease Agreement as to such Leased Property or Leased Unit (as the case may be) will in no event be extended beyond ten (10) years after such date. If prior to such date, all Bonds of a Series corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit and all other amounts then due under the Lease Agreement with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, will be fully paid, or provision therefor made, the term of the Lease Agreement with respect to such Leased Property or Leased Unit (as the case may be) will end ten (10) days thereafter or upon written notice by the City to the Authority, whichever is earlier.

Removal or Substitution of Leased Property. Pursuant to the Indenture, the City may remove or substitute real property as part of the Leased Property for purposes of the Lease Agreement, but only after the City will have filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

(i) Executed copies of the Lease Agreement or amendments thereto containing the amended description of the Leased Property, including the legal description of the Leased Property as modified if necessary;

(ii) A Certificate of the City with copies of the Lease Agreement or a site lease, if needed, or amendments thereto containing the amended description of the Leased Property stating that such documents have been duly recorded in the official records of the County Recorder of Stanislaus County, State of California;

(iii) A Certificate of the City evidencing that the annual fair rental value of the Leased Property which will constitute the Leased Property after such removal or substitution will be at least equal to 100% of the maximum amount of Base Rental Payments for all Series of Bonds becoming due in the then current year ending August 14 through and including each year during which any Series of Bonds would be Outstanding or in any subsequent year ending August 14 through and including each year during which any Series of Bonds would be Outstanding;

(iv) A Certificate of the City stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the City, the City has good merchantable title to the Leased Property which will constitute the Leased Property after such substitution. The term “good merchantable title” means such title as is satisfactory and sufficient for the needs and operations of the City;

(v) A Certificate of the City stating that such removal or substitution does not adversely affect the City’s use and occupancy of the Leased Property;

(vi) An Opinion of Counsel (as such term is defined in the Indenture) stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and the Indenture; (ii) complies with the terms of the Constitution and laws of the State and of this Indenture; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City; and (iv) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(vii) An ALTA Leasehold Title Insurance Policy meeting the requirements of the Lease Agreement; and

(viii) Written Consent of the applicable Bond Insurer, Credit Facility Provider, or Liquidity Facility Provider.

Base Rental Payments. The City agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of each Leased Unit of the Leased Property (subject to the provisions of the Lease Agreement) annual rental payments, in accordance with the Base Rental Payment Schedule attached to the Lease Agreement. Base Rental Payments will be calculated on an annual basis, for the twelve-month periods commencing on August 15 and ending on August 14, except that the first Rental Payment Period will commence on the date of recordation of the Lease Agreement or a memorandum thereof in the office of the County Recorder of the County of Stanislaus, State of California and will end on August 14, 2009. Thereafter, Base Rental Payments will be made in twelve (12) monthly installments, payable on the fifteenth (15th) day of each calendar month (each, together with the prior referenced semi-annual payment dates a Base Rental Payment Date). Base Rental Payments for each annual period will be based upon the estimated Based Rental Payments as set forth in the Base Rental Payment Schedule, provided that in the event that the amount required by the Authority to pay the principal of and interest on the Bonds and any Related Obligations varies from such Base Rental Payment Schedule, the City will be obligated to increase the payment in any Rental Payment Period to an amount equal to the Maximum Annual Base Rental Payment payable in such period as set forth in such Base Rental Payment Schedule, plus any Deferred Rental as described in the Lease Agreement; and provided further that to the extent the Authority has received revenues available to pay debt service on the Bonds and any amounts due with respect to the Related Obligations and the Authority has deposited such revenues with the Trustee by the business day preceding the fifteenth (15th) day of any month in which a Base Rental Payment is due, the City will receive a credit to the extent of such revenues on the installment of the Base Rental Payment for said month.

For the purpose of calculating the amount of Base Rental Payments relating to additional Series of Bonds and Related Obligations bearing interest at a variable rate, the Authority will assume an interest rate of twelve percent (12%) per annum or such lower rate as will be agreed to by the City and Authority and evidenced in a schedule attached to the Lease Agreement. If a Series of Bonds are in the Fixed Rate Mode or are converted to the Fixed Rate Mode, the Base Rental Payments may be made on a semiannual basis pursuant to a schedule prepared by the Authority and agreed to by the City.

Each annual payment of Base Rental Payments (to be payable in installments as aforesaid) will be for the use of the Leased Property.

If the term of the Lease Agreement will have been extended pursuant to the Lease Agreement, Base Rental Payment installments will continue to be due on the fifteenth (15th) day of

each calendar month in each year, and payable prior thereto as described in the Lease Agreement, continuing to and including the date of termination of the Lease Agreement. Upon such extension of the Lease Agreement, the City will deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule will establish the Base Rental Payments at Maximum Annual Base Rental Payment or such lesser amount sufficient to pay all unpaid principal and interest on any Series of Bonds and Related Obligations plus interest and to pay any Reserve Facility Costs.

The City and the Authority agree that on each day on which Base Rental Payments are payable during the term of the lease of the Leased Property, there will be applied as a credit against the Base Rental Payments payable on such date for the Leased Property the amounts by which such Base Rental Payments for the Leased Property when added to the funds held pursuant to the Indenture (other than the Reserve Fund) and available to pay debt service on the Bonds and any Related Obligations exceeds such payment obligations due and payable on or before the fifteenth day of the immediately succeeding month.

Additional Payments. The City will also pay such amounts (called the Additional Payments in the Lease Agreement) as will be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease Agreement or any pledge of Base Rental Payments payable under the Lease Agreement, the Indenture, the Reserve Facility, its interest and the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Related Obligations, the Leased Property and the Project, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees and expenses of the Credit Facility Provider, including without limitation all fees payable pursuant to the Credit Facility Reimbursement Agreement, fees of auditors, accountants, auction agents, broker-dealers or attorneys, and fees and expenses payable to any applicable Bond Insurer, Credit Facility Provider or Liquidity Facility Provider, and all other necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Bonds or of the Indenture; but not including in Additional Payments amounts required to pay the principal of or interest on the Bonds or the portion of the Reserve Facility Costs related thereto or payments on Related Obligations or the payment of any Regular Swap Payments or Extraordinary Swap Payments.

Such Additional Payments will be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been paid by the Authority or by the Trustee on behalf of the Authority, for one or more of the items above described, or that such amount is then payable by the Authority or the Trustee for such items. Amounts so billed will be paid by the City to the billing party within 30 days after receipt of the bill by the City. The City reserves the right to audit billings for Additional Payments although exercise of such right will in no way affect the duty of the City to make full and timely payment for all Additional Payments.

The Authority has issued and may in the future issue bonds and has entered into and may in the future enter into leases to finance facilities other than the Leased Property and the Project. The administrative costs of the Authority will be allocated among said facilities and the Leased Property, as described in this paragraph provided. The fees of the Trustee under the Indenture, and any other expenses directly attributable to the Leased Property will be included in the Additional Payments payable under the Lease Agreement. The fees of any trustee or paying agent under any indenture securing any additional Series of Bonds of the Authority, and any other expenses directly attributable

to any facilities other than the Leased Property, will not be included in the administrative costs of the Leased Property and will not be paid from the Additional Payments payable under the Lease Agreement. Any expenses of the Authority not directly attributable to any particular leased property or project of the Authority will be equitably allocated among all such leased property or projects, including the Project, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, will be a final and conclusive determination as to such allocation. The Trustee may conclusively rely upon the Written Request of the Authority, with the approval of a duly authorized representative of the City, endorsed thereon, in making any determination that costs are payable as Additional Payments under the Lease Agreement, and will not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Payment Provisions; Deferred Rental. At the request of the City, the Authority is issuing the Series 2008 Bonds as variable rate bonds, and entering into an interest rate swap transaction in an effort to provide a lower cost to the City for the lease of the Leased Property. It is contemplated by the parties to the Lease Agreement that the amount of Base Rental Payments to be payable by the City to the Authority during each Rental Payment Period will be equal to the estimated Base Rental Payments shown in the Base Rental Payment Schedule. In the event that the amount needed in such Rental Payment Period by the Authority to pay the principal of and interest on the Bonds and any Related Obligations is more than the Estimated Base Rental Payments for such Rental Payment Period, the City will be obligated to pay up to the Maximum Annual Base Rental Payment for such Rental Payment Period. Further, the City agrees that if in any year the Maximum Annual Base Rental Payment exceeds the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period, the excess amount may be deferred by the Authority, at its sole option, on such terms and conditions as it will determine are necessary to protect the interests of the owners of the Bonds and the Providers of any Related Obligations, and thereupon such excess amount (the Deferred Rental) need not be paid by the City to the Authority at that time, but instead will be deferred until such subsequent time as the Authority will have need for such payment; provided that the Deferred Rental will not cause the Maximum Annual Base Rental Payment in any Rental Payment Period to exceed 150% of the Estimated Base Rental Payment for such Rental Payment Period as shown in the Base Rental Payment Schedule.

Each installment of Base Rental Payments and Additional Payments payable under the Lease Agreement will be paid in lawful money of the United States of America to or upon the order of the Authority at the corporate trust office of the Trustee, or such other place as the Authority will designate. Any such installment of rental accruing under the Lease Agreement which will not be paid when due and payable under the terms of the Lease Agreement will bear interest at the rate of twelve percent (12%) per annum, or such lesser rate of interest as may be permitted by law, from the date when the same is due under the Lease Agreement until the same will be paid. Notwithstanding any dispute between the Authority and the City, the City will make all Base Rental Payments and Additional Payments when due without deduction or offset of any kind and will not withhold any Base Rental Payments or Additional Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Base Rental Payments or Additional Payments or any portion thereof, said payments or excess of payments, as the case may be, will be credited against subsequent Base Rental Payments or Additional Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the

City with the Trustee pursuant to the Lease Agreement on any date will be reduced to the extent of amounts on deposit in the Revenue Fund and available therefor.

All payments received will be applied first to the Base Rental Payments due under the Lease Agreement and thereafter to all Additional Payments due under the Lease Agreement, but no such application of any payments which are less than the total rental due and owing will be deemed a waiver of any default under the Lease Agreement.

Nothing contained in the Lease Agreement will prevent the City from making from time to time contributions or advances to the Authority for any purpose now or hereafter authorized by law, including the making of repairs to, or the restoration of, the Leased Property in the event of damage to or the destruction of the Leased Property.

Appropriations Covenant. The City covenants to take such action as may be necessary to include all estimated Base Rental Payments and Additional Payments due under the Lease Agreement in its annual budgets, and to make necessary annual appropriations for such payments, and for such additional amounts as required below. The City will deliver to the Authority and the Trustee within ninety (90) days of adoption of the City budget copies of the portion of each annual City budget relating to the payment of estimated Base Rental Payments and Additional Payments under the Lease Agreement as so calculated. If in any fiscal year, the amount initially budgeted is insufficient to pay actual Debt Service on the Bonds and payments with respect to Related Obligations, the City will, by supplemental budget in such fiscal year, appropriate and pay such additional amounts until the total amount appropriated for Base Rental Payments equals Maximum Annual Base Rental Payments for such year as provided in the Base Rental Payment Schedule. The covenants on the part of the City contained in the Lease Agreement will be deemed to be and will be construed to be duties imposed by law and it will be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

The Authority and the City understand and intend that the obligation of the City to pay Base Rental Payments and Additional Payments under the Lease Agreement will constitute a current expense of the City and will not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor will anything contained in the Lease Agreement constitute a pledge of the general tax revenues, funds or moneys of the City. Base Rental Payments and Additional Payments due under the Lease Agreement will be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments or other payments due under the Lease Agreement as consideration for use of the Leased Property. The Lease Agreement will not create an immediate indebtedness for any aggregate payments which may become due under the Lease Agreement in the event that the term of the Lease Agreement is continued. The City has not pledged the full faith and credit of the City, the State of California or any agency or department thereof to the payment of the Base Rental Payments and Additional Payments or any other payments due under the Lease Agreement.

Rental Abatement. The Base Rental Payments and Additional Payments will be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation, which is provided for in the Lease Agreement, or planned demolition as part of the

Project) there is substantial interference with the use and occupancy of the Leased Property by the City, in the proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the City waives the benefits of California Civil Code Section 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all other rights to terminate the Lease Agreement by virtue of any such damage or destruction.

Notwithstanding the foregoing, such abatement will not result to the extent of moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, Principal Account and Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance as provided in the Lease Agreement.

Use of Bond Proceeds. The parties to the Lease Agreement agree that the proceeds of the Series 2008 Bonds, together with amounts provided with respect to the Prior Bonds, will be used to finance the Series 2008 Project, to establish the Reserve Fund with respect to the Series 2008 Bonds, and to pay the costs of issuing the Series 2008 Bonds and incidental and related expenses. The City agrees to act as agent of the Authority and use the proceeds to implement the Series 2008 Project with due diligence.

Maintenance and Utilities. During such time as the City is in possession of the Leased Property, all maintenance and repair, both ordinary and extraordinary, of the Leased Property will be the responsibility of the City, which will at all times maintain or otherwise arrange for the maintenance of the Leased Property in first class condition, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, and will pay for or otherwise arrange for payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof or any other cause and will pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Leased Property. In exchange for the rental provided in the Lease Agreement, the Authority agrees to provide only the Leased Property.

Changes to the Leased Property. Subject to the Lease Agreement, the City, at its own expense, will have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All such additions, modifications and improvements will thereafter comprise part of the Leased Property and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements will not damage the Leased Property or cause them to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made pursuant to the Lease Agreement, will be of a value which is at least equal to the value of the Leased Property immediately prior to the making of such additions, modifications and improvements.

Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items will remain the sole property of such party, in which neither the Authority nor the Trustee will have any interest, and may be modified or removed by such party at any time provided that such party will repair and

restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the City from purchasing items to be installed pursuant to the Lease Agreement under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest will attach to any part of the Leased Property.

Fire and Extended Coverage Insurance. The City will procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance will be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$500,000 or comparable amount adjusted for inflation), or, in the alternative, will be in an amount and in a form sufficient (together with moneys held under the Indenture), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed.

In the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by such insurance, the Authority, except as provided in the Lease Agreement, will cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee will hold said proceeds separate and apart from all other funds, in a special fund to be designated the Insurance and Condemnation Fund, to the end that such proceeds will be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee will permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement will be treated by the Trustee as Base Rental Payments and applied in the manner provided by the Indenture. Alternatively, the Authority, at its option, with the written consent of the City, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Base Rental Payment attributable to the portion of the Leased Property so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Leased Property bears to the cost of the Leased Property), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon will cause said proceeds to be used for the redemption of outstanding Bonds pursuant to the Indenture.

As an alternative to providing the insurance required by the first paragraph above, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection will afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability

and similar plans or methods of protection adopted by public entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of the Lease Agreement, there will be filed annually with the Trustee a statement of an actuary, an Insurance Consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of the Lease Agreement and, when effective, would afford reasonable coverage for the risks required to be insured against. There will also be filed a Certificate of the City setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the City under the Lease Agreement will be limited to the amounts in the self insurance reserve fund or funds created under such method.

Rental Interruption or Use and Occupancy Insurance. The City will procure or cause to be procured and maintain or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Leased Property as the result of any of the hazards covered by the insurance required by the Lease Agreement, in an amount sufficient to pay the part of the total rent under the Lease Agreement attributable to the portion of the Leased Property rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Leased Property) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed two hundred fifty thousand dollars (\$250,000) or a comparable amount adjusted for inflation. Any proceeds of such insurance will be used by the Trustee to reimburse to the City any rental theretofore paid by the City under the Lease Agreement attributable to such structure for a period of time during which the payment of rental under the Lease Agreement is abated, and any proceeds of such insurance not so used will be applied as provided in the Lease Agreement (to the extent required for the payment of Base Rental Payments and to the extent required for the payment of Additional Payments) and any remainder will be treated as Revenue under the Indenture.

Events of Default. Each of the following will be an event of default under the Lease Agreement and the terms events of default and default means, whenever they are used in the Lease Agreement, any one or more of the following events:

(a) failure by the City to pay any Base Rental Payment or Additional Payments payable under the Lease Agreement when the same becomes due, time being expressly declared to be of the essence of the Lease Agreement;

(b) failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Lease Agreement or in any Facilities Lease, other than as referred to in clause (a) of this Section, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, the Trustee or the Owners of not less than twenty five percent (25%) in aggregate principal amount of Bonds then outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Authority, the Trustee and such Owners will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected; or

(c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or the filing of an involuntary petition in bankruptcy against the City which petition will not have been withdrawn within sixty (60) days, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement

of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the federal bankruptcy law or under any similar acts which may hereafter be enacted.

Remedies on Default. Whenever any event of default referred to in the preceding Section will have happened and be continuing, it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there will be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Subject to the receipt of the opinions set forth in subparagraph (c) below, after the occurrence of an event of default under the Lease Agreement, the City will surrender possession of the Leased Property to the Authority, if requested to do so by the Authority, or by the Trustee or the Owners in accordance with the provisions of the Indenture.

(a) No Termination: Repossession and Re-Lease on Behalf of City. In the event the Authority does not elect to terminate the Lease Agreement in the manner provided for in the Lease Agreement, the Authority, to the extent permitted by law (subject to the receipt of the opinions set forth in subparagraph (e) below) may, with the consent of the City, which consent is irrevocably given, repossess the Leased Property and re-lease it for the account of the City, in which event the City's obligation will accrue from year to year in accordance with the Lease Agreement and the City will continue to receive the value of the use of the Leased Property from year to year in the form of credits against its obligation to pay Base Rental Payments. The obligations of the City will remain the same as prior to such default, to pay Base Rental Payments whether the Authority re enters or not. The City agrees to and will remain liable for the payment of all Base Rental Payments and the performance of all conditions contained in the Lease Agreement and will reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Property, or, in the event the Authority is unable to re-lease the Leased Property, then for the full amount of all Base Rental Payments to the end of the Term of the Lease Agreement, but said Base Rental Payments and/or deficiency will be payable only at the same time and in the same manner as provided above for the payment of Base Rental Payments under the Lease Agreement, notwithstanding such repossession by the Authority or any suit, brought by the Authority for the purpose of effecting such repossession of the Leased Property or the exercise of any other remedy by the Authority.

The City irrevocably appoints the Authority as the agent and attorney in fact of the City to repossess and re-lease the Leased Property, subject to the receipt of the opinions set forth in subparagraph (e) below, in the event of default by the City in the performance of any covenants contained in the Lease Agreement to be performed by the City and to remove all personal property whatsoever situated upon the Leased Property, to place such property in storage or other suitable place in the County in which the City is located, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Leased Property. The City waives any and all claims for damage caused or which may be caused by the Authority in repossessing the Leased Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or the injury to the Leased Property and all claims for damages to or loss of any property belonging to the City that may be in or upon the Leased Property.

(b) Repossession Without Effecting Surrender. The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-lease the

Leased Property in the event of such repossession without effecting a surrender of the Lease Agreement (subject in such event to the receipt by the Authority of the opinions set forth in subparagraph (e) below), and further agrees that no acts of the Authority in effecting such re-leasing will constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement will vest in the Authority to be effected in the sole and exclusive manner provided for in subparagraph below. The City further waives the right to any rental obtained by the Authority in excess of the Base Rental Payments and, to the extent permitted by law, conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Leased Property.

(c) Termination: Repossession and Re-Lease. In the event of the termination of the Lease Agreement by the Authority at its option and in the manner provided in the Lease Agreement on account of default by the City (and notwithstanding any repossession of the Leased Property by the Authority in any manner whatsoever or the re-leasing of the Leased Property in accordance with the terms of the Lease Agreement), the City nevertheless agrees to pay to the Authority all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease Agreement in the case of payment of Base Rental Payments. Any proceeds of the re-lease or other disposition of the Leased Property by the Authority will be delivered to the Trustee for deposit first into the Interest Payment Account, and to the extent such account is funded to the extent then required under the Indenture, in the Principal Payment Account and will be applied in accordance with the provisions of the Indenture. Neither notice to pay rent or to deliver up possession of the Leased Property given pursuant to law nor any proceeding taken by the Authority to recover possession of the Leased Property will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City will be or become effective by operation of law, or otherwise, unless and until the Authority will have obtained the opinions set forth in subparagraph (e) below and given written notice to the City of the election on the part of the Authority to terminate the Lease Agreement. The City covenants and agrees that no surrender of the Leased Property for the remainder of the Term of the Lease Agreement or any termination of the Lease Agreement will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice. No such termination will be effected either by operation of law or act of the parties to the Lease Agreement, except only in the manner expressly provided in the Lease Agreement.

The Authority and City agree that Section 1951.2 of the California Civil Code will apply to the Lease Agreement and that upon such termination, the Authority may recover, in addition to all other damages available by contract or at law, from the City: (i) the worth at the time of award of the unpaid rental which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rental which would have been earned after termination until the time of award exceeds the amount of such rental loss that the City proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rental for the balance of the term after the time of the award exceeds the amount of such rental loss that the City proves could have been reasonably avoided; and (iv) any other amount necessary to compensate the Authority for all the detriment proximately caused by the City's failure to perform its obligations under the Lease Agreement or which in the ordinary course of things would be likely to result therefrom. The worth at the time of award of the amounts referred to in clauses (i), (ii) and (iii) above is computed by allowing interest at the legal rate of interest per annum at which judgments for money in the State of California bear interest.

(d) Exceptions: City-County Administration Building, Parking Garage and Communications Center. Notwithstanding the foregoing, the Authority, or the Trustee acting on behalf of the Authority, will have no right to repossess or reenter the Leased Unit comprising the City-County Administration Building until the Authority, or the Trustee acting on behalf of the Authority, has first offered to the County in writing notice that the County is entitled to assume the City's obligations under the Lease Agreement with respect to the City-County Administration Building, including but not limited to the obligation of the City to pay Base Rental Payments with respect thereto. The County will respond in writing to the Authority, or the Trustee, as applicable, no later than 30 days following the receipt of such notice. In the event the County determines not to assume City's obligations under the Lease Agreement with respect to the City-County Administration Building, the Authority or the Trustee, as applicable, may thereupon proceed to repossess or reenter such facility or pursue any other remedy provided in the Lease Agreement. The parties to the Lease Agreement acknowledge that the provisions set forth in this paragraph are intended to permit the County to protect its interests in and to the City-County Administration Building and as such the parties to the Lease Agreement acknowledge that the County is a third-party beneficiary of this Agreement insofar as the County would be entitled to assume the City's obligations with respect to the City-County Administration Building.

Notwithstanding the foregoing, in accordance with the Master Agreement the Financing Agency will be entitled, upon the occurrence of an Event of Default under the Lease Agreement and a decision by the Trustee to terminate the Lease Agreement in accordance with the Lease Agreement, to exercise its right of first refusal with respect to the purchase of the Parking Garage, and the Authority, or the Trustee acting on behalf of the Authority, will cause to be delivered to the Financing Agency notice of the occurrence of an Event of Default under the Lease Agreement. The purchase price for the Parking Garage will be the principal amount of the Base Rental Payments due and owing with respect to the Parking Garage, together with interest due on said principal amounts to the date such purchase is exercised. The Financing Agency will within 30 days of the receipt of said notice respond to the Authority, or the Trustee acting on behalf of the Authority, whether the Financing Agency intends to purchase the Parking Garage. If the Financing Authority elects to purchase the Parking Garage, the proceeds of sale will be delivered to the Trustee and applied first to delinquent Lease Payments and then to Lease Payments as they come due. In the event the Financing Agency determines not to exercise its right to purchase the Parking Garage, the Authority or the Trustee, as applicable, may thereupon proceed to exercise its remedies as provided in the Lease Agreement. The parties to the Lease Agreement acknowledge that the provisions set forth in this paragraph are intended to permit the Financing Agency to protect its interests in and to the Parking Garage and as such the parties to the Lease Agreement acknowledge that the Financing Agency is a third-party beneficiary of the Lease Agreement insofar as the Financing Agency would be entitled to exercise the right of first refusal with respect to the purchase of the Parking Garage from the Authority, or the Trustee acting on behalf of the Authority.

In the event the County or the Financing Agency, as the case may be, determines to exercise their respective rights as set forth above, the applicable Bond Insurer, Credit Facility Provider or Liquidity Facility Provider will be immediately notified; provided however, that no action by the County or the Financing Agency to exercise any rights under the Lease Agreement will limit the rights and remedies of the applicable Bond Insurer, Credit Facility Provider or Liquidity Facility Provider under the Lease Agreement.

In addition, the Authority, or the Trustee acting on behalf of the Authority, will have no right to repossess or reenter Communications Dispatch Center, the sole remedy of the Authority or the

Trustee, as applicable, being to seek payment of Base Rental Payments therefor as and when the same become due.

(e) Opinion of Bond Counsel. The repossession and/or re-leasing of the Leased Property, or the termination of the Lease Agreement as provided in subparagraph (b) above, will be subject to the written consent of the Authority (which consent will not be unreasonably withheld) and the opinion of Bond Counsel addressed to the Authority that such repossession and/or re-leasing, or termination of the Lease, as applicable, will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes; provided however, the Trustee will not be required to obtain such opinions provided it has received the consent of a majority in aggregate principal amount of Bonds outstanding.

No Remedy Exclusive. No remedy conferred in the Lease Agreement upon or reserved to the Authority is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Lease Agreement or now or hereafter existing at law or in equity. Without limiting the generality of the foregoing, the Authority may bring an action or suit in equity (i) to require the City and its trustees, officers and employees to account as trustee of an express trust, (ii) to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority, or (iii) by mandamus to enforce the Authority's rights against the City (and its officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the Authority as provided in the Lease Agreement. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in the Lease Agreement it will not be necessary to give any notice, other than such notice as may be required in the Lease Agreement or by law.

Application of the Proceeds from the Re-Lease of the Leased Property. All amounts received by the Authority under the Lease Agreement will be credited towards the Base Rental Payments in order of Lease Payment Date.

Eminent Domain. If the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used by the City will be taken under the power of eminent domain, the term of the Lease Agreement will cease as of the day that possession will be so taken. If less than the whole of the Leased Property will be taken under the power of eminent domain and the remainder of the Leased Units is usable for the purposes for which it was used by the City at the time of such taking, then the Lease Agreement will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there will be a partial abatement of the Base Rental Payments due under the Lease Agreement in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of outstanding Bonds. So long as any of the Bonds will be outstanding, any award made in eminent domain proceedings for taking the Leased Property or any of the Leased Units thereof will be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in the Lease Agreement. Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, will be paid to the to the City.

Prepayment.

(a) The City will prepay on any date from insurance (including proceeds of title insurance) and eminent domain proceeds, to the extent provided in the Lease Agreement (provided, however, that in the event of partial damage to or destruction of the Leased Property caused by perils covered by insurance, if in the judgment of the Authority the insurance proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed Leased Unit of the Leased Property, such proceeds will be held by the Trustee and used to repair, reconstruct or replace the damaged or destroyed Leased Unit of the Leased Property, pursuant to the procedure set forth in the Lease Agreement for proceeds of insurance), all or any part of Base Rental Payments then unpaid so that the aggregate annual amounts of Base Rental Payments which will be payable after such prepayment date will be as nearly proportional as practicable to the aggregate annual amounts of Base Rental Payments unpaid prior to the prepayment date (taking into account the reduction in Base Rental Payments allocable to future interest on the Bonds that are redeemed), at a prepayment amount equal to the redemption payment of the maximum amount of Bonds, including the principal thereof and the interest thereon to the date of redemption, plus any applicable premium redeemable from such proceeds.

(b) The City may prepay, from any source of available funds, all or any portion of Base Rental Payments by depositing with the Trustee moneys or securities as provided in the Indenture sufficient to defease or redeem all or a portion of a Series of Bonds corresponding to such Base Rental Payments when due; provided that the City furnishes the Trustee with an Opinion of Counsel that such deposit will not cause interest on such Series of Bonds to be includable in gross income for federal income tax purposes. The City agrees that if following such prepayment the Leased Property are damaged or destroyed or taken by eminent domain, it is not entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and will not be entitled to any reimbursement of such Base Rental Payments.

(c) Before making any prepayment pursuant to the Lease Agreement, the City will, within five (5) days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date will be not less than forty-five (45) days from the date such notice is given.

(d) When (i) there will have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments or the date when the City may exercise its option to purchase the Leased Property or any of the Leased Unit thereof, in trust for the benefit of the Owners of the Bonds and irrevocably appropriated and set aside to the payment of the Base Rental Payments or option price, sufficient moneys and Permitted Investments described in the Indenture, not redeemable prior to maturity, the principal of and interest on which when due will provide money sufficient to pay all principal, premium, if any, and interest on the Bonds to the due date of the Bonds or date when the City may exercise its option to purchase the Leased Property, as the case may be; (ii) all requirements of the Indenture have been satisfied; and (iii) an agreement will have been entered into with the Trustee for the payment of its fees and expenses so long as any of the Bonds will remain unpaid, then and in that event the right, title and interest of the Authority in, and the obligations of the City under, the Lease Agreement will thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Authority and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of the Base Rental Payments or option price) and the Authority's interest in and title to the Project or applicable portion or item

thereof will be transferred and conveyed to the City. In such event, the Authority will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the Authority and evidence such discharge and satisfaction, and the Authority will pay over to the City as an overpayment of Base Rental Payments all such moneys or Permitted Investments held by it pursuant to the Lease Agreement other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Base Rental Payments or the option price and the fees and expenses of the Trustee, which moneys and Permitted Investments will continue to be held by the Trustee in trust for the payment of Base Rental Payments or the option price and the fees and expenses of the Trustee, and will be applied by the Authority to the payment of the Base Rental Payments or the option price and the fees and expenses of the Trustee.

Tax Covenants.

The City and the Authority will not make any use of the proceeds of the obligations provided in the Lease Agreement or any other funds of the City or the Authority which will cause such obligations to be “arbitrage bonds” subject to federal income taxation by reason of Section 148 of the Code. The City and the Authority will not make any use of the proceeds of the obligations provided in the Lease Agreement or any other funds of the City or the Authority which will cause such obligations to be “federally guaranteed” and subject to inclusion in gross income for federal income tax purposes by reason of Section 149(b) of the Code. To that end, so long as any rental payments are unpaid, the City and the Authority, with respect to such proceeds and such other funds, will comply with all requirements of such Sections 148 and 149(b) and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

The City further covenants that it will not use or permit the use of the facilities financed or refinanced by the proceeds of the Bonds by any person not an “exempt person” within the meaning of Section 141(a) of the Code or by an “exempt person” (including the City) in an “unrelated trade or business,” in such manner or to such extent as would result in the inclusion of interest received under the Lease Agreement in gross income for federal income tax purposes under Section 103 of the Code.

If at any time the City is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee or the City or the Authority under the Lease Agreement or the Indenture, the City will so instruct the Trustee or the appropriate officials of the City in writing, and the Trustee or the appropriate officials of the City, as the case may be, will take such actions as may be necessary in accordance with such instructions.

In furtherance of the covenants of the City set forth in this Section, the City will comply with the Tax Certificate and will instruct the Trustee in writing as necessary to comply with the Tax Certificate. The Trustee and the Authority may conclusively rely on any such written instructions, and the City agrees to hold harmless the Trustee and the Authority for any loss, claim, damage, liability or expense incurred by the Authority for any actions taken by the Authority in accordance with such instructions.

The City and the Authority will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest on the Bonds will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being excluded from gross income for federal income tax purposes.

Continuing Disclosure. Any Series of Bonds is exempt from the requirements of Rule 15c2-12 of the Securities and Exchange Commission, including the continuing disclosure requirements of paragraph (b)(5) of the Rule, so long as such Series of Bonds bear interest at the Daily Rate or Weekly Rate. If a New Mode is established for a Series of Bonds, such Series may become subject to the continuing disclosure requirements of the Rule and, in such event, the City covenants to comply with the applicable requirements of the Rule which include, among other things, entering into an undertaking to provide, for the benefit of the holders of such Series of Bonds, certain continuing disclosure information as required by the Rule. Notwithstanding any other provision of the Lease Agreement, failure of the City to comply with the Rule will not be considered an event of default under the Lease Agreement; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Rule) or the Holders of at least 25% aggregate principal amount of such Series of Bonds Outstanding and provided satisfactory indemnification is provided to the Trustee, will) or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to compel the City to comply with its obligations under the Lease Agreement.

THE FACILITIES LEASES

Pursuant to the Facilities Lease (Communications Building), the City, as lessor with respect to the Communications Building, will lease the City's undivided one-half interest in and to the Communications Building, together with its interest in the Site upon which such facility is located, to the Authority. Pursuant to the Facilities Lease (City County Administration Building), the Financing Authority, as lessor with respect to the City-County Administration Building, will lease the City's interest in and to the City-County Administration Building, together with its interest in common areas, to the Authority. Pursuant to the Facilities Lease (Parking Garage), the Redevelopment Agency, as lessor with respect to the Parking Garage, will lease the City's interest in and to the Parking Garage, to the Authority. Pursuant to the Facilities Lease (Police Facilities and Miscellaneous Facilities Lease), the City, as lessor with respect to the Police Facilities and Miscellaneous Facilities, will lease the City's interest in and to the Police Facilities and Miscellaneous Facilities, to the Authority.

The term of the Facilities Leases will commence August 28, 2008 and remain in effect until the term of the Lease expires. However, if Lease Payments due under the Lease Agreement remain unpaid at the expiration of the Lease Agreement term, then the Facilities Leases shall not terminate until the later of March 1, 2046, the date on which the Bonds have been paid in full, or the expiration of the term of any lease executed and delivered in the event of default under the Lease Agreement by the City. The City's interest in the Communications Building, the City-County Administration Building, the Parking Garage and the Police Facilities and Miscellaneous Facilities will be simultaneously leased by the Authority to the City pursuant to the Lease Agreement and title to such facilities will remain in the City, the Financing Agency or the Redevelopment Agency, as the case may be, during the term of the Facilities Leases.

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APPENDIX B

CERTAIN INFORMATION REGARDING THE CITY

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues pledged in the Indenture; they are not a debt of the City. However, the Base Rental Payments payable by the City pursuant to the Lease Agreement are expected to be a substantial component of the Revenues. The following information with respect to the City is presented in that context. Additional information with respect to the City contained in its comprehensive annual financial report for the fiscal year ended June 30, 2007. A copy of that report is set forth in Appendix C.

General

The City, which is the county seat of Stanislaus County, was incorporated in 1884. It is located in the center of the northern San Joaquin Valley, approximately 93 miles east of the City and County of San Francisco; and it encompasses an area of approximately 36 square miles.

The City operates under a council-manager form of government pursuant to a charter initially adopted in 1951. The City Council of the City (the "City Council") consists of seven elected members; it appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements the directives and policies of the City Council and manages the administrative and operational functions through the various department heads who are appointed by the City Manager.

The City provides the full range of services normally associated with a municipality including police and fire protection, highways and streets, parks and recreation, library, planning and zoning, building and engineering, various maintenance services and administration. The City also provides parking and airport facilities and water, sewer, storm drainage 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 of Stanislaus (the "County") and the State.

CITY OF MODESTO Population Estimates⁽¹⁾

<i>Calendar Year</i>	<i>City of Modesto</i>	<i>Stanislaus County</i>	<i>State of California</i>
2008	209,936	525,903	38,049,462
2007	208,150	518,938	37,559,440
2006	207,096	511,848	37,114,598
2005	207,029	503,003	36,675,346
2004	206,861	493,515	36,199,342
2003	203,813	483,705	35,652,700
2002	199,398	472,185	35,063,959

⁽¹⁾ As of January 1.

Source: California State Department of Finance, Population Estimates for Cities, Counties and State, 2002-2008 with 2000 Benchmark.

Employee Relations

The City had approximately 1,305 authorized and funded full-time positions and currently has approximately 1,227 actual full-time employees for fiscal year 2008-09 and approximately 1,363 authorized full-time positions and approximately 1,233 actual full-time employees for fiscal year 2007-08. City employees are represented by six labor organizations, the principal of which is Modesto City Employees Association which represents approximately 37% of all City employees in a variety of classifications.

Approximately 95% of all City employees are covered under negotiated agreements. The current agreements have expiration dates as follows:

Modesto City Firefighters Association	December 20, 2010
Modesto Police Management Association	June 22, 2009
Modesto Police Officers Association	December 22, 2008
Modesto City Employees Association	July 23, 2007
Modesto Police Non-sworn Association	June 23, 2008
Modesto Confidential & Management Assoc	June 23, 2008

In August 2005, approximately 200 Modesto City Employees Association (the "Association") employees (field, clerical and technical) engaged in a one-day job action and picketing following impasse in the contract negotiations. No city services were disrupted as a result of the job action. The Association subsequently reached agreement with the City on a contract which expired in July 2007. The City is currently in negotiations with the Association, as well as two other associations whose contracts have recently expired.

On March 14, 2007 the City reached a settlement in the amount of \$3.25 million with three employees who alleged gender discrimination, harassment and retaliation. The City expects to pay the settlement amount from its General Fund and its insurance liability fund and does not expect such payment will have an adverse effect on the City's ability to make Base Rental Payments under the Lease Agreement. As of July 3, 2008, two of the three installment payments required under the settlement had been made.

Insurance

The City is exposed to various risks of loss related to torts, damage to and loss of assets, errors and omissions, injuries to and illness of employees, and natural disasters. The City maintains an Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim shown: workers' compensation - \$750,000; liability - \$1,000,000; and dental care - \$1,200. The City no longer self-insures for risks associated with employee illnesses and instead offers a variety of commercial plans to its employees. The City obtains commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims the City is one of twelve members of the Authority for California Cities Excess Liability ("ACCEL") risk pool, which provides workers' compensation insurance and general liability insurance for the member agencies. This pool covers City claims between \$1,000,000 and

\$5,000,000. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses be greater than anticipated, the City will be assigned its pro rata share of the deficiency. Conversely, if actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Total claims in the pool are estimated to be \$3,949,916 for fiscal year 2007-08. Commercial insurance covers claims over \$5,000,000 in three excess layers of \$10,000,000 each for an additional \$30,000,000 per claim. Settled claims have not exceeded the commercial coverage in any of the past five fiscal years.

Employee Retirement System

Retirement Plan. The City contributes to the Public Employees' Retirement System of the State of California ("PERS"), an agent multiple-employer public employee retirement program that acts as a common investment and administrative agent for participating entities in California. The City's total pension cost for the fiscal year 2006-07 was \$18,516,775. The City's payments to PERS for fiscal year 2007-08 are estimated to be approximately \$19,308,565. The General Fund share of this amount equals \$14,430,384.

All full-time City employees are eligible to participate in the retirement program. Benefits vest after five years of service. Safety (fire and police) employees who retire at or after age 50 are entitled to an annual retirement benefit payable monthly for life in an amount equal to 3% percent of their average salary during the highest-paid 1-year period of employment, multiplied by their years of service. All other covered employees may retire at age 55, with an annual benefit payable monthly for life equal to 2% percent of their average salary during the highest-paid 1-year period of employment, multiplied by their years of service. These employees may retire at age 50 with a reduced benefit at retirement. The retirement program also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year.

The City pays most of the required employee contribution to the program, which totals 9% percent for safety and 7% percent for miscellaneous employees, in accordance with contractual agreements. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the PERS Board of Administration. The current rate is 9.528% of the annual covered payroll for miscellaneous employees and 23.562% for safety employees.

In addition to the pension benefits described above, the City provides health care benefits to employees who retire from the City under contractual arrangement with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set-aside a percentage of accumulated sick leave upon retirement to be used for contributions towards future healthcare premiums to a choice of several insurance plans. The City has no obligation to make health contributions for retirees who have no accumulated sick leave. The estimated liability for current retirees' future City contributions was \$18,044,787 as of December 1, 2006. The estimated current portion thereof, \$2,500,000, is fully funded. The long-term portion thereof is partially funded, with the balance being funded over time by charges to the City's operating funds. The City reports the current and long-term portions of this liability in the Employee Benefits Management Fund as part of the compensated absences liability balances. For firefighters, the City's obligation for retiree health benefits is not a function of accumulated sick leave. Firefighters are covered under

PERS Health plans and the City has a statutory obligation to make designated contributions to fund firefighters' retiree health premiums. The current statutory contribution is \$97.00 per month.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits ("OPEB"). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. These disclosure requirements were effective for the City's fiscal year 2007-08. GASB 45 may result in an increase in the annual expense recognized by the City for post retirement health care benefits. The City has retained the services of an actuary to determine the extent of the City's OPEB liability. The amount of the liability and the increase in the annual expense to be recognized, if any, has not yet been determined by the City.

Investment Policy

The City invests its funds in accordance with the City's Investment Policy (the "Investment Policy"), adopted by the City Council in 1984 and most recently amended in 2008. In accordance with Sections 53601 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Finance Director/Treasurer. Investments permitted under the Investment Policy include the following:

- Bonds issued by the City.
- United States Treasury notes, bonds, bills or certificates of indebtedness.
- Registered State of California warrants, treasury notes or bonds.
- Bonds, notes, warrants or indebtedness of local agencies within the State.
- Commercial paper of "prime" quality.
- Certificates of deposit and negotiable certificates of deposit.
- Investment in repurchase agreements or reverse repurchase agreements.
- Medium-term corporate notes.
- State of California Local Agency Investment Fund (LAIF).
- California Asset Management Program.

Funds are invested in the following order of priority:

- Safety- Preservation of principal and interest.
- Liquidity- Ability to readily convert investment to cash when needed.
- Yield - potential dollar earnings on an investment.

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield when selecting an investment, provided the criteria for safety and liquidity are met.

Budgetary Process

The fiscal year of the City begins on the first day of July of each year and ends on the 30th day of June of the following year. Measure M, which was passed by voters in February 2008, requires the City's Mayor to take responsibility for the development of the annual budget.

At such date as the City Manager and Mayor determine, each department head must furnish to each of them an estimate of revenues and expenditures for such department for the ensuing fiscal year, detailed in such manner as may be prescribed by the City Manager and Mayor. In preparing the proposed budget, the City Manager and Mayor review the estimates, hold conferences thereon with the respective department heads, and revise the estimates as they deem advisable.

Prior to the beginning of each fiscal year, the Mayor submits the proposed budget to the City's Finance Committee. After reviewing and making such revisions as it deems advisable, the City Finance Committee recommends the proposed budget with revisions, if any, to the City Council. The City Council determines the time and place for a public hearing thereon and causes to be published a notice thereof not less than ten days prior to the hearing date. Copies of the proposed budget are available for inspection by the public in the office of the City Clerk at not less than ten days prior to the hearing. At the conclusion of the public hearing, the City Council further considers the proposed budget and makes revisions thereto that it deems advisable. On or before June 30 of each year, it adopts the budget with revisions, if any, by the affirmative vote of at least a majority of the total members of the City Council.

From the effective date of the budget, the several amounts stated as proposed expenditures become appropriated to the several departments, offices and agencies for the objects and purposes named. In accordance with the City's financial policies, certain appropriations may be amended with the signed authorization of the City Manager, subsequent to the adoption of the original budget. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by a resolution adopted by the majority vote of the City Council. All operating appropriations lapse at the end of the fiscal year to the extent that they have not been expended or lawfully encumbered. Appropriations related to Capital Improvement Projects and those deemed to be multi-year appropriations shall continue into each succeeding year until they are either fully expended or cancelled in accordance with the City's budget policy.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as the City Council shall determine, examines the financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, the audited Comprehensive Annual Financial Report and management letter are submitted by such accountant to the Audit Committee.

Following is a table which shows the adopted final and actual General Fund Budget for Fiscal Year 2007-08 and the adopted General Fund Budget for Fiscal Year 2008-09. In early

July 2008, the City noted that actual revenue receipts for fiscal year 2007-08 were below expectations in several areas. In addition, the Stanislaus County Assessor re-assessed all homes sold during the period from 2003 to 2008. This caused the tax roll assessed values for the City to decrease by \$1.2 billion and the effect this had on revenues was reflected as a decrease in the estimated property tax related revenues of \$2.3 million. The current estimates for all revenues are reflected in the table below under the column "Current Projection" for fiscal year 2008-09.

In response to the newly revised revenue projections, the City has frozen all hiring and will implement budget reductions amounting to 10% or more for some departments in order to preserve the City's unrestricted fund balance at the 8% level per the City's budget policy.

CITY OF MODESTO
General Fund Budgets
For Fiscal Years 2007-08 and 2008-09

	<i>Revised Budget 2007-08</i>	<i>Adopted Budget 2008-09</i>	<i>Current Projection 2008-09</i>	<i>Variance with Adopted Final Budget</i>
Revenues:				
Taxes	\$ 50,849,442	\$ 53,196,365	\$ 47,841,469	\$ (5,354,896)
Licenses and permits	90,061	89,700	89,700	-
Intergovernmental	47,165,440	47,272,953	45,876,526	(1,396,427)
Charges for services ⁽¹⁾	15,218,436	16,637,822	15,937,822	(700,000)
Special assessments levied	158,500	31,000	31,000	-
Interest and rent	525,500	423,900	423,900	-
Net Increase in Fair Value of Investments		200,000	200,000	-
Fines and forfeitures	1,408,000	1,290,000	1,290,000	-
Miscellaneous	<u>3,002,680</u>	<u>1,936,914</u>	<u>1,910,402</u>	<u>(26,512)</u>
TOTAL REVENUES	\$118,418,059	\$ 121,078,654	\$113,600,819	\$ (7,477,835)
Expenditures and Transfers:				
General Government	\$ 12,600,757	\$ 12,839,310	\$ 11,998,068	\$ (841,242)
Community Development	7,318,214	7,768,797	6,640,054	(1,128,743)
Public works	5,473,899	4,337,254	4,099,852	(237,402)
Parks and recreation	12,757,748	11,898,007	11,239,107	(658,900)
Public Safety	80,977,632	80,901,576	76,335,487	(4,566,089)
Other on-going expenditures	1,487,432	2,242,846	2,183,859	(58,987)
Debt Service:				
Principal Retirement	-	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	\$120,615,682	\$ 119,987,790	\$112,496,427	\$ (7,491,363)
Excess of revenues over expenditures	(2,197,623)	1,090,864	\$ 1,104,392	
Other Financing Sources (Uses):				
Transfers In	\$ 6,557,376	\$ 4,684,937	\$ 4,684,937	
Transfers Out	(7,853,471)	(6,606,228)	(6,606,228)	
Loan forgiveness	<u>1,810,000</u>	<u>-</u>	<u>-</u>	
TOTAL OTHER FINANCING SOURCES (USES)	\$ 513,905	\$ (1,921,291)	\$ (1,921,291)	
NET CHANGE IN FUND BALANCE	\$ (1,683,718)	\$ (830,427)	(816,899)	
FUND BALANCES, July 1	\$ 12,147,386	\$ 10,463,668	\$ 10,463,668	
FUND BALANCES, June 30	\$ 10,463,668	\$ 9,633,241	\$ 9,646,769	

⁽¹⁾ Includes indirect cost recovery

Source: City of Modesto Financial Statements and City of Modesto Finance Department.

Financial Statements

The accounting policies of the City of Modesto conform to generally accepted accounting principles. The audited financial statements of the City for the fiscal year ended June 30, 2007 are set forth in Appendix C.

Accounts of the City are organized on the basis of funds and account groups each of which is considered a separate accounting entity. Operations of each fund are accounted for with a separate set of self-balancing accounts. The various funds are grouped into broad categories, as follows: Governmental Funds (General, Special Revenue, Capital Projects and Debt Service), Proprietary Funds (Enterprise Funds, including the Sewer, Water, Parking, Airport, Golf Course and Community Center Funds; and Internal Service Funds) and Fiduciary Funds (Agency).

All Governmental Funds and Fiduciary Funds use the modified accrual basis of accounting. The Proprietary Funds use the accrual basis of accounting.

The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. Revenues and expenditures in the City's General Fund for fiscal years 2003-04 through 2007-08 (estimated) are shown in the following table. Taxes, Intergovernmental Revenues, Charges for Services, and Miscellaneous Revenue are the City's major sources of revenues. In fiscal year 2007-08, Taxes and Intergovernmental Revenues are estimated to be 42.9% and 39.8% respectively, of General Fund revenues, followed by Charges for Services, 12.8% and Miscellaneous Revenue, 2.5%. Major Fiscal Year 2007-08 General Fund expenditures are estimated at 67.1% for Public Safety, 10.4% for General Government, and 10.5% for Parks and Recreation.

Summary Financial Information

The following tables present a statement of revenues, expenditures, and changes in fund balance for the City's General Fund and the City's General Fund balance sheet for the fiscal years ended June 30, 2004 through 2008 (estimated) prepared by the City of Modesto Finance Department based on the City's audited financial statements for fiscal years ended June 30, 2004 through June 30, 2007 and the most recent budget estimates for the fiscal year ended June 30, 2008.

CITY OF MODESTO
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30,

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008⁽¹⁾</i>
Revenues:					
Taxes	\$ 39,511,646	\$ 41,441,857	\$ 47,349,236	\$ 50,376,565	\$ 50,849,442
Licenses and permits	199,097	63,652	96,081	100,682	90,061
Intergovernmental	39,246,030	46,874,556	48,205,287	48,014,025	47,165,440
Charges for services	13,845,944	15,544,008	14,953,869	15,503,085	15,218,436
Special assessments levied	76,119	106,442	65,909	51,634	158,500
Interest and rent	905,295	982,728	1,217,293	406,462	525,500
Net increase (decrease) in fair value of investments	(524,439)	46,933	16,814	146,546	--
Fines and forfeitures	524,050	562,876	877,376	1,158,163	1,408,000
Miscellaneous	<u>1,245,979</u>	<u>774,837</u>	<u>2,028,310</u>	<u>2,175,519</u>	<u>3,002,680</u>
TOTAL REVENUES	\$ 95,029,721	\$ 106,397,889	\$ 114,810,175	\$ 117,932,681	\$ 118,418,059
Expenditures and Transfers:					
General Government	\$ 11,482,386	\$ 11,456,602	\$ 13,336,716	\$ 13,955,223	\$ 12,600,757
Community and Development	4,461,865	4,975,859	5,146,011	5,346,382	7,318,214
Public works	1,522,787	1,696,411	1,719,587	6,364,052	5,473,899
Parks and recreation	11,099,460	11,433,777	11,471,198	12,071,962	12,757,748
Public safety	61,126,497	69,403,326	72,205,341	78,405,328	80,977,632
Other on-going expenditures	1,214,088	646,818	398,112	737,392	1,487,432
Debt Service:					
Principal Retirement	8,625	9,248	9,916	9,719	--
Interest	<u>2,352</u>	<u>1,729</u>	<u>1,061</u>	<u>344</u>	<u>--</u>
TOTAL EXPENDITURES	\$ 90,918,060	\$ 99,623,770	\$ 104,287,942	\$ 116,890,402	\$ 120,615,682
Excess (deficiency) of revenues over (under) expenditures	\$ 4,111,661	\$ 6,774,119	\$ 10,522,233	\$ 1,042,279	(2,197,623)
Other Financing Sources (Uses):					
Operating transfers in	\$ 1,965,408	\$ 1,982,387	\$ 2,111,925	\$ 2,437,022	\$ 6,557,376
Operating transfers out	(11,499,889)	(9,320,816)	(9,739,702)	(12,339,933)	(7,853,471)
Loan Forgiveness	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,810,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (9,534,481)	\$ (7,338,429)	\$ (7,627,777)	\$ (9,902,911)	\$ 513,905
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	\$ (5,422,820)	\$ (564,310)	\$ 2,894,456	\$ (8,860,632)	\$ (1,683,718)
FUND BALANCES, July 1	\$ 26,402,189	\$ 20,979,369	\$ 20,415,059	\$ 23,309,515	\$ 12,147,386
FUND BALANCES, June 30	<u>\$ 20,979,369</u>	<u>\$ 20,415,059</u>	<u>\$ 23,309,515</u>	<u>\$ 14,448,883</u>	<u>\$ 10,463,668</u>

⁽¹⁾ Unaudited estimates.

Source: City of Modesto Comprehensive Annual Financial Statements, Fiscal Years 2003-04 through 2006-07; unaudited estimates of the City of Modesto Finance Department for Fiscal Year 2007-08.

CITY OF MODESTO
General Fund Balance Sheets
As of June 30,

<i>Assets</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Cash and cash equivalents	\$ 19,053,785	\$ 11,110,511	\$ 10,840,532	\$ 9,141,367	\$ 1,900,218
Receivables:					
Accounts	371,249	376,284	241,970	354,635	819,211
Interest	84,836	16,456	252,418	272,623	22,556
Utilities, net	615,687	592,005	766,763	824,856	869,711
Taxes	9,073,783	9,077,338	8,760,074	10,485,306	9,194,905
Due from governments	862,689	249,265	232,950	548,231	895,397
Due from other funds	1,210,100	1,700,000	3,634,000	5,572,000	4,320,000
Due from JPA	--	46,542	--	--	--
Notes receivable, net	92,283	92,283	92,283	92,283	--
Redeemed expenses/expenditures	4,576	--	70,000	--	--
Restricted assets:					
Cash and cash equivalents	1,390,184	1,445,486	1,445,486	1,845,018	2,066,814
Advances to other funds	<u>1,898,279</u>	<u>2,153,901</u>	<u>1,877,297</u>	<u>1,644,193</u>	<u>2,301,490</u>
Total assets	\$ 34,657,451	\$ 26,860,071	\$ 28,213,773	\$ 30,780,512	\$ 22,390,302
<i>Liabilities and Fund Balances</i>					
Liabilities					
Accounts payable	\$ 1,864,757	\$ 1,707,233	\$ 2,003,433	\$ 2,241,841	\$ 2,544,093
Accrued salaries and benefits	2,397,879	453,761	774,239	1,116,500	1,150,233
Deferred revenues	602,442	274,222	1,537,541	364,061	397,817
Payable from restricted assets:					
Refundable deposits	1,390,184	1,445,486	1,483,501	1,845,119	2,066,814
Advances from other funds	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,903,476</u>	<u>1,782,462</u>
Total Liabilities	\$ 8,255,262	\$ 5,880,702	\$ 7,798,714	\$ 7,470,997	\$ 7,941,419
Fund Balances:					
Reserved	\$ 3,393,560	\$ 3,327,569	\$ 2,955,054	\$ 2,702,381	\$ 3,734,973
Unreserved:					
Designated, reported in:					
General Fund	6,807,996	5,990,699	6,237,000	5,900,886	--
Undesignated, reported in:					
General Fund	16,200,633	11,661,101	11,223,005	14,706,248	10,713,910
Total Fund Balances	<u>26,402,189</u>	<u>20,979,369</u>	<u>20,415,059</u>	<u>23,309,515</u>	<u>14,448,883</u>
Total Liabilities and Fund Balances	<u>\$ 34,657,451</u>	<u>\$ 26,860,071</u>	<u>\$ 28,213,773</u>	<u>\$ 30,780,512</u>	<u>\$ 22,390,302</u>

Source: City of Modesto Comprehensive Annual Financial Statements for Fiscal Years 2002-03 through 2006-07.

Financial Obligations

Short Term Obligations. The City has no short term obligations outstanding.

Equipment Leases.

Two wheel loaders, valued at \$371,458, less \$82,400 accumulated depreciation, are being leased under a capital lease arrangement. The following is a schedule of the future minimum Base Rental Payments on capital leases as of June 30, 2008:

<i>Year Ending June 30</i>	
2009	<u>\$ 80,971</u>
Total Minimum Base Rental Payments	\$ 80,971
Less Interest	<u>(3,487)</u>
Present value of Minimum Base Rental Payments	\$ 77,485

An Oracle software license, valued at \$211,354 is being leased under a capital lease arrangement. The following is a schedule of the future minimum base rental payments on capital leases as of June 30, 2007:

<i>Year Ending June 30</i>	
2009	\$ 66,676
2010	<u>75,000</u>
Total Minimum Base Rental Payments	\$ 141,676
Less Interest	<u>(4,284)</u>
Present value of Minimum Base Rental Payments	\$ 137,392

Source: City of Modesto.

Long Term Leases Evidenced by Certificates of Participation and Lease Revenue Bonds.
The City has the following certificate of participation and lease revenue bond transactions outstanding as of June 30, 2008:

<i>Title</i>	<i>Principal Outstanding</i>	<i>Maturity</i>
1993 Refunding Certificates of Participation (Community Center Project)	\$ 19,935,000	November 1, 2023
1993 Refunding Certificates of Participation (Golf Course Project)	5,435,000	November 1, 2023
1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project) ⁽¹⁾	3,760,000	September 1, 2033
2007 Lease Revenue Refunding and Capital Improvements Bonds ⁽¹⁾	<u>61,450,000</u>	September 1, 2033
	\$ 90,580,000	

⁽¹⁾ Bonds of the Modesto Public Financing Authority in connection with which the City is obligated to make certain Base Rental Payments. All of these bonds will be defeased upon the issuance of the Modesto Public Financing Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2008.

Source: City of Modesto Finance Department.

Overlapping Debt and Debt Ratios

The following table summarizes direct and overlapping bonded debt within the City.

CITY OF MODESTO Statement of Direct and Overlapping Debt as of June 30, 2008

<u><i>Direct and Overlapping Assessment Debt:</i></u>	<u><i>Net Debt Outstanding⁽¹⁾</i></u>	<u><i>Percentage Applicable to the City⁽²⁾</i></u>	<u><i>Amount Applicable to the City</i></u>
City of Modesto	\$ 0	100.0%	\$ 0
Total Direct And Overlapping Tax And Assessment Debt			\$ 0
<u>Overlapping General Fund Debt – School Districts:</u>			
Ceres Unified School District	\$ 23,554,806	10.0%	\$ 2,355,481
Modesto Elementary School District	19,528,337	72.5%	14,158,044
Modesto High School District	67,646,328	68.5%	46,337,735
Sylvan School District	29,480,000	85.0%	25,058,000
Salida Union School District	1,315,000	27.0%	355,050
Stanislaus Union School District	2,900,000	33.0%	957,000
Yosemite Community College District	<u>184,084,916</u>	28.2%	<u>51,911,946</u>
TOTAL OVERLAPPING DEBT	\$ 328,509,387		\$ 141,133,256
TOTAL DIRECT AND OVERLAPPING DEBT	\$ 328,509,387		\$ 141,133,256

⁽¹⁾ Gross debt outstanding less applicable amounts in debt service funds.

⁽²⁾ Determined by ratio of assessed valuation of property subject to taxation in overlapping portion to valuation of all property subject to taxation in jurisdiction.

Source: Stanislaus County Auditor; calculated by Modesto Finance Department.

Assessed Valuation and Tax Collections

In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The “secured roll” is that part of the assessment roll containing State assessed property and property the taxes on which are a lien on real property sufficient, in opinion of the assessor, to secure payment of the taxes. Other property is placed on the “unsecured roll.”

The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (a) filing a civil action against the taxpayer; (b) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the county recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property improvements or possessory interest belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

A 10% penalty is added to delinquent taxes which have been levied in respect of property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquent penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property

is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also attaches to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1.5% per month begins to accrue in respect of such taxes beginning the first day of the third month following the delinquency date.

The valuation of property is determined as of March 1 each year and installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31, and such taxes are levied at the prior year's secured tax rate.

The following tables set forth historical property tax levies and collections in the City and historical information as to the assessed values and actual value of taxable real and personal property. The one percent (1%) property tax is levied and collected by Stanislaus County and remitted to the City.

City Assessed Valuations

The County Assessor of Stanislaus County assesses all real and personal property in the City of Modesto for tax purposes except public utility property which is assessed by the State Board of Equalization. California law exempts \$7,000 of the assessed valuation of an owner occupied dwelling. Effective with the 1980-81 fiscal year, State law also exempted 100% of the value of business inventories from taxation, rather than 50% as in prior years. The law provides for reimbursements to local agencies based on their share of the revenues derived from the application of the maximum tax rate applied to business inventories in the 1979-80 fiscal year, with adjustments to reflect increases in population and the consumer price index.

Revenue estimated to be lost to local taxing agencies due to such exemptions is reimbursed from State sources. Such reimbursement is based upon total taxes due upon such exempt values and is not reduced by any amount for estimated delinquencies. The table below presents a ten year history of assessed valuations of property within the City.

CITY OF MODESTO Ten Year History of Assessed Valuations

<i>Fiscal Year</i>	<i>Real Property Assessed Valuation⁽¹⁾</i>	<i>Personal Property Assessed Valuation</i>
1999-00	\$ 7,113,017,315	\$374,764,312
2000-01	8,284,751,572	465,640,345
2001-02	9,240,625,466	400,351,138
2002-03	10,005,769,331	229,231,096
2003-04	10,516,523,400	433,048,483
2004-05	11,405,079,179	504,487,150
2005-06	12,734,371,632	513,206,844
2006-07	14,625,449,070	556,511,925
2007-08	15,962,154,212	563,106,853
2008-09	14,817,439,301 ⁽²⁾	615,545,728

⁽¹⁾ All years shown at full cash value.

⁽²⁾ The Stanislaus County Assessor re-assessed all homes sold from 2003 to 2008.

Source: Stanislaus County Assessor; last equalized roll.

Tax Levies and Delinquencies

Taxes are collected by the Stanislaus County Tax Collector and are currently distributed under the “Teeter Plan” (as described below). Taxes and assessments on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year, and become delinquent after December 10 and April 10, respectively. A penalty of 10% is added to the first installment if not paid on or before December 10, and 10% is added to the second installment if not paid on or before April 10. At the end of the first year of delinquency, property is sold to the State.

Under the Teeter Plan (as described below), a county forwards 100% of property tax levies, including taxes for prior years, to underlying governmental entities, including itself. In exchange, the county keeps moneys from all delinquent taxes, interest, and penalties.

The following table shows property tax levies and collections for the City.

CITY OF MODESTO Property Tax Levies And Collections Fiscal Years 2003-04 to 2007-08

<i>Year Ended June 30</i>	<i>Total Tax Levy⁽¹⁾</i>	<i>Current Tax Collected</i>	<i>Percent of Levy Collected</i>	<i>Delinquent Tax Collections</i>	<i>Total Tax Collections</i>	<i>Total Collections as Percent of Current Levy⁽²⁾⁽³⁾</i>
2004	\$ 9,709,897	\$ 9,440,383	97.22%	\$107,388	\$ 9,547,771	98.33%
2005	10,568,415	10,133,222	95.88	24,163	10,157,385	96.11
2006	11,130,020	10,794,066	96.98	233,290	11,027,356	99.08
2007	12,669,332	11,884,410	93.80	558,622	12,443,032	98.21
2008	13,626,496	12,698,563	93.19	657,619	13,356,182	98.02

(1) Totals include exempt organizations.

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

(3) Since 1994, the City has participated in the County of Stanislaus “Teeter Plan” (as described below) which guarantees the City 100% of each year’s property tax levy in exchange for the County retaining late fees and delinquency penalties.

Source: City of Modesto, Comprehensive Annual Financial Reports for Fiscal Years 2004, 2005, 2006; County of Stanislaus for Fiscal Years 2007 and 2008.

Teeter Plan

The Board of Supervisors of the County, in 1994, adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code. Pursuant to the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources account and each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its fund, in the same manner as if the amount credited had been collected.

The County is responsible for determining the amount of the tax levy on each parcel in the taxing entity, which is entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County’s Auditor-Controller determines the total amount of taxes and assessments actually extended on the roll for each fund for which a tax levy has been included, and apportions 100% of the tax and assessment levies to that fund’s credit. Such moneys may thereafter be drawn against the taxing agency in the same manner as if the amount credited had been collected. The County determines which moneys in the County treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent of the amount if

uncollected taxes credited to each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources accounts.

So long as the Teeter Plan remains in effect, the City's receipt of revenues with respect to the levy of *ad valorem* property taxes will not be dependent upon actual collections of the *ad valorem* property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances terminate the Teeter Plan in its entirety and, in addition, the Board of Supervisors could terminate the Teeter Plan if the delinquency rate for all *ad valorem* property taxes levied within the City in any year exceeds 3%. In the event that the Teeter Plan were terminated, the amount of the levy of *ad valorem* property taxes in the City would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the City.

Although the County is entitled to draw on the full amount of taxes credited to the tax fund for a taxing entity in approximately October of each tax year, it has been the City's experience that it receives approximately 55% of the tax allocations for the year by December 31, an additional 40% by April 30 and the final 5% by June 30.

Non-Real Estate Taxes

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

Sales and Use Tax. The sales and use tax (\$20,380,941) and in lieu sales tax amount (\$6,557,121) accounted for approximately 35% of the City's tax revenues in the General Fund in fiscal year 2007-08, a decrease of approximately 3.4% from the prior fiscal year. The 7.375% sales and use tax is levied and collected by the State, which returns to the City 0.95% (the local share of sales tax) of the amount of sales in the City. Through the legislation that restored local revenues, the state provides an in-lieu payment from property taxes in an amount equal to .25% of the local tax.

Business License Tax. The City levies a business license tax which accounted for \$9,828,839, or approximately 12.6% of the City's tax receipts in the General Fund in fiscal year 2007-08, a decrease of approximately 5% from the prior fiscal year. The tax is paid by certain businesses located in the City at varying percentages of gross receipts.

Other Taxes. Other taxes levied by the City include the transient occupancy tax on hotel and motel bills, utility consumption, a real property transfer tax and a franchise fee.

The following table presents the tax revenues of the City for the last five Fiscal Years:

CITY OF MODESTO
General Fund Tax Revenues By Source
Fiscal Year Ended June 30,

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008⁽¹⁾</i>
Sales and Use Tax	\$27,150,743	\$21,277,711	\$22,287,940	\$20,483,152	\$20,380,941
Utility Users Tax	14,718,858	15,622,652	17,584,060	18,319,657	19,418,836
Property Taxes	11,294,599	11,316,694	14,318,747	16,456,379	16,100,367
Business License Taxes	9,231,136	9,726,816	10,374,157	10,359,058	9,828,839
Other Taxes ⁽²⁾	<u>4,267,053</u>	<u>10,086,397</u>	<u>12,412,239</u>	<u>12,643,171</u>	<u>12,058,522</u>
Total	\$66,662,389	\$68,030,270	\$76,977,143	\$78,261,417	\$77,787,505

⁽¹⁾ Estimated, unaudited figures

⁽²⁾ Includes Transient Occupancy Tax, Franchise Tax and after Fiscal Year 2003-04, In-lieu Sales Tax.

Source: City of Modesto Finance Department.

Motor Vehicle License Fees

Prior to 2003, a significant revenue source of the City was State of California payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles license fees ("VLF") collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as "intergovernmental revenues from other agencies."

Several years ago, the state-wide VLF was reduced by approximately two-thirds. However, pursuant to legislation, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the "VLF backfill." On June 19, 2003, the State triggered an increase in VLF to be effective beginning October 1, 2003. The Governor signed an executive order on November 17, 2003 to reduce the VLF rate once again, eliminating the increase. On December 17, 2003 the Governor issued another executive order, this time appropriating \$2.625 billion to provide backfill funding for the city and county VLF funding in 2003/04 which covered the backfill except for the VLF loan amounts.

The State Legislature adopted AB 1768 which deferred payment to local agencies of the amount of the VLF backfill that related to the period from June 20, 2003 to September 30, 2003 when the higher VLF went into effect, until August 2006. This VLF "gap" or "loan" was approximately \$1.2 billion statewide. The City's share of the "loan" was \$3.4 million. The State repaid its VLF loans in July 2005.

The City's budgeted VLF amount of \$16,961,000 for fiscal year 2007-08 is based on projected amounts and includes the property tax backfill provided for in current state legislation. The State's fiscal year 2005-06 Budget realigned certain property tax revenues so that cities and counties would be kept whole with respect to the amount of the VLF backfill in future years. The City accounts for this realignment of property taxes in-lieu of VLF in the same manner as VLF in its financial statements.

Largest Property Taxpayers

The ten largest property-taxpayers in the City for fiscal year 2007-08 and their percentage of total property taxes are shown in the following table:

CITY OF MODESTO Principal Payers of Property Tax

<i>Rank</i>	<i>Name</i>	<i>Value</i>	<i>Tax Amount</i>	<i>Percent of Total</i>
1	Doctors Medical Center of Modesto	\$113,539,310	\$1,216,775.80	0.69%
2	Macerich Vintage Faire Limited Partnership	90,789,360	963,434.04	0.55
3	Foster Dairy Farms	83,628,106	896,224.02	0.51
4	Phenix Management Corp	55,905,271	585,004.63	0.34
5	Stanislaus Partners	43,251,060	463,512.10	0.26
6	HRC Modesto, LLC	34,489,259	360,927.00	0.21
7	William Lyon Homes Inc	24,937,727	492,520.68	0.15
8	Brooks Landing Apt. Assoc. LLC Et Al	24,050,457	379,767.64	0.15
9	Hamilton Meredith C Tr Et Al	21,695,603	236,208.10	0.13
10	Gallo Glass Co	<u>21,472,938</u>	<u>230,120.84</u>	<u>0.13</u>
		\$513,759,091	\$5,824,494.85	3.12%

Source: Stanislaus County Tax Collector.

Employment

The City forms part of the Modesto Metropolitan Area Labor Market (Stanislaus County) reported on periodically by the State Department of Employment Development. As of June 2008, this labor market had a total civilian employment of 213,800.

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2004 through 2007 and for the month of June 2008. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

MODESTO METROPOLITAN STATISTICAL AREA
Industry Employment and Labor Force
(Annual Averages)⁽¹⁾

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>June 2008</i>
<u>Civilian Labor Force</u>					
Employment	204,600	210,800	227,100	231,200	213,800
Unemployment	20,700	19,000	18,100	20,300	26,200
Unemployment Rate	9.2%	8.3%	8.0%	8.8%	10.9%
<u>Wage and Salary Employment:</u>					
Total Farm	13,800	14,100	14,100	12,800	16,700
Natural Resources, Mining and Construction	12,300	13,300	13,400	11,400	10,300
Manufacturing	22,700	22,300	23,100	22,700	22,400
Wholesale Trade	6,000	6,200	5,900	6,000	5,900
Retail Trade	21,500	22,700	22,500	22,200	22,200
Transport., Warehousing, Utilities	4,700	5,200	5,200	5,600	5,800
Information	2,500	2,500	2,400	2,300	2,300
Financial Activities	6,100	6,200	6,400	6,200	5,900
Professional and Business Services	14,200	14,900	14,800	14,900	15,100
Educational and Health Services	19,200	19,500	19,600	21,100	21,700
Leisure and Hospitality	14,200	14,800	15,500	15,400	15,400
Other Services	6,200	6,100	5,900	6,000	6,100
Federal Government	1,200	1,200	1,200	1,100	900
State Government	1,700	1,700	1,800	1,800	2,000
Local Government	<u>22,100</u>	<u>22,700</u>	<u>23,300</u>	<u>23,300</u>	<u>23,100</u>
Total All Industries	168,500	173,300	172,500	172,800	175,800

⁽¹⁾ Latest available information.

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department.

Industrial and Commercial Development

The City is located in the heart of California's Central Valley, a highly productive agricultural area. The availability of low-cost power, modern sewage treatment and disposal facilities, a good supply of water, reasonably priced developable land and excellent transportation facilities have been important factors in the development of a sound and growing industrial base.

Approximately 432 commercial manufacturing plants are located in and surrounding the City, comprising a growing manufacturing base. Manufacturing accounts for approximately 18.9% of all wage and salary workers.

There are over 4,200 total net acres of industrially-zoned lands within the Modesto sphere of influence, of which approximately 1,729 are within the City limits. Most of Modesto's large manufacturing employers are located in the Beard Industrial District, situated south of Yosemite Boulevard in eastern Modesto. Such employers include E&J Gallo Winery, Frito-Lay, Del Monte, Parker Hannifin, Seneca, Georgia Pacific, and Weyerhaeuser. This area, highly developed and provided with all utilities and services, is located outside the City but is served by the Modesto and Empire Traction Company, a short-line railroad connecting with the Union Pacific and Burlington Northern Santa Fe (BNSF) railroads in the metropolitan area. The south Modesto industrial area, located within the City, is accessible by the Union Pacific railroad. The largest manufacturing employers in Stanislaus County as of December 2007, are as follows:

STANISLAUS COUNTY
Largest Manufacturing Employers as of December 2007

<i>Name of Company</i>	<i>Employment</i>	<i>Product(s)</i>
E & J Gallo Wine	3,300	Winery
Seneca Foods	2,300	Fruit Products
Del Monte Foods	1,850	Fruit Products
Stanislaus Food Products	1,800	Tomato Products
Foster Farms	1,608	Poultry Processor
ConAgra	1,300	Food Processing
Racor	800	Filtration Products
Bronco Wine	750	Winery
Frito-Lay	700	Snack Food Products
Patterson Vegetable Company	675	Frozen Food Products

Source: Stanislaus Economic Development and Workforce Alliance.

Construction Activity and Property Value

“Single Family Housing,” includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. “Multi-Family Housing,” includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multi-family housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. “Residential Alterations and Additions,” means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

“New Commercial,” includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. “New Industrial,” includes manufacturing plants and affiliated buildings. “Other New Nonresidential,” includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, and miscellaneous nonresidential structures. “Nonresidential Alterations and Additions,” means alterations, additions, and conversions to nonresidential structures, excluding special installation

permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

Provided below are the building permits and valuations for the City for calendar years 2003 through 2007.

CITY OF MODESTO
Residential and Nonresidential Building Permit Valuations
and Total Residential Building Permits

	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Permit Valuation					
New Single-family	\$ 169,031,342	\$ 69,285,758	\$ 168,770,716	\$ 80,245,831	\$ 55,199,615
New Multi-family	6,105,669	20,343,871	1,118,710	3,812,649	30,912,544
Res. Alterations & Additions	39,686,601	80,226,181	45,317,392	39,017,104	80,583,151
Total Residential	214,823,612	169,855,810	215,206,818	123,075,584	166,695,310
New Commercial	24,687,807	46,240,400	11,798,301	27,027,077	59,163,453
New Industrial	994,822	3,204,092	1,202,465	2,279,197	10,000
New Other	39,686,601	37,838,523	62,440,247	21,941,020	5,188,331
Non-Res. Alterations & Additions	33,473,125	36,444,721	69,587,431	36,071,154	40,412,881
Total Nonresidential	<u>98,842,355</u>	<u>123,727,736</u>	<u>145,028,444</u>	<u>87,318,448</u>	<u>104,774,665</u>
Total All Building	\$313,665,967	\$293,583,546	\$360,235,262	\$210,394,032	\$271,469,975
New Dwelling Units					
Single Family	838	345	868	378	288
Multiple Family	77	288	13	37	288
Total	915	633	881	415	576

Note: Totals may not add up because of rounding.

Source: Building Permit Summary, City of Modesto.

Commercial Activity

The City is the retail, financial and service center of Stanislaus County. The City's economy, while primarily agricultural, does include other economic sectors. The table below summarizes taxable sales for the calendar years 2002 through 2006.

CITY OF MODESTO
Taxable Transactions
Calendar Years 2002 through 2006
(in Thousands of Dollars)

Retail Outlets	2002	2003	2004	2005	2006
Apparel stores	\$ 129,773	\$ 126,372	\$ 147,849	\$ 168,064	163,548
General merchandise stores	507,438	518,024	539,780	549,742	543,987
Food stores	119,423	136,462	162,515	168,121	131,263
Eating and drinking places	235,337	245,609	259,861	272,313	275,393
Home furnishing and appliances	131,234	130,089	162,749	169,723	121,102
Bldg. materials and farm implements	188,388	204,427	288,841	316,796	204,034
Auto dealers and supplies	247,861	259,395	260,655	247,795	218,243
Service stations	101,551	115,317	126,608	146,946	175,359
Other retail stores	<u>381,371</u>	<u>392,650</u>	<u>394,363</u>	<u>405,229</u>	<u>449,981</u>
Subtotal	\$2,042,376	\$2,128,345	\$2,343,221	\$2,444,729	\$2,282,910
All Other Outlets	<u>372,899</u>	<u>433,387</u>	<u>311,646</u>	<u>309,659</u>	<u>395,515</u>
All Outlets	\$2,415,275	\$2,561,732	\$2,654,867	\$2,754,388	\$2,678,425

Source: State of California, Board of Equalization.

The following table shows the dollar volume of taxable transactions in the County of Stanislaus from 2002 through 2006.

COUNTY OF STANISLAUS
Taxable Transactions
Calendar Years 2002 through 2006
(in Thousands of Dollars)

Retail Outlets	2002	2003	2004	2005	2006
Apparel stores	\$ 154,083	\$ 154,867	\$ 192,858	\$ 213,850	\$ 224,909
General merchandise stores	784,431	803,255	846,742	927,418	956,378
Specialty stores	432,777	465,562	501,694	535,480	558,432
Food stores	260,781	282,781	291,867	308,864	320,361
Eating and drinking places	403,421	421,793	452,120	489,169	505,384
Household	181,384	187,214	198,691	210,720	192,275
Building materials	368,472	416,983	508,825	572,552	567,014
Automotive	1,248,936	1,305,986	1,396,277	1,516,702	1,573,719
Other retail stores	<u>273,693</u>	<u>297,729</u>	<u>331,376</u>	<u>368,269</u>	<u>369,917</u>
Subtotal	\$ 4,107,978	\$4,336,170	\$4,720,450	\$5,143,024	\$5,268,389
Business and Personal Services	233,862	224,429	240,245	253,838	240,304
All Other Outlets	<u>1,494,025</u>	<u>1,614,893</u>	<u>1,804,973</u>	<u>1,889,038</u>	<u>1,843,839</u>
All Outlets	\$ 5,825,865	\$6,175,492	\$6,765,668	\$7,285,900	\$7,352,532

Source: State of California, Board of Equalization.

Agriculture

The City is located in one of the most productive agricultural areas in the United States. The County of Stanislaus ranks in the top ten of the nation's counties in sales of agricultural products with production primarily in fruits, nuts, livestock and animal products. There are 879,381 acres of farmland in production in the County. The following table summarizes historical agricultural production within the County for calendar years 2003 through 2007.

STANISLAUS COUNTY Agricultural Production 2003-2007

<i>Commodity</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Fruit and Nut Crops	\$ 431,642,000	\$ 616,452,000	\$ 686,897,000	\$ 660,001,000	\$ 755,874,000
Vegetable Crops	105,667,000	125,903,000	91,454,000	93,239,000	106,106,000
Field Crops	127,329,000	137,871,000	147,744,000	167,576,000	177,011,000
Seed Crops	533,000	401,000	810,000	617,000	756,000
Apiary	7,565,000	8,865,000	12,045,000	12,745,000	31,139,000
Nursery Crops	99,164,000	111,272,000	71,240,000	87,351,000	99,985,000
Livestock & Poultry	239,990,000	403,205,000	401,244,000	628,551,000	446,133,000
Livestock & Poultry Products	<u>443,042,000</u>	<u>574,465,000</u>	<u>566,161,000</u>	<u>498,072,000</u>	<u>796,567,000</u>
TOTALS	\$1,454,932,000	\$1,978,434,000	\$1,977,595,000	\$2,148,152,000	\$2,413,571,000

Source: Stanislaus County Department of Agriculture

Fruit and nut crops amounted for nearly a third of the total annual gross value of farm production in the County. The production value of fruit and nut crops exceeded \$775 million in 2007 to rank as the major commodity group in the County. In 2007, almonds headed the list of products in this group, with a gross value of more than \$465 million. The following table shows a listing of the leading agricultural commodities in 2007.

LEADING FARM COMMODITIES IN STANISLAUS COUNTY

<i>Rank</i>	<i>Commodity</i>	<i>Gross Production Value in 2007</i>
1	Milk, All	\$745,387,000
2	Almonds	465,800,000
3	Chickens, All	222,431,000
4	Cattle & Calves, All	164,216,000
5	Walnuts	119,065,000
6	Silage, All	77,864,000
7	Deciduous Fruit & Nut Nursery	74,860,000
8	Tomatoes	59,986,000
9	Turkeys, All	54,541,000
10	Peaches, All	52,745,000

Source: Stanislaus County 2007 Agricultural Crop Report.

Educational Facilities

There are 24 public elementary schools, 4 junior high schools, 9 high schools, and 1 continuation high school within the City, plus a number of private institutions of learning. Higher education is provided by Modesto Junior College and California State University at Stanislaus, which offers both undergraduate and graduate degrees.

Transportation

The City is traversed by three state highways. Interstate 5, with which two of these state roads connects, passes approximately 20 miles to the west of the City of Modesto. The City is served by truck and bus lines. Rail service is provided by the Southern Pacific, Union Pacific and Santa Fe railroads. The Modesto City-County airport has daily scheduled commuter service to San Francisco and Los Angeles. The deepwater port of Stockton, California, located approximately 30 miles from the City, provides shipping to coastal and overseas markets.

APPENDIX C

**THE CITY'S AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR 2006-07**

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**CITY OF
Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2007**

**Prepared by
Finance Department**

CITY OF MODESTO
June 30, 2007
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INTRODUCTORY SECTION

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December 21, 2007

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Modesto:

The City of Modesto City Charter and Municipal Code require that a complete financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2007.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represent the financial position and results of operations of the City. The disclosures necessary to enable the reader to understand the City's financial affairs have been included. The City's accounting system has been developed and maintained with due consideration given to the adequacy of internal controls. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The evaluation of the costs and benefits of particular control requires estimates and judgments by management.

The Charter also requires an annual audit by an independent certified public accountant selected by the City Council. The accounting firm of Maze & Associates was selected in 2003 to perform the City's annual financial audits. The auditors have issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2007, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133. The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A is designed to be read in conjunction with this transmittal letter.

City of Modesto Profile

Modesto is a dynamic city located in the heart of California's San Joaquin Valley and is the retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 36 square miles and serves a population of over 209,000. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council.

Incorporated in 1884, Modesto adopted its City Charter on March 12, 1951, and has operated under the council-manager form of government since that date. Under this form of government, policy-making and legislative authority are vested in an elected council consisting of the Mayor and six members. The Modesto City Council is elected by chair on a non-partisan basis,

meaning 6 members represent the entire City rather than specific geographical areas within the City's boundaries. The Mayor is elected separately on a non-partisan basis. The Mayor and City Council are responsible for passing ordinances, adopting and amending the operating and capital budgets, appointing various committee members, and hiring the City Manager, City Attorney, and City Clerk/Auditor. The City Manager of Modesto is charged with carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City, and for appointing the Deputy City Manager and department heads, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision. Support services departments, like Finance, Personnel and Information Technology report to the City Manager.

The City provides services typically associated with a municipality. These include administrative services; police and fire protection; highway, street, and utility infrastructure construction and maintenance; sanitation; planning and zoning; recreational activities and cultural events. Parking, airport facilities, water, sewer, storm drainage and bus services are also provided.

The City's financial reporting entity includes all funds and activities of the City of Modesto as the primary government and its component units, which are legally separate entities that operate under the auspices of the City and provide services that supplement City services. The City's component units are blended into the City's funds because their governing boards consist of all seven members of the City Council. These component units are the Modesto Municipal Sewer District No. 1, the Redevelopment Agency of the City of Modesto, the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for Modesto's financial planning and control. The proposed budget is adopted annually prior to July 1, by passage of a resolution. The Council's legally adopted budget level is at the fund level. During the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delegate budget control authority to the Council, City Manager and the Finance Director.

Local economy

Modesto area employment in retail and manufacturing remained strong over the past year. Retail sector jobs account for one-sixth of Stanislaus County's wage and salary workers with the manufacturing sector trailing close behind. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values. The county's leading commodities are milk, almonds and poultry.

The unemployment rate has remained fairly steady for the last several years and is 6.8%. Just over 10 years ago the unemployment rate was 15%. Since 2000, over 12,000 jobs have been added to the local economy, representing cumulative growth of more than 8%. Industries recording the most growth were: educational and health services; retail sales, and construction. Employees within the community enjoy an average commute time of 26 minutes.

Building permit activity has boomed over the past decade. In fiscal year 1996, the City issued 4,186 permits with estimated cost of construction valued at \$114 million. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued, and activity has remained above 5,000 permits annually since 2001. During fiscal year 2007, 5,174 permits were issued valued at \$228 million.

Since 2000, the City's population grew 11.1% to 209,174. This population growth is largely attributable to the relatively low cost of housing compared to the Bay Area and to the growth of employment within the region.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 68% of total General Fund expenditures in 2007, compared with 62.4% ten years ago. Expenses for other governmental functions have remained steady or decreased compared to total fund expenses during the same time period. Increased staffing, driven by the growth in the population, as well as higher salaries and charges for retirement, have caused the increase in public safety charges.

Long-Term Financial Planning

In Fiscal Year 2003, the City Council adopted a policy of maintaining at least 8% of General Fund expenditures in reserve. At the end of Fiscal Year 2007, the General Fund unreserved and undesignated balance was \$10.7 million representing 8.3% of total General Fund outflows (expenditures and transfers out).

State Impacts

Between Fiscal Years 1991 and 2005, the State of California diverted \$36.6 million in local revenues from the City of Modesto into its own coffers. In 2005 the state enacted new legislation known as the Triple-Flip. As the name implies, a series of revenue exchanges take place leaving the City with 25% less sales tax revenue and more property tax revenue in its place. A similar exchange takes place leaving the City with property tax revenue in place of 67% of the In-Lieu Vehicle License Fees. These exchanges not only affect the character and amount of the revenues received by the City but also affect City cash flow, because a monthly stream of payments has been replaced by semi-annual payments.

Important Financial Policies

In 2003, the City Council adopted a series of financial policies that direct how the City's financial business is conducted. In addition to the 8% General Fund reserve level, these policies include direction on departmental annual budget savings, tracking of all transfers to the Redevelopment Agency for future payback, capital budgeting, interfund loan interest rates and investment pool interest allocation. These policies were reviewed and revised at the start of the 2007 Fiscal Year.

Major Initiatives

During Fiscal Year 2005, California voters approved Proposition 1A. This initiative places stricter controls on the state's ability to divert local revenue. While this protection is seen as beneficial to local government, local revenues are still affected by the Triple-Flip component of the legislation described above. In Fiscal Year 2006, the last payment to be made under the revised legislation that shifted local property tax dollars to the Education Revenue Augmentation Fund was made. Now, with the State of California facing a \$10 billion shortfall in revenues, it remains to be seen how the legislature will affect local revenues under Proposition 1A.

Awards and Acknowledgments

For the twenty-third consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2006. To receive this recognition, the City must publish an easily readable and efficiently organized report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. The award is valid for a period of one year. We believe that the current Comprehensive Annual Financial Report continues to meet the requirements of the program, and it will be submitted to the GFOA to determine its eligibility.

The Comprehensive Annual Financial Report is the result of the cooperative work of many people. We wish to convey our appreciation to all members of the Finance Department team who assisted and contributed to its successful completion. In particular, we commend the Accounting Division staff responsible for the preparation of the report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "M. Wayne Padilla", written in a cursive style.

M. Wayne Padilla, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto
California

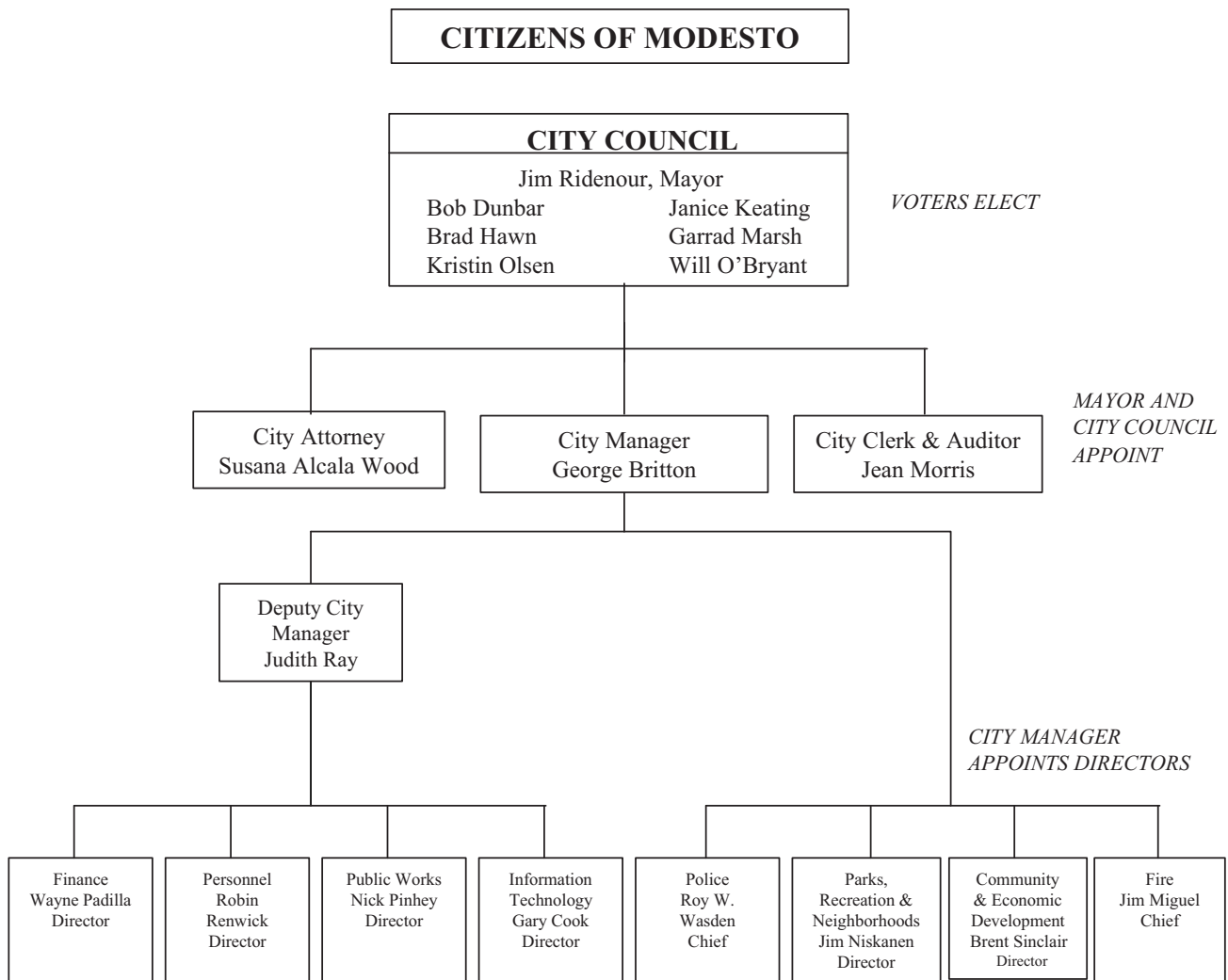
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



Citizens Advisory Boards, Commissions and Committees

Airport Advisory Committee
 Board of Building Appeals
 Board of Zoning Adjustments
 Charter Review Committee
 Citizen Housing & Community Development
 Citizens Advisory Committee on Recycling
 Citizens Redevelopment Advisory Committee
 Community Qualities Forum
 Culture Commission
 Disabled Access Appeals Board

Downtown Improvement District Advisory Board
 Equal Opportunity/Disability Commission
 Golf Courses Committee
 Housing Rehabilitation Loan Committee
 Human Relations Commission
 Landmark Preservation Commission
 Local Cable Programming Committee
 Planning Commission
 Tuolumne River Regional Park Citizens Advisory Committee
 Youth Commission

*ALSO
 APPOINTED BY
 THE MAYOR
 AND CITY
 COUNCIL*

FINANCIAL SECTION

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**INDEPENDENT AUDITOR'S REPORT
ON BASIC FINANCIAL STATEMENTS**

To the Honorable Mayor and Members of the City Council
City of Modesto, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of June 30, 2007 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated December 14, 2007 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis and the Budget and Actual statement for the General Fund are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Combining and Individual Fund Statements and Schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic statements of the City of Modesto. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze and Associates

December 14, 2007

A Professional Corporation

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Management's Discussion and Analysis

This section of the City of Modesto (City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2007. 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 2007 fiscal year by \$724,416,295 (*total net assets*). Of this amount, \$127,047,078 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$93,168,664 is restricted for a specific purpose (*restricted net assets*), and \$504,200,553 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$21,948,132. All of this increase is attributable to business type activities.
- As of June 30, 2007, the City's governmental funds reported combined fund balances of \$138,763,177, a decrease of \$10,898,940 in comparison with the prior year. Approximately 68% of the combined fund balances, \$94,853,284 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, the General Fund fund balance was \$14,448,883, or 12% of total General Fund expenditures. Of this, \$3.7 million is reserved for encumbrances and non-current assets. The unreserved/undesignated balance of \$10,713,910 represents 8.3% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% reserve level.
- The City's total long-term debt showed a net increase of \$69,006,844 in comparison with the prior year. Lease revenue bonds were partially refunded for a net increase of \$3.9 million, including \$2.6 million of new construction funds, new debt was issued for Water and Sewer projects (\$46.3 and \$16.5 million, respectively), and an increase in compensated absences liabilities of approximately \$6.3 million were offset by principal and other reductions of approximately \$4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all City assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, community development, highways and streets, public works, parks and recreation, and public safety. The business-type activities of the City include the water, sewer, parking, storm drain, airport, bus, golf and community center operations.

Component units are included in our basic financial statements and consist of legally separate entities for which the City is financially accountable and that have substantially the same board as the City Council, or provide services entirely to the City. Examples are the Redevelopment Agency of the City of Modesto and the Modesto Public Financing Authority.

Management's Discussion and Analysis (*continued*)

The government-wide financial statements can be found on pages 17-19 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City reports 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Facility Fees Fund and the Communities Facility District Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental funds financial statements can be found on pages 20-23 of this report

Proprietary funds are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf and Community Center operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal services benefiting business-type functions have been allocated as "internal balances".

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water, 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 24-27 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds.

The fiduciary fund financial statements can be found on page 28 of this report.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 29-54 of this report.

Management's Discussion and Analysis *(continued)*

Required Supplementary Information is also presented. The City adopts an annual appropriated budget. Budgetary comparison schedules for the major governmental funds have been provided to demonstrate compliance with this budget.

Required supplementary information can be found on pages 56-58 of this report.

The *combining and individual fund statements and schedules* referred to earlier provide information for nonmajor governmental, enterprise and internal service funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 62 –98 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$724,416,295 at the close of the most recent fiscal year.

Net Assets

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$235,977,387	\$235,172,812	\$151,849,527	\$75,157,357	\$387,826,914	\$310,330,169
Capital assets	376,422,992	362,971,175	294,466,111	284,722,417	670,889,103	647,693,592
Total assets	612,400,379	598,143,987	446,315,638	359,879,774	1,058,716,017	958,023,761
Current and other liabilities	21,587,793	15,574,156	10,152,964	6,429,320	31,740,757	22,003,476
Long-term liabilities	176,800,687	167,533,635	125,758,279	66,018,487	302,558,966	233,552,122
Total liabilities	198,388,480	183,107,791	135,911,243	72,447,807	334,299,723	255,555,598
Net assets:						
Invested in capital assets, net of related debt	333,409,532	296,401,824	170,791,021	220,881,691	504,200,553	517,283,515
Restricted net assets	93,168,664	120,937,678			93,168,664	120,937,678
Unrestricted net assets	(12,566,297)	(2,303,306)	139,613,374	66,550,276	127,047,077	64,246,970
Total net assets	\$414,011,899	\$415,036,196	\$310,404,395	\$287,431,967	\$724,416,294	\$702,468,163

The largest portion of the City's net assets, \$504,200,553 (70 percent), reflects its investment in capital assets (e.g. land, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City's net assets represents *unrestricted net assets* of \$127,047,0787 (17 percent), which may be used to meet the City's ongoing obligations to citizens and creditors.

The remaining balance of the City's net assets of \$93,168,664 (13 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2007 fiscal year, the City reported positive balances in all three categories of net assets for the City as a whole.

The City's net assets increased by \$21,948,132 during the current fiscal year. All of this increase is attributable to Business-type activities.

Management's Discussion and Analysis *(continued)*

The following table indicates the changes in net assets for governmental and business-type activities, as well as comparative data for the prior year:

Changes in Net Assets						
	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$39,977,342	\$39,789,386	\$87,816,684	\$79,482,231	\$127,794,026	119,271,617
Operating grants and contributions	12,701,177	11,892,511	11,059,129	8,317,889	23,760,306	20,210,400
Capital grants and contributions	4,207,389	38,484,548	7,962,675	10,467,873	12,170,064	48,952,421
General revenues:						
Taxes	56,747,933	52,816,226	222,776	207,749	56,970,709	53,023,975
Grants and contributions not restricted for specific purposes	48,287,468	48,685,311			48,287,468	48,685,311
Unrestricted investment earnings	8,330,079	3,255,401	5,406,639	2,504,291	13,736,718	5,759,692
Settlements and recoveries				3,784,295		3,784,295
Miscellaneous	3,582,325	2,827,161			3,582,325	2,827,161
Total revenues	173,833,713	197,750,544	112,467,903	104,764,328	286,301,616	302,514,872
Expenses:						
General government	17,227,876	15,529,735			17,227,876	15,529,735
Community development	12,025,105	12,241,213			12,025,105	12,241,213
Highways and streets	26,246,306	26,025,311			26,246,306	26,025,311
Public works	12,557,512	6,491,062			12,557,512	6,491,062
Parks and recreation	14,568,192	11,733,698			14,568,192	11,733,698
Public safety	83,793,361	74,500,043			83,793,361	74,500,043
Interest on long-term debt	7,286,026	5,178,130			7,286,026	5,178,130
Parking			1,475,340	1,287,450	1,475,340	1,287,450
Water			35,540,918	29,989,775	35,540,918	29,989,775
Sewer			24,156,577	22,716,100	24,156,577	22,716,100
Storm drain			6,924,335	5,795,746	6,924,335	5,795,746
Compost			1,225,462	941,919	1,225,462	941,919
Airport			2,039,988	1,342,645	2,039,988	1,342,645
Bus			13,758,421	12,119,311	13,758,421	12,119,311
Golf			2,479,447	2,461,470	2,479,447	2,461,470
Community center			2,543,121	2,465,644	2,543,121	2,465,644
Total expenses	173,704,378	151,699,192	90,143,609	79,120,060	263,847,987	230,819,252
Increase in net assets before transfers	129,335	46,051,352	22,324,294	25,644,268	22,453,629	71,695,620
Transfers	(1,153,632)	(1,416,790)	1,153,632	1,416,790		
Special item			(505,498)	(1,736,054)	(505,498)	(1,736,054)
Change in net assets	(1,024,297)	44,634,562	22,972,428	25,325,004	21,948,131	69,959,566
Net assets - beginning	415,036,196	370,401,634	287,431,967	262,106,963	702,468,163	632,508,597
Net assets - ending	\$414,011,899	\$415,036,196	\$310,404,395	\$287,431,967	\$724,416,294	\$702,468,163

Management's Discussion and Analysis (*continued*)

Governmental activities. Governmental activities decreased the City's net assets by \$1,024,297. Taxes (mainly Property and Utility Users taxes) increased about \$4 million over 2006, due to rising tax *bases*; tax *rates* remained the same. Intergovernmental revenues in total were just slightly less than the previous year. However, Sales tax declined by \$1.7 million and Motor Vehicle License revenue increased \$1.2 million. Sales tax revenue from the State of California took a marked downturn in the fourth quarter (fiscal), while changes in the State's distribution of Motor Vehicle License revenues are now tied more to property tax trends than the purchase and licensing of new vehicles. The largest change from the prior year is in capital grants and contributions, with \$30 million coming from Community Facilities District (CFD) bonds issued in 2006, and not repeated in 2007. These CFD bonds have no City commitment, so the debt is not reported as long-term debt and the proceeds were recorded as revenues in the 2006 financial statements. Finally, investment earnings grew by \$5 million due to more favorable investment yields.

Expenses in total are up \$22 million, or 14%, due largely to salary and wage increases (3-3.5%). For 2007, the City's Community Forestry operation was moved to the Public Works function from Highways and Streets, resulting in a \$4 million shift between those functions.

Business-type activities. Business-type activities increased the City's net assets by \$22,972,428. As detailed in the schedule on page 12, the Water, Sewer, Compost and Airport enterprises posted net incomes during the period. Net losses were experienced by Parking, Bus, Storm Drain, Golf and Community Center operations. Depreciation expense, which is the major cause of these net losses, is not included in these funds' budgets or revenue-setting processes. Storm Drain rates will be reviewed in 2008.

Charges for services are up about \$8.3 million, due in part to a 5% water rate increase that became effective on July 1, 2006. Settlements and recoveries revenue decreased \$3.8 million, as PCE settlements slowed pending the outcome of litigation (see Note II. L). Investment earnings grew by \$2.9 million due to more favorable investment yields and growth in the investment portfolio resulting from the deposit of water and wastewater bond proceeds. Finally, expenses across the board are up, primarily due to general increases in salaries and benefits, and the rise in utilities, fuel and materials costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The general government functions are contained in the general, special revenue, capital projects, and debt service funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2007, the City's governmental funds reported combined fund balances of \$138,763,177, a decrease of \$10,898,940 from the prior year. Approximately 68% of the combined fund balances \$94,853,284 constitutes *unreserved fund balance*, which is available to meet the City's current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$7,390,425); 2) to reflect advances to other funds, loans receivable and property held for resale that are long-term and/or do not represent available spendable resources (\$15,347,594); 3) to liquidate contractual commitments of the period (\$15,783,614); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$5,388,260).

The General Fund is the chief operating fund of the City. At June 30, 2007, unreserved fund balance of the General Fund was \$10,713,910 while total fund balance was \$14,448,883. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.2 percent of total fund expenditures, while total fund balance represents 12.4 percent of that same amount. The prior year ratios were 20% and 22%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$171,615,967 in fiscal year 2006-2007, which represents a decrease of 11.7% from fiscal year 2005-2006.

Expenditures of governmental funds totaled \$184,277,408 in fiscal year 2006-2007, representing an increase of 14.3% over the prior year.

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 2007		FY 2006		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$56,748,017	33.1%	\$52,816,596	27.2%	\$3,931,421	7.4%
Licenses and permits	187,289	0.1%	146,854	0.1%	40,435	27.5%
Intergovernmental	66,129,862	38.5%	64,759,658	33.3%	1,370,204	2.1%
Charges for services	36,979,023	21.5%	37,802,149	19.4%	(823,126)	-2.2%
Special assessments	51,634	0.0%	65,909	0.0%	(14,275)	-21.7%
Interest and rent	4,837,419	2.8%	3,755,169	1.9%	1,082,250	28.8%
Net increase (decrease) in fair value	1,168,857	0.7%	103,036	0.1%	1,065,821	1034.4%
Fines and forfeits	2,699,445	1.6%	1,675,926	0.9%	1,023,519	61.1%
Contribution of property owners			30,473,773	15.7%	(30,473,773)	100.0%
Miscellaneous	2,814,421	1.5%	2,821,161	1.4%	(6,740)	-0.2%
Total	\$171,615,967	100.0%	\$194,420,231	100.0%	(\$22,804,264)	-11.7%

- Taxes –Utility Users taxes, Property taxes, and Redevelopment Agency Tax Increment (an allocation of property taxes) all increased over the prior year (\$.8, \$.2.1, and \$.9 million, respectively), while the other tax categories showed only slight increases due to rising tax *bases*; tax *rates* remained unchanged.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. Sales tax was down \$1.7 million, but vehicle license fees were up \$1.2 million. The balance of the overall increase is due to higher grant revenues from more aggressive grant billing during the year.
- Charges for services – Included in this category are the Capital Facilities and Community Facility District Fees charged to mitigate the impact of new development on City infrastructure needs. These fees decreased \$.8 million from the prior year, due to an overall slowing of new construction.
- Investment revenues increased over \$2 million due to more favorable market conditions. Fines and forfeitures increased from the red light camera enforcement program and an increase in towed vehicle release fees.
- Contributions from property owners – This source was unique to the prior year, and represented the proceeds of bonds issued by the Community Facility Districts that will be repaid by district charges to property owners. The City has no commitment for the repayment of these bonds.

The following table presents expenditures by function compared to prior year amounts.

Expenditures by Functions Governmental Funds

Exp by Function	FY 2007		FY 2006		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$15,517,544	8.4%	\$14,111,535	8.8%	\$1,406,009	10.0%
Community development	11,789,640	6.4%	12,296,072	7.6%	(506,432)	-4.1%
Highways and streets	12,553,681	6.8%	14,357,041	8.9%	(1,803,360)	-12.6%
Public works	11,307,307	6.1%	5,647,023	3.5%	5,660,284	100.2%
Parks and recreation	13,348,613	7.2%	11,662,263	7.2%	1,686,350	14.5%
Public safety	80,988,650	43.9%	74,527,875	46.2%	6,460,775	8.7%
Capital outlay	30,194,778	16.4%	21,563,774	13.4%	8,631,004	40.0%
Debt Service-principal retirement	2,008,538	1.1%	1,901,827	1.2%	106,711	5.6%
Debt Service-interest charges	4,413,300	2.4%	4,576,780	2.8%	(163,480)	-3.6%
Debt Service-Advance refunding	822,228	0.4%			822,228	100.0%
Debt Service-other	1,333,129	0.7%	618,742	0.4%	714,387	115.5%
Total	\$184,277,408	100.0%	\$161,262,932	100.0%	\$23,014,476	14.3%

Management's Discussion and Analysis *(continued)*

The following provides an explanation of the expenditures by function that changed significantly over the prior year:

- General government –Expenditures increased about \$1.4 million, or 10% over the prior year, generally due to modest salary and benefit increases during the year.
- Highways and streets – Expenditures show a decrease of \$1.8 million or 12.6%, mostly due to a reclassification of the \$5 million Community Forestry division from Streets to Public Works.
- Public Works – As noted above, the Community Forestry operations are now included in this category.
- Public safety –Expenditures increased about \$6.5 million, or 8.7% over the prior year. Cost of living increases and related benefits and pension costs contributed significantly toward this increase.
- Capital outlay –The increase of \$8.6 million the substantial expenditure of the prior year Community Facilities Districts bond funds on infrastructure improvements in the Districts.

Other financing sources and uses are presented below to illustrate changes from the prior year:

Other Financing sources (Uses)				
<u>Governmental Funds</u>				
	FY 2007	FY 2006	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$23,985,863	\$17,724,718	\$6,261,145	35.3%
Transfers out	(26,399,280)	(20,267,476)	(6,131,804)	30.3%
Proceeds of loans payable	44,138		44,138	100.0%
Proceeds of lease revenue bonds	62,275,000		62,275,000	100.0%
Payments to refunded certificates of participation escrow agent	(58,911,124)		(58,911,124)	-100.0%
Sale of assets	767,904	6,000	761,904	12698.4%
Net financing sources (uses)	<u>\$1,762,501</u>	<u>(\$2,536,758)</u>	<u>\$4,299,259</u>	<u>-169.5%</u>

- Transfers - The City uses interfund transfers to: (1) move revenues from the funds that collect them in accordance with statutory and/or budgetary requirements, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

The net transfers *from* governmental funds for 2007 were (\$2,413,417), compared to \$2,542,758, in the prior year. This net transfer is *to* the proprietary funds, and consists mainly of the operating subsidy to Community Center operations and funding to the Fleet internal services fund for vehicle and equipment replacement.

The annual totals for both transfers in and out vary, depending on the nature of the activities that are undertaken each year.

- Debt transactions – The City received \$44,138 proceeds from a loan from the Stanislaus County Economic Development Bank for business park planning costs. In addition, this schedule reflects the effects of the partial refunding of the 1998 lease revenue bonds. Additional information can be found in Note C. Long-term Debt.
- Sale of assets – In 2007 the City sold the decommissioned park at 17th and G Streets to the Redevelopment Agency for future use in an affordable housing project. The proceeds represent the appraised value of the property.

The current year excess of revenues and other financing sources over expenditures and other financing uses is presented in the following table:

Management's Discussion and Analysis *(continued)*

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

	Major Funds			Nonmajor Funds			
	General	Capital	Community	Special	Capital	Debt	
	Facility Fees	Facilities	Revenue	Projects	Service		
	Fund	Fund	Districts	Funds	Funds	Funds	Total
Revenues	\$117,932,681	\$11,340,636	\$8,915,860	\$22,344,948	\$7,513,088	\$3,568,754	\$171,615,967
Expenditures	(116,890,402)	(10,265,441)	(16,624,064)	(23,629,379)	(9,804,377)	(7,063,745)	(184,277,408)
Other financing sources/(uses), net	(9,902,911)	120,682	(920,085)	518,593	9,316,252	2,629,970	1,762,501
Net change in fund balances	(8,860,632)	1,195,877	(8,628,289)	(765,838)	7,024,963	(865,021)	(10,898,940)
Fund balance-July 1	23,309,515	42,107,113	42,135,367	27,441,931	6,412,745	8,255,446	149,662,117
Fund balance June 30	\$14,448,883	\$43,302,990	\$33,507,078	\$26,676,093	\$13,437,708	\$7,390,425	\$138,763,177

The fund balance of the City's General Fund decreased by \$8,860,632 during the fiscal year. Total revenues increased \$3.1 million, while expenditures increased \$12.6 million over the prior year. While revenues didn't increase as much as projected, these changes were consistent with plans to spend down the General Fund reserves closer to the City Council's adopted 8% level.

Capital Facility Fee revenues, derived from impact fees on new development, decreased \$1.9 million from the prior year, reflecting the decrease in housing starts. Expenditures on capital projects increased by \$931,112. Yet, revenues still exceeded expenditures by \$1.1 million. The significant fund balance is budgeted for large, multi-year projects to mitigate the effects of growth on the community.

Community Facility Districts became a major fund in 2006 with the infusion of \$30 million from bonds issued that year. Regular CFD charges were \$3.8 million more than in 2006, but expenditures increased almost \$10 million. Significant expenditures on capital projects are expected to continue over the next 3 years.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds			Nonmajor Funds						
	Water	Sewer	Bus	Parking	Storm Drain	Compost	Airport	Golf	Community Center	Total
Operating revenues	\$49,305,033	\$24,833,019	\$2,545,790	\$1,128,755	\$5,403,474	\$1,254,137	\$604,214	\$2,189,384	\$552,878	\$87,816,684
Operating expenses	(32,466,468)	(21,271,818)	(13,614,093)	(1,441,651)	(6,546,654)	(1,193,925)	(2,008,982)	(2,172,537)	(2,488,250)	(83,204,378)
Operating income (loss)	16,838,565	3,561,201	(11,068,303)	(312,896)	(1,143,180)	60,212	(1,404,768)	16,847	(1,935,372)	4,612,306
Non-operating revenues (expenses), net	1,329,710	(247,291)	9,886,461	37,724	(219,287)	42,464	1,004,763	(198,809)	490,142	\$12,125,877
Income (loss) before capital contributions, transfers and special items	18,168,275	3,313,910	(1,181,842)	(275,172)	(1,362,467)	102,676	(400,005)	(181,962)	(1,445,230)	16,738,183
Contributions, transfers and special items	2,248,550	2,618,988	299,457	180,000	844,912	(99,000)	1,087,352	42,061	724,826	7,947,146
Net income (loss)	\$20,416,825	\$5,932,898	(\$882,385)	(\$95,172)	(\$517,555)	\$3,676	\$687,347	(\$139,901)	(\$720,404)	\$24,685,329

The Water, Sewer, Compost, and Airport enterprises posted net incomes during the period. It is important to note that while the Water and Sewer funds show rather healthy operating results, capital improvement expenditures and debt service principal payments incurred during the year are not reflected in the expenditure totals shown above. Net losses

Management's Discussion and Analysis *(continued)*

were experienced by the other enterprise funds. Golf and Community Center normally receive annual operating subsidies from the General fund, but these subsidies do not cover depreciation expenses, resulting in net losses overall. This is also the case with the Bus fund, which receives capital funding from the federal government. Also, the Golf fund did not receive a subsidy in 2007. Revenues in the Water utility fund rose during the year due to an average 5% rate increase, the last in a series of rate increases to fund capital improvements and debt service, as well as normal growth in the customer base.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on page 56 of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were relatively minor. The estimated revenues increased about \$3.7 million (3%), while total appropriations were increased \$5.6 million, or about 5%. These amendments, generally, were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$3.1 million less than the final estimates. Variances in Sales tax (\$2.3 million), Property taxes (\$400,000) and construction related revenues (\$600,000) were due to the effects of the sub-prime mortgage market that hit in the fourth quarter of fiscal 2007.

Expenditures, overall, were \$3.2 million under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$670,889,103 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 3.6 percent. 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) Percent Change	\$ change
	2007	2006	2007	2006	2007	2006		
Land	\$24,972,386	\$22,982,481	\$26,811,152	\$26,539,639	\$51,783,538	\$49,522,120	4.6%	\$2,261,418
Buildings	20,090,053	21,142,099	45,833,974	48,322,570	65,924,027	69,464,669	-5.1%	(3,540,642)
Improvements	16,437,093	16,668,974	55,372,253	59,863,277	71,809,346	76,532,251	-6.2%	(4,722,905)
Furnishings and equipment	9,086,379	8,059,702	2,405,596	2,893,008	11,491,975	10,952,710	4.9%	539,265
Equipment pool	15,095,983	15,232,410			15,095,983	15,232,410	-0.9%	(136,427)
Streets	231,315,998	234,966,127			231,315,998	234,966,127	-1.6%	(3,650,129)
Signalization	6,202,103	6,583,733			6,202,103	6,583,733	-5.8%	(381,630)
Bridges	23,965,873	25,239,107			23,965,873	25,239,107	-5.0%	(1,273,234)
Buses & fareboxes			7,553,177	8,197,997	7,553,177	8,197,997	-7.9%	(644,820)
Pipelines			112,994,297	110,263,919	112,994,297	110,263,919	2.5%	2,730,378
Construction in progress	29,257,124	12,096,542	43,495,662	28,642,007	72,752,786	40,738,549	78.6%	32,014,237
Total	\$376,422,992	\$362,971,175	\$294,466,111	\$284,722,417	\$670,889,103	\$647,693,592	3.6%	\$23,195,511

Major capital asset events during the current fiscal year included the following:

- Construction in progress – Governmental fund increased due to bond-financed CFD road improvements, roundabouts and a pedestrian overcrossing in Village I. Business type increases were in Water (\$6 million) and Sewer (\$9.2 million) improvements.
- Land – Right-of-way was acquired for the widening of the Pelandale expressway to six lanes.

Management's Discussion and Analysis (continued)

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 37-38 of this report.

Long-term debt

At June 30, 2007, the City had total long-term liabilities outstanding of \$302,558,966, net of unamortized discounts and deferred amounts on refunding, as compared to \$233,552,122 in the prior year. This amount was comprised of \$66,440,000 of lease revenue bonds, \$90,826,989 of certificates of participation, \$51,558,192 of revenue bonds payable, \$67,888,5123 of estimated compensated absences, \$16,626,237 of claims liability, \$2,407,414 of loans payable, \$2,083,189 of developer advances, \$362,987 of capital leases, and \$4,365,446 of notes payable. During the year, retirement of debt and other reductions amounted to \$82,513,016, and new debt and other additions totaled \$151,519,859. These totals include the effects of refunding most of the 1998 lease revenue bonds (\$58 and \$62 million, respectively), the issuance of new Water certificates of participation and Sewer revenue bonds (\$46.3 and \$16.5 million, respectively), and new estimates for compensated absences (\$6.3 million). Additional information on the City's long-term debt can be found in note II.C on pages 39-47 of this report.

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. While the City has yet to implement GASB Statement No. 45 related to Other Post Employment Benefits, the City has consistently included an estimate of its retiree health care obligation from sick-leave conversion in its compensated absences liability. As of June 30, 2007, this amounts to approximately \$57.5 million of the \$67.9 million listed above. This contributes significantly to the EBF's \$49 million unfunded liability. Additional information on the City's EBF can be found in Notes II-H and III-G.

Economic Factors and Next Year's Budget and Rates

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past six years. In June 2000, the CPI-Western Urban Index was 3.5 % higher than the year before. In the year ending June 30, 2007, the CPI-Western Urban Index increased 3.0%.
- *Taxable Sales* - Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In future years, annual taxable sales growth is projected to be lower due to the effects of the slow down in new housing starts and the sub-prime mortgage market collapse.
- *Building Permit Activity* - Building permit issuance, which had been extremely robust for several years, peaked at 5,968 for fiscal 2006. For the fiscal year ending June 30, 2007, 5,174 permits were issued, with an average construction value of \$44,000.
- *Utility Service Charges* - Water utility rates were increased an average of 5% effective July 1, 2006. This is the last in a series of increases adopted by the City Council and is intended to fund major capital improvements to the water system. A new water utility rate study will be undertaken in the second half of the 2007-2008 fiscal year. The City Council adopted new sewer utility rates that became effective August 1, 2007. New sewer connection fees were also adopted in July, raising the average fee from \$500 per home to \$4,876 per home.

All of these factors were considered in preparing the City's budget for fiscal year 2008.

During the current fiscal year, unreserved fund balance in the General Fund decreased by \$9.6 million, to \$10,713,910, which represents 8.3% of total General Fund outflows versus the City Council's target of 8%. The budget adopted for fiscal year 2007-2008 maintains this target reserve level.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353.

BASIC FINANCIAL STATEMENTS

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CITY OF MODESTO
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 176,305,862	\$ 137,390,448	\$ 313,696,310
Accounts receivable, net	2,065,948	318,958	2,384,906
Interest receivable	523,867	537,321	1,061,188
Utility billings receivable, net	886,786	9,640,604	10,527,390
Taxes receivable	9,840,090	5,905	9,845,995
Due from governments, net	11,301,723	2,588,188	13,889,911
Notes receivable, net	15,117,307		15,117,307
Prepaid expenses	1,308	706,673	707,981
Property held for resale	780,000	630,000	1,410,000
Internal balances	1,754,404	(1,754,404)	
Inventories	763,492		763,492
Unamortized costs of debt issuance		1,785,834	1,785,834
Investments in joint ventures	16,636,600		16,636,600
Capital assets:			
Land and construction in progress	54,229,510	70,306,814	124,536,324
Other capital assets, net of accumulated depreciation	322,193,482	224,159,297	546,352,779
Total assets	<u>612,400,379</u>	<u>446,315,638</u>	<u>1,058,716,017</u>
<u>LIABILITIES</u>			
Accounts payable	8,541,419	4,987,924	13,529,343
Accrued salaries and benefits	1,372,293	238,264	1,610,557
Approved loans payable	2,724,225		2,724,225
Interest payable	836,032	726,834	1,562,866
Unearned revenues	3,771,698	3,118,569	6,890,267
Refundable deposits	4,342,126	1,081,373	5,423,499
Long-term liabilities:			
Due within one year	10,210,601	3,110,947	13,321,548
Due in more than one year	166,590,086	122,647,332	289,237,418
Total liabilities	<u>198,388,480</u>	<u>135,911,243</u>	<u>334,299,723</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	333,409,532	170,791,021	504,200,553
Restricted for:			
Capital projects	58,413,311		58,413,311
Housing and community development	22,222,295		22,222,295
Redevelopment	9,818,201		9,818,201
Debt Service	151,916		151,916
Other purposes	2,562,941		2,562,941
Unrestricted	(12,566,297)	139,613,374	127,047,077
Total net assets	<u>\$ 414,011,899</u>	<u>\$ 310,404,395</u>	<u>\$ 724,416,294</u>

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 17,227,876	\$ 3,775,368		
Community development	12,025,105	10,873,541		
Highways and streets	26,246,306	10,719,009	\$ 4,525,132	\$ 2,102,247
Public works	12,557,512	1,757,648	964,612	
Parks and recreation	14,568,192	4,437,320	3,610,022	2,105,142
Public safety	83,793,361	8,414,456	3,601,411	
Interest on long-term debt	7,286,026			
Total governmental activities	<u>173,704,378</u>	<u>39,977,342</u>	<u>12,701,177</u>	<u>4,207,389</u>
Business-type activities:				
Parking	1,475,340	1,128,755		
Water	35,540,918	49,305,033	831,798	3,009,620
Sewer	24,156,577	24,833,019		2,666,690
Storm Drain	6,924,335	5,403,474		844,912
Compost	1,225,462	1,254,137		
Airport	2,039,988	604,214	554,649	1,077,802
Bus	13,758,421	2,545,790	9,672,682	363,651
Golf	2,479,447	2,189,384		
Community Center	2,543,121	552,878		
Total business-type activities	<u>90,143,609</u>	<u>87,816,684</u>	<u>11,059,129</u>	<u>7,962,675</u>
Total	<u>\$ 263,847,987</u>	<u>\$ 127,794,026</u>	<u>\$ 23,760,306</u>	<u>\$ 12,170,064</u>

General revenues:

Taxes:

Utility users tax

Property taxes, levied for general purposes

Property taxes, generated by and allocated to the airport

Tax increments for redevelopment agency

Transient occupancy tax

Franchise tax

Business license tax, levied for general purposes

Business license tax, levied for downtown improvement district

Business license tax, generated by and allocated to the airport

Intergovernmental revenue not restricted to specific programs:

Sales tax

Motor vehicle license fee

Other

Unrestricted investment earnings

Miscellaneous

Transfers, net

Special item - PCE legal fees

Total general revenues, transfers and special item

Change in net assets

Net assets, July 1

Net assets, June 30

The notes to basic financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (13,452,508)		\$ (13,452,508)
(1,151,564)		(1,151,564)
(8,899,918)		(8,899,918)
(9,835,252)		(9,835,252)
(4,415,708)		(4,415,708)
(71,777,494)		(71,777,494)
(7,286,026)		(7,286,026)
<u>(116,818,470)</u>		<u>(116,818,470)</u>
	\$ (346,585)	(346,585)
	17,605,533	17,605,533
	3,343,132	3,343,132
	(675,949)	(675,949)
	28,675	28,675
	196,677	196,677
	(1,176,298)	(1,176,298)
	(290,063)	(290,063)
	<u>(1,990,243)</u>	<u>(1,990,243)</u>
	<u>16,694,879</u>	<u>16,694,879</u>
<u>(116,818,470)</u>	<u>16,694,879</u>	<u>(100,123,591)</u>
18,319,573		18,319,573
16,456,379		16,456,379
	209,722	209,722
5,303,521		5,303,521
2,264,699		2,264,699
3,823,216		3,823,216
10,359,058		10,359,058
221,487		221,487
	13,054	13,054
27,884,852		27,884,852
16,233,262		16,233,262
4,169,354		4,169,354
8,330,079	5,406,639	13,736,718
3,582,325		3,582,325
(1,153,632)	1,153,632	
	<u>(505,498)</u>	<u>(505,498)</u>
<u>115,794,173</u>	<u>6,277,549</u>	<u>122,071,722</u>
(1,024,297)	22,972,428	21,948,131
<u>415,036,196</u>	<u>287,431,967</u>	<u>702,468,163</u>
<u>\$ 414,011,899</u>	<u>\$ 310,404,395</u>	<u>\$ 724,416,294</u>

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007

	<u>General</u>	<u>Capital Facility Fees</u>	<u>Community Facilities Districts</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,900,218	\$ 44,890,897	\$ 11,503,718	\$ 25,137,422	\$ 83,432,255
Cash and cash equivalents with fiscal agent			24,186,705	10,963,438	35,150,143
Receivables:					
Accounts	819,211	69		388,712	1,207,992
Interest	22,556	185,058	77,521	94,494	379,629
Utilities, net	869,711			17,075	886,786
Taxes	9,194,905		52,302	592,883	9,840,090
Due from governments	895,397	132,976	134,599	10,138,751	11,301,723
Due from other funds	4,320,000				4,320,000
Notes receivable, net				15,117,307	15,117,307
Prepaid expenses/expenditures				1,308	1,308
Property held for resale				780,000	780,000
Restricted assets:					
Cash and cash equivalents	2,066,814		2,274,311		4,341,125
Advances to other funds	2,301,490			102,124	2,403,614
Total assets	<u>\$ 22,390,302</u>	<u>\$ 45,209,000</u>	<u>\$ 38,229,156</u>	<u>\$ 63,333,514</u>	<u>\$ 169,161,972</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 2,544,093	\$ 549,683	\$ 2,362,333	\$ 1,683,775	\$ 7,139,884
Accrued salaries and benefits	1,150,233		4,210	129,940	1,284,383
Approved loans payable				2,724,225	2,724,225
Due to other funds				4,320,000	4,320,000
Deferred revenues	397,817		81,223	6,801,765	7,280,805
Payable from restricted assets:					
Refundable deposits	2,066,814		2,274,312	1,000	4,342,126
Advances from other funds	1,782,462	1,356,327		168,583	3,307,372
Total liabilities	<u>7,941,419</u>	<u>1,906,010</u>	<u>4,722,078</u>	<u>15,829,288</u>	<u>30,398,795</u>
Fund balances:					
Reserved	3,734,973	3,888,291	2,340,868	33,945,761	43,909,893
Unreserved:					
Designated, reported in:					
General fund					
Special revenue funds				11,520,508	11,520,508
Capital projects funds		39,414,699	31,166,210	6,062,872	76,643,781
Undesignated, reported in:					
General fund	10,713,910				10,713,910
Special revenue funds				365,402	365,402
Capital projects funds				(4,390,317)	(4,390,317)
Total fund balances	<u>14,448,883</u>	<u>43,302,990</u>	<u>33,507,078</u>	<u>47,504,226</u>	<u>138,763,177</u>
Total liabilities and fund balances	<u>\$ 22,390,302</u>	<u>\$ 45,209,000</u>	<u>\$ 38,229,156</u>	<u>\$ 63,333,514</u>	<u>\$ 169,161,972</u>

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 ASSETS - GOVERNMENTAL ACTIVITIES
June 30, 2007

Total fund balances - total governmental funds \$ 138,763,177

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

General capital assets:

Nondepreciable	\$ 53,408,477	
Depreciable	80,490,251	
Accumulated depreciation on general capital assets	(39,290,464)	
Infrastructure:		
Depreciable	474,126,776	
Accumulated depreciation on infrastructure	<u>(212,642,804)</u>	356,092,236

Other long-term assets are not available to pay for current-period expenditures and, therefore, are:

Deferred in the governmental funds, or	\$ 3,509,107	
Investments in joint ventures	<u>16,636,600</u>	20,145,707

Internal service funds are used by management to charge the costs of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.

(8,224,089)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable and other long-term debt	\$ (91,930,138)	
Accrued interest	<u>(834,994)</u>	<u>(92,765,132)</u>

Net assets of governmental activities \$ 414,011,899

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
Year ended June 30, 2007

	General	Capital Facility Fees	Community Facilities Districts	Other Governmental	Total Governmental
REVENUES:					
Taxes	\$ 50,376,565			\$ 6,371,452	\$ 56,748,017
Licenses and permits	100,682			86,607	187,289
Intergovernmental	48,014,025	\$ 107,941	\$ 391,586	17,616,310	66,129,862
Charges for services	15,503,085	9,474,111	6,454,501	5,547,326	36,979,023
Special assessments levied	51,634				51,634
Interest and rent	406,462	1,225,368	1,830,462	1,375,127	4,837,419
Net increase in fair value of investments	146,546	533,025	239,311	249,975	1,168,857
Fines and forfeits	1,158,163			1,541,282	2,699,445
Contribution from property owners					
Miscellaneous	2,175,519	191		638,711	2,814,421
Total revenues	<u>117,932,681</u>	<u>11,340,636</u>	<u>8,915,860</u>	<u>33,426,790</u>	<u>171,615,967</u>
EXPENDITURES:					
Current:					
General government	13,955,223	64,700		1,497,621	15,517,544
Community development	5,346,382		1,336,926	5,106,332	11,789,640
Highways and streets		1,904,430		10,649,251	12,553,681
Public works	6,364,052	132,540		4,810,715	11,307,307
Parks and recreation	12,071,962	1,077,571		199,080	13,348,613
Public safety	78,405,328			2,583,322	80,988,650
Capital outlay	737,392	6,632,459	15,287,138	7,537,789	30,194,778
Debt service:					
Principal retirement	9,719	435,185		1,563,634	2,008,538
Interest	344	18,556		4,394,400	4,413,300
Advance refunding escrow				822,228	822,228
Other				1,333,129	1,333,129
Total expenditures	<u>116,890,402</u>	<u>10,265,441</u>	<u>16,624,064</u>	<u>40,497,501</u>	<u>184,277,408</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,042,279</u>	<u>1,075,195</u>	<u>(7,708,204)</u>	<u>(7,070,711)</u>	<u>(12,661,441)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	2,437,022	1,112,897	196,035	20,239,909	23,985,863
Transfers out	(12,339,933)	(992,215)	(1,116,120)	(11,951,012)	(26,399,280)
Issuance of loans payable				44,138	44,138
Issuance of lease revenue bonds				62,275,000	62,275,000
Payments to refunded certificates of participation escrow agent				(58,911,124)	(58,911,124)
Sale of assets				767,904	767,904
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,902,911)</u>	<u>120,682</u>	<u>(920,085)</u>	<u>12,464,815</u>	<u>1,762,501</u>
NET CHANGE IN FUND BALANCES	<u>(8,860,632)</u>	<u>1,195,877</u>	<u>(8,628,289)</u>	<u>5,394,104</u>	<u>(10,898,940)</u>
FUND BALANCES, July 1	<u>23,309,515</u>	<u>42,107,113</u>	<u>42,135,367</u>	<u>42,110,122</u>	<u>149,662,117</u>
FUND BALANCES, June 30	<u>\$ 14,448,883</u>	<u>\$ 43,302,990</u>	<u>\$ 33,507,078</u>	<u>\$ 47,504,226</u>	<u>\$ 138,763,177</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
Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ (10,898,940)

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	\$ 30,194,778	
Depreciation expense	<u>(17,270,077)</u>	12,924,701

In the statement of activities, only the gain or loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from such sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold. (1,336,923)

Developer donations of infrastructure assets are not included in the fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset donations. 1,272,207

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue	\$ (2,146,168)	
Change in investment in joint venture	<u>213,558</u>	(1,932,610)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal retirement	59,803,538	
Proceeds of long term debt	<u>(62,319,138)</u>	(2,515,600)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest		409,332

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.

1,053,536

Change in net assets of governmental activities	\$	<u><u>(1,024,297)</u></u>

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2007

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 39,127,144	\$ 22,773,037	\$ 4,152,663	\$ 5,032,664	\$ 71,085,508	\$ 53,382,339
Cash and cash equivalents with fiscal agent	2,445,103	4,049,547		610,647	7,105,297	
Receivables:						
Accounts		44,534	34,844	239,580	318,958	857,956
Interest	337,254	166,699	17,008	16,360	537,321	144,238
Utilities, net	6,441,602	2,641,080		557,922	9,640,604	
Taxes	5,109			796	5,905	
Due from governments			1,803,311	784,877	2,588,188	
Prepaid expenses	706,673				706,673	
Inventories						763,492
Property held for resale				630,000	630,000	
Advances to other funds						1,782,462
Total current assets	49,062,885	29,674,897	6,007,826	7,872,846	92,618,454	56,930,487
Noncurrent assets:						
Restricted assets-cash and cash equivalents	42,767,102	16,432,541			59,199,643	
Unamortized costs of issuance	892,938	892,896			1,785,834	
Land and construction in progress	15,958,371	34,942,347	5,416,369	13,989,727	70,306,814	821,033
Other capital assets, net of accumulated depreciation	63,948,764	103,300,068	13,726,444	43,184,021	224,159,297	19,509,723
Total noncurrent assets	123,567,175	155,567,852	19,142,813	57,173,748	355,451,588	20,330,756
Total assets	172,630,060	185,242,749	25,150,639	65,046,594	448,070,042	77,261,243
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 523,698	\$ 2,715,641	\$ 753,143	\$ 995,442	\$ 4,987,924	\$ 1,401,535
Accrued salaries and benefits	73,227	99,100	18,910	47,027	238,264	87,910
Interest payable	264,620	410,407		51,807	726,834	1,038
Current portion - compensated absences						3,259,769
Current portion - claims liability						4,583,644
Current portion - long-term debt	1,018,977	1,710,000		289,148	3,018,125	102,188
Current portion - developer advances	92,822				92,822	
Deferred revenues			2,897,511	221,058	3,118,569	
Total current liabilities	1,973,344	4,935,148	3,669,564	1,604,482	12,182,538	9,436,084
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	656,522	424,851			1,081,373	
Compensated absences						64,628,743
Claims liability						12,042,593
Long-term debt:						
Revenue bonds payable		49,848,192			49,848,192	
Loan payable	1,754,299				1,754,299	
Notes payable						116,220
Obligations under capital leases				77,485	77,485	137,392
Certificates of participation	63,541,989			5,435,000	68,976,989	
Developer advances	1,990,367				1,990,367	
Advances from other funds				878,704	878,704	
Total noncurrent liabilities	67,943,177	50,273,043		6,391,189	124,607,409	76,924,948
Total liabilities	69,916,521	55,208,191	3,669,564	7,995,671	136,789,947	86,361,032
NET ASSETS						
Invested in capital assets, net of related debt	55,702,450	102,691,913	19,142,813	51,372,115	170,791,021	20,091,176
Unrestricted	47,011,089	27,342,645	2,338,262	5,678,808	140,489,074	(29,190,965)
Total net assets	\$ 102,713,539	\$ 130,034,558	\$ 21,481,075	\$ 57,050,923	311,280,095	\$ (9,099,789)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(875,700)	
Net assets of business-type activities					\$ 310,404,395	
The notes to basic financial statements are an integral part of this statement.						

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 2007

	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
OPERATING REVENUES:						
Charges for services	\$ 49,289,417	\$ 24,776,869	2,390,892	\$ 11,086,967	\$ 87,544,145	\$ 43,641,010
Sales						4,757,411
Cost of sales						(3,939,828)
Miscellaneous	15,616	56,150	154,898	45,875	272,539	
Total operating revenues	<u>49,305,033</u>	<u>24,833,019</u>	<u>2,545,790</u>	<u>11,132,842</u>	<u>87,816,684</u>	<u>44,458,593</u>
OPERATING EXPENSES:						
Salaries and wages	4,105,016	5,136,040	914,950	2,633,769	12,789,775	4,379,438
Contractual services	2,041,814	2,700,492	7,667,756	4,921,651	17,331,713	983,009
Utilities	1,926,634	1,107,437	78,238	413,330	3,525,639	485,393
Maintenance and supplies	4,034,053	2,770,550	1,599,586	2,375,374	10,779,563	3,935,434
Water purchases	12,904,328				12,904,328	
Insurance	131,337	298,464	55,941	160,279	646,021	13,398,895
Claims expense						9,231,869
Employee benefits	1,561,618	2,100,382	339,276	1,032,997	5,034,273	10,851,683
Administration services	2,237,066	1,238,155	497,071	1,302,286	5,274,578	1,504,323
Allocated indirect administrative costs	1,049,489	760,932	277,794	406,422	2,494,637	264,010
Other	78,673	130,838	89,894	77,925	377,330	147,574
Depreciation	2,396,440	5,028,528	2,093,587	2,527,966	12,046,521	3,198,649
Total operating expenses	<u>32,466,468</u>	<u>21,271,818</u>	<u>13,614,093</u>	<u>15,851,999</u>	<u>83,204,378</u>	<u>48,380,277</u>
OPERATING INCOME (LOSS)	<u>16,838,565</u>	<u>3,561,201</u>	<u>(11,068,303)</u>	<u>(4,719,157)</u>	<u>4,612,306</u>	<u>(3,921,684)</u>
NONOPERATING REVENUES (EXPENSES)						
Operating grants			9,672,682	554,649	10,227,331	4,000
Gain (Loss) on disposition of capital assets	(147,600)	(112,741)	(18,470)	(189,445)	(468,256)	(659,282)
Tax revenue				222,776	222,776	
Tax expense	(85,487)	(91,495)		(14,801)	(191,783)	
Interest income	2,242,135	812,288	113,220	100,579	3,268,222	1,481,764
Net increase in fair value of investments	734,296	400,169	40,923	61,723	1,237,111	628,481
Rental income	37,770	58,354	78,106	727,076	901,306	
Settlements and recoveries	831,798	663,663			1,495,461	
Interest expense	(2,249,824)	(1,931,309)		(305,560)	(4,486,693)	(10,577)
Amortization of costs of issuance	(33,378)	(46,220)			(79,598)	
Total nonoperating revenues (expenses)	<u>1,329,710</u>	<u>(247,291)</u>	<u>9,886,461</u>	<u>1,156,997</u>	<u>12,125,877</u>	<u>1,444,386</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>18,168,275</u>	<u>3,313,910</u>	<u>(1,181,842)</u>	<u>(3,562,160)</u>	<u>16,738,183</u>	<u>(2,477,298)</u>
Capital contributions	2,345,957	2,666,690	363,651	1,922,714	7,299,012	558,148
Transfers in	264,000	226,389	1,500	985,437	1,477,326	1,298,335
Transfers out	(65,000)	(65,000)	(65,694)	(128,000)	(323,694)	(38,550)
Special item	(296,407)	(209,091)			(505,498)	
CHANGE IN NET ASSETS	<u>20,416,825</u>	<u>5,932,898</u>	<u>(882,385)</u>	<u>(782,009)</u>	<u>24,685,329</u>	<u>(659,365)</u>
NET ASSETS, July 1	<u>82,296,714</u>	<u>124,101,660</u>	<u>22,363,460</u>	<u>57,832,932</u>		<u>(8,440,424)</u>
NET ASSETS, June 30	<u>\$ 102,713,539</u>	<u>\$ 130,034,558</u>	<u>21,481,075</u>	<u>\$ 57,050,923</u>		<u>\$ (9,099,789)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(1,712,901)	
Change in net assets of business-type activities					<u>\$ 22,972,428</u>	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year ended June 30, 2007

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 47,758,187	\$ 24,828,928	\$ 2,595,078	\$ 11,954,968	\$ 87,137,161	\$ 4,812,775
Receipts from interfund services provided	427,858	65,035		23,521	516,414	39,660,607
Payments to suppliers	(19,473,381)	(2,969,190)	(9,054,243)	(5,884,024)	(37,380,838)	(18,835,253)
Payment of insurance claims						(8,936,742)
Payments to employees	(5,661,907)	(7,237,125)	(1,251,420)	(3,663,140)	(17,813,592)	(8,956,088)
Payments for interfund services used	(5,310,466)	(3,964,147)	(1,142,537)	(3,364,808)	(13,781,958)	(2,244,913)
Net cash provided (used) by operating activities	<u>17,740,291</u>	<u>10,723,501</u>	<u>(8,853,122)</u>	<u>(933,483)</u>	<u>18,677,187</u>	<u>5,500,386</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received			11,935,926	565,482	12,501,408	5,038
Taxes received				222,776	222,776	
Settlements and recoveries	831,798	663,663			1,495,461	
Transfers in	264,000	226,389	1,500	985,437	1,477,326	1,298,335
Transfers out	(65,000)	(65,000)	(65,694)	(128,000)	(323,694)	(38,550)
New advances from other funds				878,704		121,014
Net cash provided (used) by noncapital financing activities	<u>1,030,798</u>	<u>825,052</u>	<u>11,871,732</u>	<u>2,524,399</u>	<u>15,373,277</u>	<u>1,385,837</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(6,058,751)	(10,512,609)	(1,222,095)	(2,120,363)	(19,913,818)	(3,732,362)
Proceeds of sale of capital assets		13,502				
Proceeds of debt issues	46,275,000	16,535,000				
Costs of issuance paid	(685,703)	(339,604)				
Bond discount paid		(323,867)				
Principal repayments	(1,072,336)	(1,650,000)		(275,955)	(2,998,291)	(26,587)
Interest paid	(2,163,506)	(2,055,524)		(309,551)	(4,528,581)	(10,577)
Capital grants received			363,651	1,546,459	1,910,110	
Connection fees for capital purposes	2,023,224	663,316			2,686,540	
Net cash used by capital and related financing activities	<u>38,317,928</u>	<u>2,330,214</u>	<u>(858,444)</u>	<u>(1,159,410)</u>	<u>(22,844,040)</u>	<u>(3,769,526)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	2,029,235	1,227,069	105,360	136,465	3,498,129	1,557,085
Net increase in the fair value of investments	734,296	400,169	40,923	61,723	1,237,111	628,481
Net cash provided by investing activities	<u>2,763,531</u>	<u>1,627,238</u>	<u>146,283</u>	<u>198,188</u>	<u>4,735,240</u>	<u>2,185,566</u>
Net increase (decrease) in cash and cash equivalents	59,852,548	15,506,005	2,306,449	629,694	78,294,696	5,354,364
CASH AND CASH EQUIVALENTS, JULY 1	<u>24,486,801</u>	<u>27,749,120</u>	<u>1,846,214</u>	<u>5,013,617</u>	<u>59,095,752</u>	<u>48,027,975</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 84,339,349</u>	<u>\$ 43,255,125</u>	<u>\$ 4,152,663</u>	<u>\$ 5,643,311</u>	<u>\$ 137,390,448</u>	<u>\$ 53,382,339</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:						
Cash and cash equivalents	\$ 39,127,144	\$ 22,773,037	\$ 4,152,663	\$ 5,032,664	\$ 71,085,508	\$ 53,382,339
Cash and cash equivalents with fiscal agent	2,445,103	4,049,547		610,647	7,105,297	
Restricted assets-cash and cash equivalents	<u>42,767,102</u>	<u>16,432,541</u>			<u>59,199,643</u>	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 84,339,349</u>	<u>\$ 43,255,125</u>	<u>\$ 4,152,663</u>	<u>\$ 5,643,311</u>	<u>\$ 137,390,448</u>	<u>\$ 53,382,339</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)
Year ended June 30, 2007

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 16,838,565	\$ 3,561,201	\$ (11,068,303)	\$ (4,719,157)	\$ 4,612,306	\$ (3,921,684)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	2,396,440	5,028,528	2,093,587	2,527,966	12,046,521	3,198,649
Rental income	37,770	58,354	78,106	727,076	901,306	
Taxes paid	(85,487)	(91,495)		(15,597)	(192,579)	
Special item	(296,407)	(209,091)			(505,498)	
Change in assets and liabilities:						
(Increase) in accounts receivable	1,440	14,175	(28,818)	120,541	107,338	(23,898)
(Increase) in utilities receivable	(1,149,441)	(200,399)		490	(1,349,350)	
(Increase) in taxes receivable	(1,169)				(1,169)	
Decrease in due from governments		127,064			127,064	38,687
(Increase) decrease in prepaid expenses	296,327				296,327	
(Increase) in inventories						(246,573)
(Decrease) in accounts payable and accrued expenses	(294,886)	2,374,117	69,500	423,236	2,571,967	(114,955)
Increase in accrued salaries and benefits	4,727	(703)	2,806	3,626	10,456	3,475
Increase in compensated absences						6,271,558
(Decrease) in claims liability						295,127
Increase in deferred revenues				(1,664)	(1,664)	
Increase (decrease) in refundable deposits	(7,588)	61,750			54,162	
Total adjustments	901,726	7,162,300	2,215,181	3,785,674	14,064,881	9,422,070
Net cash provided (used) by operating activities	\$ 17,740,291	\$ 10,723,501	\$ (8,853,122)	\$ (933,483)	\$ 18,677,187	\$ 5,500,386
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Capital assets transferred in	\$ 38,683	\$ 444,898		\$ 18,545	\$ 502,126	\$ 558,148
Developer infrastructure contributions	284,050	1,558,476			1,842,526	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF FIDUCIARY NET ASSETS -AGENCY FUNDS
June 30, 2007

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 5,314,399
Cash and cash equivalents held with fiscal agent	<u>3,841,746</u>
	<u>\$ 9,156,145</u>
<u>LIABILITIES</u>	
Due to special district bondholders	\$ 6,445,706
Deposits held as agent for others	<u>2,710,439</u>
	<u>\$ 9,156,145</u>

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

The City of Modesto (the City) was incorporated in 1884 and operates under a Council-Manager form of government as authorized by its charter adopted in 1951. The City Council consists of seven elected members. The following services are provided by the City to its citizens: public safety (police and fire), highways and streets, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation and social services, public improvements, community development, planning and zoning, and general administrative services.

These financial statements present the financial status of the City and its component units. The component units discussed in the following paragraphs are included in the City's reporting entity because the City is financially accountable for their operations.

1. The Redevelopment Agency of the City of Modesto (the Agency) was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.
2. The Modesto Public Financing Authority was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
3. The Modesto Municipal Sewer District is a separate legal entity formed under the Municipal Sewer and Water Facilities Law of 1911. The purpose of the District is to provide financing for needed sewerage facilities in the Modesto urban area.
4. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently eight active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of all seven members of the City Council. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organization described in Note III - E are not considered part of the reporting entity because the City is not financially accountable for their operations.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest expenditures are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees, and gas taxes), interest, special assessments levied, state and federal grants, and charges for current services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Revenues from licenses, permits, and fines and forfeits are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Facility Fees Fund accounts for special fees collected on new building permits to be used for construction of growth related projects, including police department expansion, fire department expansion, expressway loop, street lights, parks, new traffic signals, city hall expansion, wastewater treatment, streets, public transportation, and air quality improvements.

The Community Facilities Districts Fund accounts for the construction of public improvements deemed to benefit properties against which special taxes are levied.

The City reports the following major proprietary funds:

The Water Fund accounts for all revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City water distribution system. Revenues are derived from water service charges and various installation fees.

The Sewer Fund accounts for revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City sewer system. Revenues include, but are not limited to, sewer service charges and sewer lateral charges.

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, technology and information services, insurance, employee benefits management, and building services provided to other departments or agencies of the City on a cost-reimbursement basis.

Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide – business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Cash Equivalents

Cash and investments (including restricted assets) held in the City's investment pool are reported as cash and cash equivalents on the statement of net assets and balance sheet because funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid and have maturities of 3 months or less at the time of purchase. Investments are stated at fair value. Valuations are obtained by using quotations obtained from independent published sources.

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund and the Community Facilities Districts Capital Projects Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Refundable deposits in the Water and Sewer funds are also reported as restricted assets on the proprietary funds statement of net assets. 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 assets.

3. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due from/due to other funds" (amounts due within one year), or "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Advances to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. Property tax is recognized when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end; therefore, revenue from taxpayer-assessed taxes is accrued if it is received by August 31.

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. The corresponding proprietary fund revenues are recorded as nonoperating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received. The total amount due from governments for grants, entitlements, and shared receivables and revenues at June 30, 2007 is \$14,821,485.

Utility service accounts receivable are reported net of \$666,240 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$1,501,106 allowance for doubtful collections, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

4. Inventories

Inventories of material and supplies held by proprietary funds are stated at average cost.

5. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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 is 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 over the same period. During the fiscal year ended June 30, 2007, \$13,312 net interest expense on tax-exempt debt of the City's Sewer Fund was capitalized.

Depreciation is recorded using the straight line method over the estimated useful lives of the assets, which are 75 years for pipelines, 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, 2 to 10 years for vehicles, 30 to 50 years for streets, 20 years for signalization, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

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

6. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the Governmental Accounting Standards Board Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination, as well as amounts set aside to pay future health care premiums. As of June 30, 2007, the total estimated liability for all compensated absences, including sick leave, is \$67,888,512. The estimated current portion of \$3,259,769 is funded by charges to all operating funds. The estimated long-term portion is \$64,628,743.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. OTHER SIGNIFICANT ACCOUNTING POLICIES

1. Employee Benefits

The City established the Employee Benefits Management Internal Service Fund to account for all compensated absences and non-insurance benefits. Insurance benefits for current employees are paid from the Insurance Internal Service Fund. The Employee Benefits Management Fund is reimbursed based on actual benefits paid and leave taken, through payroll charges to the City's operating funds. Leave earned but not taken is being funded over time by budgeted charges to the operating funds.

2. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund service provided and used, such as equipment pool rental, are accounted for as revenues and expenditures or expenses. Transactions to reimburse a fund for expenditures/expenses initially made from it that are applicable to another fund are recorded as expenditures/expenses in the correct fund and as reductions of expenditures/expenses in the original fund. All other interfund transactions are reported as transfers.

II. DETAILED NOTES

A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the City's cash and investment pool is displayed on the balance sheet and proprietary and fiduciary fund statements of net assets as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. A majority of the interest from the Fleet Management Internal Service Fund is credited to the General Fund in accordance with the City's policy. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net assets as "restricted assets - cash and cash equivalents." The City also maintains "cash and cash equivalents with fiscal agent" which represent monies held by fiscal agents for payment of various City debt and capital projects costs.

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment policy and the California Government Code allow the City to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
City of Modesto Bonds	5 years	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
State of California Securities	5 years	AAA	None	None
California Municipal Securities	5 years	AAA	None	None
Federal Agency Securities	5 years	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	10% or \$1 million
Commercial Paper	270 days	Top rating category	25%	10%
Certificates of Deposit	1 year	N/A	20% of surplus	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	90 days	Top rating category	None	None
Reverse Repurchase Agreements	92 days	N/A	20%	None
Medium Term Corporate Notes	5 years	AA -	30%	None
Money Market Funds	N/A	Top rating category	None	None
California Local Agency Investment Fund	N/A	N/A	\$40 million per account	None
Mortgage and Asset-Backed Securities	5 years	AA	20% of surplus	None

Investments are stated at fair value. The City's investment in the Local Agency Investment Fund (LAIF) is \$114,799,066. The value of the pool shares in LAIF, which may be withdrawn on demand, is determined on an amortized cost basis, which is not materially different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF is \$65,756,665,933. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City

fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All current bond indentures authorize the same investments as the City's investment policy. In addition some bond indentures authorize investments in guaranteed investment contracts with maturity dates of September 1, 2033 and November 1, 2016 and a repurchase agreement with a maximum maturity of May 27, 2013.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following table summarizes the City's interest rate risk, based on maturity dates of various investments:

Investment Type	Total	Remaining Time to Maturity			
		Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$26,139,826	\$9,302,128	\$7,659,155	\$9,178,543	
Federal agency securities					
Bonds	11,811,563	11,811,563			
Notes	76,282,702	7,878,666	42,540,184	25,863,852	
Discount notes	4,688,104	4,688,104			
Commercial Paper	38,817,660	38,817,660			
LAIF	114,799,066	114,799,066			
Cash in banks	4,216,350	4,216,350			
Held by trustee:					
Money market funds	11,858,530	11,858,530			
U.S. Treasury Bill	1,729,536	1,729,536			
U.S. Treasury Notes					
Federal agency discount notes	13,553,164	13,553,164			
Federal agency securities notes	16,635,253	13,479,256	1,595,997	1,560,000	
Repurchase agreements	1,977,051				\$1,977,051
Guaranteed investment contracts	343,650				343,650
Total	\$322,852,455	\$232,134,023	\$51,795,336	\$36,602,395	\$2,320,701

Maturity dates for callable notes are based on call dates.

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of June 30, 2007 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$26,139,826	\$26,139,826		
Federal agency securities	92,782,369		\$92,782,369	
Commercial Paper	38,817,660		38,817,660	
LAIF	114,799,066			\$114,799,066
Cash in banks	4,216,350	4,216,350		
Held by trustee:				
Money market funds	11,858,530		11,858,530	
U.S. Treasury Bill	1,729,536	1,729,536		
Federal agency notes	13,553,164		13,553,164	
Federal agency securities notes	16,635,253		16,635,253	
Repurchase agreements	1,977,051			1,977,051
Guaranteed investment contracts	343,650			343,650
Total	\$322,852,455	\$32,085,712	\$173,646,976	\$117,119,767

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, 2007:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	\$24,819,188	8.0%
Freddie Mac (FHLMC)	Federal agency securities	40,296,173	15.0%
Federal Home Loan Bank	Federal agency securities	44,883,521	14.0%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of governmental fund investments were as follows at June 30, 2007:

Fund/Issuer	Investment Type	Reported Amount
Community Facilities Districts:		
Fannie Mae (FNMA)	Federal agency securities	\$ 6,738,406
Freddie Mac (FHLMC)	Federal agency securities	8,396,338
Federal Home Loan Bank	Federal agency securities	2,928,975
FFCB	Federal agency securities	5,536,258
Other Governmental Funds:		
Lehman Government Securities	Repurchase agreement	1,977,051

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of enterprise funds were for the Sewer Enterprise Fund as follows at June 30, 2007:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal agency securities	\$3,192,784

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of Agency Fund investments were as follows at June 30, 2007:

Issuer	Investment Type	Reported Amount
Freddie Mac (FHMLC)	Federal agency securities	\$1,595,997
Federal Home Loan Bank	Federal agency securities	1,560,000

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institution in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failures of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$22,982,481	\$ 1,989,905		\$24,972,386
Construction in progress	12,096,543	17,283,510	\$122,929	29,257,124
Total capital assets, not being depreciated	35,079,024	19,273,415	122,929	54,229,510
Capital assets, being depreciated:				
Buildings	31,228,945	355,547		31,584,492
Improvements other than buildings	37,889,012	1,118,888		39,007,900
Furnishings and equipment	17,961,416	2,807,677	1,105,866	19,663,227
Equipment pool	28,045,170	3,123,118	2,982,715	28,185,573
Streets	425,979,732	7,396,540		433,376,272
Signalization	14,226,300	697,905		14,924,205
Bridges	25,753,532	72,769		25,826,301
Total capital assets, being depreciated	581,084,107	15,572,444	4,088,581	592,567,970
Less accumulated depreciation for:				
Buildings	(10,086,846)	(1,407,593)		(11,494,439)
Improvements other than buildings	(21,220,038)	(1,350,769)		(22,570,807)
Furnishings and equipment	(9,901,715)	(1,617,534)	942,401	(10,576,848)
Equipment pool	(12,812,761)	(2,581,417)	2,304,588	(13,089,590)
Streets	(191,013,605)	(11,046,669)		(202,060,274)
Signalization	(7,642,567)	(1,079,535)		(8,722,102)
Bridges	(514,425)	(1,346,003)		(1,860,428)
Total accumulated depreciation	(253,191,957)	(20,429,520)	3,246,989	(270,374,488)
Total capital assets, being depreciated, net	327,892,150	(4,857,076)	841,592	322,193,482
Governmental activities capital assets, net	\$362,971,174	\$14,416,339	\$964,521	\$376,422,992

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$26,539,639	\$ 271,513		\$26,811,152
Construction in progress	28,642,007	14,853,655		43,495,662
Total capital assets, not being depreciated	55,181,646	15,125,168		70,306,814
Capital assets, being depreciated:				
Buildings	82,907,925	54,373		82,962,298
Improvements other than buildings	137,754,357	1,086,997		138,841,354
Furnishings and equipment	5,971,301	691,601	\$926,271	5,736,631
Buses and fareboxes	15,221,187	1,081,082		16,302,269
Pipelines	131,863,546	4,426,777		136,290,323
Total capital assets, being depreciated	373,718,316	7,340,830	926,271	380,132,875
Less accumulated depreciation for:				
Buildings	(34,585,355)	(2,542,969)		(37,128,324)
Improvements other than buildings	(77,891,080)	(5,578,021)		(83,469,101)
Furnishings and equipment	(3,078,293)	(503,230)	250,488	(3,331,035)
Buses and fareboxes	(7,023,190)	(1,725,902)		(8,749,092)
Pipelines	(21,599,627)	(1,696,399)		(23,296,026)
Total accumulated depreciation	(144,177,545)	(12,046,521)	250,488	(155,973,578)
Total capital assets, being depreciated, net	229,540,771	(4,705,691)	675,783	224,159,297
Business-type activities capital assets, net	\$284,722,417	\$10,419,477	\$675,783	\$294,466,111

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 103,518
Community development	85,094
Highways and streets, including depreciation of general infrastructure assets	13,541,559
Public works	874,412
Parks and recreation	933,268
Public safety	1,732,226
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,159,443</u>
Total depreciation expense – governmental activities	<u>\$20,429,520</u>
Business-type activities:	
Parking	\$ 387,929
Water	2,396,440
Sewer	5,028,528
Storm Drain	591,157
Compost	69,354
Airport	390,774
Bus	2,093,587
Golf	310,649
Community center	<u>778,103</u>
Total depreciation expense – business-type activities	<u>\$12,046,521</u>

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay master plan costs incurred by the City's Redevelopment Agency for the Kansas Avenue Business Park Project; no obligation to begin repayments until project is complete and revenue stream begins; final payment due in 2015 if not repaid sooner. \$405,000

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 within five years of project completion, provided funds are available from revenue stream; project completion estimated to be March 1, 2009; authorized loan amount up to \$500,000, with a current balance of \$44,138; outstanding amount will increase as more eligible costs are incurred and more loan proceeds are borrowed. 44,138

Total principal balances – governmental activities \$449,138

Business-type activities:

Water Enterprise Fund:

Loan payable to the State of California Department of Water Resources, assumed from Del Este Water Company at acquisition, for purposes of upgrading the water delivery system; interest at 3.2%; semi-annual installments on April 1 and October 1 of \$132,360, including interest, through October 1, 2015. \$1,958,276

Annual debt service requirements to maturity for loans payable are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008			\$ 203,977	\$ 60,743
2009			210,745	53,974
2010			217,380	47,339
2011			224,343	40,376
2012			231,463	33,256
2012-2016	<u>\$449,138</u>		<u>870,368</u>	<u>56,148</u>
Total	<u>\$449,138</u>	<u>\$0</u>	<u>\$1,958,276</u>	<u>\$291,836</u>

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Modesto Centre Plaza Community Center capital project; serial certificates with annual maturities on November 1, in amounts from \$885,000 to \$1,040,000; interest rates from 5.4% - 5.6%; term certificates at 5.6% in the amount of \$4,740,000 maturing November 1, 2014, and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payments of \$1,090,000 to \$1,610,000 beginning in 2011.

\$ 20,820,000

Business-type activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; serial certificates with annual maturities on November 1, in amounts from \$215,000 to \$235,000; interest rates from 5.4% to 5.5%; term certificates at 5.6% in the amount of \$1,390,000 due November 1, 2014, and in the amount of \$3,585,000 at 5.0% due November 1, 2023, with annual payments ranging from \$250,000 to \$480,000 beginning in 2010.

\$ 5,650,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation issued to refund earlier certificates for various Water Enterprise Fund capital projects; serial certificates with annual maturities on October 1, in amounts from \$815,000 to \$1,050,000; interest rates from 4.70% to 5.0%; term certificates at 5.4% in the amount of \$6,145,000 maturing on October 1, 2017, and in the amount of \$7,965,000 at 5.43% maturing on October 1, 2022, with annual payments from \$1,015,000 to \$1,765,000 beginning in 2013.

19,670,000

2006 Water Revenue Certificates of Participation issued 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 auction rate securities maturing October 1, 2036, with interest calculated weekly, fluctuating according to market conditions; principal payments beginning October 1, 2008 in annual amounts of \$250,000 to \$3,725,000.

The City entered into a 30 year interest rate swap agreement as discussed below. The combination of the variable rate 2006 COPs and the floating rate swap creates a synthetic fixed-rate debt for the City. The synthetic fixed rate was 3.49% at June 30, 2007.

46,275,000

Total principal balances – business-type activities

71,595,000

Less:

Unamortized bond discount – 1997 Water Certificates of Participation

(363,376)

Deferred amount on refunding – 1997 Water Certificates of Participation

(1,224,635)

Total business-type activities certificates of participation

\$70,006,989

Annual debt service requirements to maturity for certificates of participation are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 885,000	\$1,064,925	\$ 1,030,000	\$2,997,427
2009	935,000	1,015,318	1,330,000	2,938,747
2010	985,000	962,517	1,410,000	2,873,070
2011	1,040,000	906,310	1,470,000	2,804,026
2012	1,090,000	846,670	1,535,000	2,730,817
2013-2017	6,125,000	3,244,035	8,975,000	12,408,488
2018-2022	6,615,000	1,645,375	11,415,000	9,927,024
2023-2027	3,145,000	159,125	12,805,000	7,030,696
2028-2032			14,350,000	4,489,403
2033-2037			17,275,000	1,515,432
Total	<u>\$20,820,000</u>	<u>\$9,844,275</u>	<u>\$71,595,000</u>	<u>\$49,715,130</u>

Lease Revenue Bonds – Governmental activities:

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project) in the original principal amount of \$61,430,000, issued to provide funding for the City's portion of a City/County government building, parking garage, new police station, and other governmental capital improvements; serial certificates with annual maturities on September 1, in amounts from \$30,000 to \$450,000; interest payments at 4.2% to 5.125%; final maturity in 2034.

\$4,165,000

2007 Lease Revenue Refunding and Capital Improvement Bonds in the amount of \$62,275,000, issued to refund 1997 John Thurman Field bonds in full, to provide additional project funds for John Thurman Field, and to partially refund the 1998 Lease Revenue Bonds; variable auction rate securities issued in denominations of \$25,000 maturing on September 1, 2033, bearing interest at 3.7% through September 8, 2008; thereafter, the bonds convert to a variable rate with interest calculated weekly; the rate will fluctuate according to market conditions, but is capped at 12%; annual principal payments in the amount of \$250,000 to \$4,250,000 beginning September 1, 2007.

The City entered into a 25-year interest rate swap agreement, which will become effective September 3, 2008, in the same amount as the outstanding principal balance of the Bonds on that date. The combination of the variable rate bonds and a floating swap rate will create synthetic fixed-rate debt for the City. Because neither the auction rate nor the swap rate are effective as of June 30, 2007, the initial bond interest rate of 3.7% is used for disclosure purposes. The terms of the swap agreement will be disclosed when it becomes effective.

62,275,000

Total lease revenue bonds

\$ 66,440,000

Annual debt service requirements to maturity for lease revenue bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$1,230,000	\$2,180,827
2009	700,000	2,964,779
2010	955,000	2,351,753
2011	1,085,000	2,313,481
2012	1,190,000	2,271,104
2013-2017	7,925,000	10,554,929
2018-2022	10,225,000	8,876,595
2023-2027	14,895,000	6,543,242
2028-2032	19,380,000	3,318,063
2033-2034	8,855,000	256,293
Total	<u>\$66,440,000</u>	<u>\$41,631,066</u>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$575,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$1,075,000 to \$1,115,000, with interest rates from 4.14% to 4.40%. \$ 36,595,000

Wastewater Revenue Bonds, Series 2006A; interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$880,000 to \$1,005,000, with interest rates from 4.2% to 4.5%; term certificates in the amount of \$5,710,000 maturing in 2031 and \$7,060,000 maturing in 2036, bearing interest at 4.25%, with annual payments beginning in 2024. 16,535,000

Total principal balances – business-type activities 53,130,000

Plus: Unamortized bond premium - 2005 Bonds 2,044,805

Less:

Unamortized bond discount – 2006 Bonds (313,420)

Deferred amount on refunding – 2005 Bonds (3,303,193)

Total business-type activities revenue bonds \$ 51,558,192

The 2005 and 2006 bonds were issued to fund a variety of Sewer Enterprise Fund wastewater capital improvements.

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,710,000	\$ 2,428,988
2009	1,660,000	2,370,633
2010	1,710,000	2,320,083
2011	1,765,000	2,250,308
2012	1,855,000	2,159,808
2013-2017	10,820,000	9,280,588
2018-2022	13,845,000	6,257,135
2023-2027	6,995,000	3,294,639
2028-2032	5,710,000	2,127,550
2033-2037	7,060,000	775,625
Total	<u>\$53,130,000</u>	<u>\$33,265,357</u>

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Development Department for the purpose of constructing the Neighborhood Center at Marshall Park and the expansion of the Maddux Youth Center; to be repaid using future Community Development Block Grant revenue; interest rates from 3.09% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$4,221,000

Fleet Management Internal Service Fund:

Note payable for the acquisition of property related to the Police Fleet Shop; variable interest rate with a minimum of 6% and a maximum of 9%; monthly payments of \$3,010, including interest, through February 2012.

144,446

Total notes payable

\$4,365,446

Annual debt service requirements to maturity for these notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 178,226	\$ 232,373
2009	187,968	224,759
2010	196,816	216,184
2011	207,778	206,685
2012	202,658	196,417
2013-2017	1,057,000	828,316
2018-2022	1,350,000	497,328
2023-2025	985,000	90,444
Total	<u>\$4,365,446</u>	<u>\$2,492,506</u>

Interest Rate Swap Agreements

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction allows the City to create a synthetic fixed rate on the COPs, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreement is disclosed below. For the swap agreement pertaining to the 2007 Lease Revenue Refunding and Capital Improvement Bonds, these disclosures will be made when the agreement becomes effective in fiscal year 2009.

Terms - The terms, including the counterparty credit rating of the outstanding swap, as of June 30, 2007 are shown in the table below. The swap agreement contains scheduled reductions to the outstanding notional amount that are expected to follow scheduled principal reductions in the associated debt issue.

Related Debt Issue	Notional Amount	Effective Date	Counterparty	Credit Rating (S&P)	Fixed Rate Paid	Variable Rate Received	Termination Date
2006 Water Revenue COPs	\$46,275,000	11/2/2006	Bank of America	AA+	3.48%	63.7% of 30-day LIBOR, plus .154%	10/1/2036

Based on the swap agreement, the City owes interest calculated at a fixed rate to the counterparty (Bank of America). In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

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, 2007, the fair value of the 2006 Water Revenue Certificates of Participation swap was in favor of the City as shown in the following table:

Bond Issue	Fair Value
2006 Water Revenue Certificates of Participation	\$1,546,494

Credit risk - As of June 30, 2007, the City was exposed to credit risk on the swap because the swap had positive fair value. This amount may increase if interest rates increase in the future. However, if interest rates decline and the fair value becomes negative, the City would no longer 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 contract if the other party fails to perform under the terms of the contract. 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, 2007, debt service requirements of the 2006 Water Revenue Certificates of Participation and net swap payments, including broker fees, are as shown in the following table. These payments are also included in the table of debt service requirements accompanying the Certificates of Participation disclosure above. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending June 30	Variable-Rate Bonds		Interest Rate Swap, Net, and Broker Fees	Total
	Principal	Interest		
2008	---	\$ 1,642,762	\$ 89,540	\$ 1,732,302
2009	\$250,000	1,636,106	89,181	1,975,287
2010	275,000	1,626,566	88,263	1,989,829
2011	275,000	1,616,803	88,120	1,979,923
2012	275,000	1,607,041	87,593	1,969,634
2013-2017	1,600,000	7,871,238	431,182	9,902,420
2018-2022	1,875,000	7,559,503	414,129	9,848,632
2023-2027	10,100,000	6,578,150	359,818	17,037,968
2028-2032	14,350,000	4,252,456	236,947	18,839,403
2033-2037	17,275,000	1,425,991	89,441	18,790,432
Total	<u>\$46,275,000</u>	<u>\$35,816,616</u>	<u>\$1,974,214</u>	<u>\$84,065,830</u>

Advance Refunding of 1997 and 1998 Lease Revenue Bonds

In April 2007, the City refunded the balance of outstanding 1997 Lease Revenue Bonds (John Thurman Field Project), and a portion of 1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project), by placing a portion of the 2007 Lease Revenue Bond proceeds in irrevocable trust accounts. The trust was sufficient to pay on May 23, 2007 the prepayment price of 102% of the principal amount and accrued interest on the 1997 Lease Revenue Bonds. The remaining trust account will generate sufficient resources to pay the prepayment price of 101% of the principal balance plus interest of a portion of the 1998 Lease Revenue Bonds on September 1, 2008. As of June 30, 2007, the 1997 Lease Revenue Bonds have been paid in full, and 1998 Lease Revenue Bonds in the amount of \$55,460,000 are considered defeased. These auction rate refunding bonds were issued to reduce the total debt service payments over the next 30 years by an estimated \$7,928,935, resulting in an estimated economic gain of \$5,075,172.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans payable	\$ 445,634	\$ 44,138	\$ 40,634	\$ 449,138	
Certificates of participation	21,655,000		835,000	20,820,000	\$ 885,000
Lease revenue bonds	62,505,000	62,275,000	58,340,000	66,440,000	1,230,000
Notes payable	4,535,034		169,588	4,365,446	178,226
Obligations under capital leases	444,904	211,354	444,904	211,354	73,962
Compensated absences	61,616,954	17,271,365	10,999,807	67,888,512	3,259,769
Claims liability	16,331,110	9,231,869	8,936,742	16,626,237	4,583,644
Governmental activities long-term liabilities	<u>\$167,533,636</u>	<u>\$89,033,726</u>	<u>\$79,766,675</u>	<u>\$176,800,687</u>	<u>\$10,210,601</u>
Business-type activities:					
Loan payable	\$ 2,156,040		\$197,764	\$ 1,958,276	\$ 203,977
Certificates of participation	26,305,000	46,275,000	985,000	71,595,000	1,030,000
Unamortized discounts	(385,551)		(22,175)	(363,376)	
Deferred amount on refunding	(1,299,371)		(74,736)	(1,224,635)	
Revenue bonds	38,245,000	16,535,000	1,650,000	53,130,000	1,710,000
Unamortized premium	2,172,605		127,800	2,044,805	
Unamortized discount		(323,867)	(10,447)	(313,420)	
Deferred amount on refunding	(3,575,585)		(272,392)	(3,303,193)	
Capital lease	222,588		70,955	151,633	74,148
Developer advances	2,177,761		94,572	2,083,189	92,822
Business-type activities long-term liabilities	<u>\$66,018,487</u>	<u>\$62,486,133</u>	<u>\$2,746,341</u>	<u>\$125,758,279</u>	<u>\$3,110,947</u>

Principal balances are reported on the government-wide and enterprise funds statements of net assets net of unamortized issuance discounts and deferred amounts on refunding.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$144,446 of internal service funds obligations under notes payable, and \$211,354 in capital leases are included in the above amounts. Also, the compensated absences and claims liability balances relate to the internal service funds, and as such they are liquidated by the internal service funds.

Prior year defeasance of debt

In 2005, the City issued refunding Wastewater Revenue Bonds to refund 1993, 1996 and 1997 Wastewater Revenue Bonds. The proceeds were used to purchase U.S. government securities, which were deposited in an irrevocable trust to provide for all future debt service requirements of the three refunded issues. Both the 1993 and 1996 Bonds have been fully redeemed. As of June 30, 2007 \$32,340,000 of 1997 revenue bonds are considered defeased and are not included in the Sewer Fund.

D. OBLIGATIONS UNDER CAPITAL LEASES

Enterprise Funds

Two wheel loaders, valued at \$371,458, less \$82,400 accumulated depreciation, are being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2007:

<u>Year Ending June 30,</u>	
2008	\$80,972
2009	<u>80,971</u>
Total minimum lease payments	161,943
Less: amount representing interest	<u>(10,310)</u>
Present value of minimum lease payments	<u>\$151,633</u>

Internal Service Funds

A software license valued at \$211,354 is being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2007:

<u>Year Ending June 30,</u>	
2008	\$73,962
2009	75,000
2010	<u>75,000</u>
Total minimum lease payments	223,962
Less: amount representing interest	<u>(12,608)</u>
Present value of minimum lease payments	<u>\$211,354</u>

E. DEVELOPER ADVANCES

The Del Este Water Company (Del Este) entered into various agreements with developers under which infrastructure components were either constructed on behalf of Del Este or cash was advanced to the company to construct the infrastructure. Agreements in existence at the time of the City's acquisition of Del Este were assumed by the City. The terms of repayment call for no interest, with principal paid over a 40-year period. As of June 30, 2007, the total outstanding balance due under the agreements is \$2,083,189. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2007, the amount of \$92,822 due during fiscal year 2008 has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$1,990,367 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2007 consist of the following:

<u>Due to General Fund from:</u>	
Other governmental funds – total due to/due from	<u>\$4,320,000</u>
 <u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$1,254,203
Other governmental funds	168,583
Other enterprise funds	<u>878,704</u>
Total advances from General Fund	2,301,490
Advances from other governmental funds to Capital Facility Fees Fund	102,124
Advances from internal service funds to General Fund	<u>1,782,462</u>
Total advances from/advances to	<u>\$4,186,076</u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2007, and were repaid early in fiscal year 2008. Balances reported as "advance to/advance from" were for capital projects expenditures and are either in the process of being repaid or have scheduled repayments in future years. \$3,800,776 of advances are not currently scheduled for repayment during 2008.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2007 are comprised of the following:

	General	Capital Facility Fees	Community Facility Districts	Other Governmental
<u>Reserved for:</u>				
Encumbrances	\$1,433,483	\$3,888,291	\$2,340,868	\$8,120,972
Loan programs				12,163,980
Interfund advances	2,301,490			102,124
Set-aside requirement				5,388,260
Property held for resale				780,000
Debt service				7,390,425
Total reserved	<u>\$3,734,973</u>	<u>\$3,888,291</u>	<u>\$2,340,868</u>	<u>\$33,945,761</u>
<u>Designated for:</u>				
Pending projects		\$39,414,699	\$31,166,210	\$17,583,380
Total designated		<u>\$39,414,699</u>	<u>\$31,166,210</u>	<u>\$17,583,380</u>

1. Reserve for encumbrances - Amounts reserved for encumbrances represent the total of outstanding purchase orders and contracts which are scheduled for reappropriation in the next fiscal year.
2. Reserve for loan programs - Amounts equal to the outstanding housing program and small business notes receivable are reserved in the Housing and Community Development Fund Special Revenue Fund and the Redevelopment Agency Capital Projects Fund.
3. Reserve for interfund advances - The City reserves an amount in each fund equal to the advances to other funds.
4. Reserve for Redevelopment Agency set-aside requirement - The portion of fund balance relating to State required low-to-moderate income housing set-aside, has been reserved in the Redevelopment Agency Capital Projects Fund.
5. Reserve for property held for resale - The City reserves an amount equal to the property held for resale by the Redevelopment Agency, since it is not an available spendable resource.
6. Reserve for debt service - The total fund balances of the debt service funds are reserved for future debt service requirements.
7. Designation for pending projects - Designations for pending projects are established to fund projects approved but not yet appropriated.

H. DEFICIT FUND EQUITY

The Capital Grants Capital Projects Fund has a deficit fund balance of \$1,903,084. Recognition of deferred revenue is expected to resolve this deficit.

The Golf Enterprise Fund has a net assets deficit of \$1,614,556, 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 Employee Benefits Management Internal Service Fund has a net assets deficit of \$49,269,248. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. In addition, the City normally contracts for an actuarial valuation of the sick leave liability on an annual basis. Because the City will be required to implement GASB 45, which will change the way post-retirement benefits are presented, it was decided that for this fiscal year the sick leave would again be estimated. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers to:	Transfers from:								
	General Fund	Capital Facility Fees	Community Facilities Districts	Other Govern-mental	Water	Sewer	Bus	Other Enterprise	Internal Service
General Fund		\$353,000	\$190,000	\$1,746,022	\$65,000	\$65,000	\$18,000		
Capital Facility Fees			926,120	186,777					
Community Facilities Districts		196,035							
Other Governmental	\$10,083,447	341,833		9,814,629					
Water	264,000								
Sewer	226,389								
Bus	1,500								
Other Enterprise	766,887			180,000					\$38,550
Internal Service	997,710	101,347		23,584			47,694	\$128,000	
Grand Total	\$12,339,933	\$992,215	\$1,116,120	\$11,951,012	\$65,000	\$65,000	\$65,694	\$128,000	\$38,550
									\$26,761,524

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$15,117,307, net of \$73,182, allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties, are generally interest free with the exception of a small number of direct loans bearing annual interest at 3 or 5 percent and, with a few exceptions, require no repayment of principal until the loans reach maturity.

K. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$2,724,225 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. The liability is expected to be liquidated within one year.

L. SPECIAL ITEMS

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also initiated litigation with the manufacturers. In the current year the City received \$1,495,461 in insurance recoveries and settlements from some of the smaller defendants. In October 2007 the City settled with one of the defendants and received \$12.8 million, net of attorney fees, that is to be used for the cleanup costs.

III. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim as follows: workers' compensation \$750,000; liability \$1,000,000; and dental care \$1,200. In July 1995, the City dropped its self-insured health plan, and now offers a variety of commercial plans to its employees. The City purchases commercial insurance for employee disability, property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$4,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Commercial insurance covers claims over \$5,000,000 in three excess layers of \$10,000,000 each, for an additional \$30,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years.

All operating funds participate in the program and make payments to the Insurance Fund based on historical cost and/or actuarial estimates of the amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims and allocated loss adjustment expenses. Insurance premiums to commercial insurers are also processed through the Insurance Fund. The total claims liability at June 30, 2007 is \$16,626,237 consisting of \$13,536,000 workers' compensation, \$2,637,000 general liability, \$363,163 dental, \$30,449 disability, and \$59,625 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 3.56%. The undiscounted worker's compensation and liability claims totaled \$16,649,000 and \$2,820,000, respectively.

The current portion of the total claims liability is estimated to be \$4,583,644 and the balance of \$12,042,593 is reported as a long-term liability on the statement of net assets. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 10, and include estimated claims incurred but not yet reported and allocated loss adjustment expenses as of June 30, 2007. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2006 and June 30, 2007 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2005-06	\$13,961,801	\$7,458,436	\$(5,089,127)	\$16,331,110
2006-07	16,331,110	9,231,869	(8,936,742)	16,626,237

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, 2007, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Village One #2 Community Facilities District	\$31,085,000
Fairview Village Community Facilities District	4,960,000

C. CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, health care, and multiple-family housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from developer payments on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are considered conduit debt obligations and are not reported as liabilities in the accompanying financial statements.

As of June 30, 2007 there were seven series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$43,365,000.

D. COMMITMENTS AND CONTINGENCIES

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

In the 1950's and 1960's, the City operated a landfill facility outside the city limits. This facility was closed in 1968, to the standards in effect at that time. State and federal laws and regulations require that the City perform certain maintenance and monitoring functions. Testing performed during fiscal year 2007 indicated that methane emissions in the area had exceeded State standards, however additional testing performed indicated that the emissions were within the allowable levels. If additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users. As of June 30, 2007 the future postclosure care cost of monitoring the landfill was calculated to be immaterial for presentation purposes.

The City receives funding from a number of federal, state and local grant programs, principally the Federal Highway Administration, Community Development Block Grants, and Federal Transit Administration grants. These programs are subject to financial and compliance review by the grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the basic financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

The City has commitments of \$33,333,675 as of June 30, 2007 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$1,433,483 in the General Fund, \$3,888,291 in the Capital Facility Fees Fund, \$2,340,868 in the Community Facilities Districts Funds, \$8,120,972 in other governmental funds, \$15,035,353 in the enterprise funds, and \$2,514,708 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserves for encumbrances on the balance

sheet. As of June 30, 2007, there are major contracts and other purchase orders outstanding for the 9th Street bridge replacement, various new parks, Kiernan Business Park development consultant, storm drain improvements, water and sewer system improvements, comprehensive update to the City's general plan, airport terminal parking lot expansion, major street improvements, and the purchase of replacement vehicles and equipment for the City fleet.

E. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Tuolumne River Regional Park

The City participates with Stanislaus County and the City of Ceres in the operation and development of the Tuolumne River Regional Park (TRRP). The governing body consists of 2 members from the County Board of Supervisors, 2 members from the Modesto City Council, and 1 member from the Ceres City Council. The TRRP board prepares the annual budget, which must be approved by both cities' councils and the board of supervisors. Each participant has an equity interest in the capital assets of TRRP based on the percentage of cumulative contributions paid. The City's contribution to TRRP was \$129,264 for the fiscal year ended June 30, 2007. As of June 30, 2007 the City's investment in this joint venture was \$1,807,047, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's contribution to the SDEA for the fiscal year ended June 30, 2007 was \$693,390, consisting of a \$373,855 cash contribution and in-kind services valued at \$319,535. The City's investment in this joint venture was estimated to be \$442,657 as of June 30, 2007, based on the most recent available information. This amount is reported in governmental activities in the statement of net assets. Financial statements of the SDEA are prepared by the City of Modesto Finance Department.

City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was finalized at the end of June 2003. Since then, the City of Modesto has been the fiscal administrator. For the fiscal year ended June 30, 2007, the City's payments to the Agency were \$676,371. The City's equity interest in the Agency is \$14,386,896, equal to its fixed asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the Statement of Net Assets. Financial statements of the Agency will be available from the Agency after the initial audit of the Agency's books has been completed.

Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency (Agency). The Agency was created to provide financing for a facility that generates power from solid waste. The costs of operating the Agency, if any, are shared equally by the participants. The governing body consists of 2 members each from the County Board of Supervisors and the Modesto City Council. As of June 30, 2007, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Regional Fire Training Center

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County for the use and management of the regional fire training center at Modesto Junior College. The executive board consists of the YCCD Chancellor, the President of Modesto Junior College, the City Manager of the City of Modesto, and the Chief Executive Officer of Stanislaus County. The YCCD is responsible for accounting and for monitoring the center's budget. All three entities share in the operating costs. Initial construction costs were paid by the YCCD from borrowed funds, with the City and County reimbursing a portion of these costs in exchange for future use of the center. The City has paid its share of the construction costs in full. Title to the constructed asset is held by the YCCD; therefore, the City has no equity interest.

F. TREATMENT AND DELIVERY AGREEMENT

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 2006 Water Revenue Certificates of Participation, 1997 Water System Improvement Project Refunding Certificates of Participation, and the California Safe Drinking Water Act loan (Note II-C). The minimum annual amount payable to MID, consisting of the debt service component only, is \$6,687,444. The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations. The total cash paid to MID during the fiscal year ended June 30, 2007 was \$12,608,001, which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets in the amount of \$12,904,328, and as prepaid expense of \$706,673. Prior year prepaid expense of \$1,003,000 reduced the amount of cash paid during the current fiscal year.

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. Therefore, as of June 30, 2007, the total outstanding on the MID bonds is: \$73,780,000 for the 1998 bonds, and \$93,190,000 for the 2007 bonds for a total of \$166,970,000.

G. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described below in Note III-H, the City provides health care benefits to employees who retire from the City, under contractual agreements with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leave upon retirement, to be used for payment of future health care premiums to a choice of four insurance plans. The City has no obligation to pay premiums for retirees with no accumulated sick leave. The estimated liability for current retirees' future premiums is \$16,341,924 as of June 30, 2007. The estimated current portion of \$1,969,375 is fully funded. The long-term portion \$14,372,549 is partially funded, with the balance being funded over time by charges to the City's operating funds. The current and long-term portions are reported in the Employee Benefits Management Fund as part of the compensated absences liability balances.

H. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan, which acts as a common investment and administrative agent for participating public entities in California. CalPERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. An annual financial report for the City's portion of the plan is not available.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary, of which the City pays the majority on behalf of the employees. The City is required to contribute at an actuarially determined rate; the current rate is 9.124% of annual covered payroll for non-safety employees and 24.421% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2007, the City's annual pension cost of \$12,214,853 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post-retirement benefit increases. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the City's CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006 was 32 years for both the miscellaneous and safety plans.

THREE-YEAR TREND INFORMATION FOR PERS – ALL PLANS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$8,276,570	100%	-
6/30/06	11,748,699	100%	-
6/30/07	12,214,853	100%	-

SCHEDULE OF FUNDING PROGRESS FOR PERS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Accrued Liability (A – B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]</u>
6/30/04:						
Misc.	\$204,261,809	\$212,669,957	\$(8,408,148)	96.0%	\$41,083,600	20.5%
Safety	221,621,121	257,554,567	(35,933,446)	86.0%	29,085,514	123.5%
6/30/05:						
Misc.	\$218,307,677	\$231,079,054	\$(12,771,377)	94.5%	\$42,221,273	30.2%
Safety	239,178,942	273,741,974	(34,563,032)	87.4%	30,117,501	114.8%
6/30/06:						
Misc.	\$234,337,099	\$248,371,895	\$(14,034,796)	94.3%	\$43,582,742	32.2%
Safety	258,762,829	293,433,828	(34,670,999)	88.2%	32,412,111	107.0%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>TAXES:</u>				
Utility users tax	\$ 17,862,717	\$ 18,914,944	\$ 18,319,657	\$ (595,287)
Property tax	16,641,611	16,875,109	16,456,379	(418,730)
Transient occupancy tax	2,217,721	2,267,721	2,264,699	(3,022)
Franchise tax	3,056,008	3,122,128	2,976,772	(145,356)
Business license tax	10,830,466	10,830,466	10,359,058	(471,408)
Total taxes	50,608,523	52,010,368	50,376,565	(1,633,803)
<u>LICENSES AND PERMITS</u>	101,174	101,174	100,682	(492)
<u>INTERGOVERNMENTAL:</u>				
Sales tax	23,181,345	22,789,203	20,483,152	(2,306,051)
In-lieu sales tax	7,339,967	7,401,700	7,401,700	
Motor vehicle license fees	14,845,688	16,109,311	16,233,262	123,951
State	2,402,550	2,402,550	2,643,897	241,347
County	97,000	97,000	227,098	130,098
Federal	52,000	132,000	46,183	(85,817)
Other intergovernmental	573,389	573,389	978,733	405,344
Total intergovernmental	48,491,939	49,505,153	48,014,025	(1,491,128)
<u>CHARGES FOR SERVICES:</u>				
General government	3,243,809	3,277,809	3,204,871	(72,938)
Community development	4,460,028	3,767,335	3,186,285	(581,050)
Public works	1,586,240	1,649,515	1,341,012	(308,503)
Parks and recreation	1,911,520	1,848,128	2,158,617	310,489
Public safety	1,823,064	2,423,315	2,523,428	100,113
Other current charges for services	268,260	268,260	191,417	(76,843)
Indirect cost recovery	2,948,304	2,948,304	2,897,455	(50,849)
Total charges for services	16,241,225	16,182,666	15,503,085	(679,581)
<u>SPECIAL ASSESSMENT</u>	158,500	158,500	51,634	(106,866)
<u>INTEREST AND RENT</u>	490,680	490,680	406,462	(84,218)
<u>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</u>			146,546	146,546
<u>FINES AND FORFEITURES</u>	546,835	705,000	1,158,163	453,163
<u>MISCELLANEOUS:</u>				
Mandated cost recovery		963,508	938,730	(24,778)
Other	786,091	980,918	1,236,789	255,871
Total miscellaneous	786,091	1,944,426	2,175,519	231,093
Total revenues	\$ 117,424,967	\$ 121,097,967	\$ 117,932,681	\$ (3,165,286)

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
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 220,240	\$ 251,838	\$ 181,553	\$ 70,285
Personnel/training	1,533,775	1,767,323	1,587,678	179,645
City manager	1,282,485	1,467,492	1,261,908	205,584
City attorney	1,804,258	1,939,273	1,845,852	93,421
City clerk/auditor	703,606	737,264	613,562	123,702
Finance	6,261,297	6,575,432	6,161,665	413,767
Other		1,236,440	2,353,010	(1,116,570)
Total general government	<u>11,805,661</u>	<u>13,975,062</u>	<u>14,005,228</u>	<u>(30,166)</u>
Community development	<u>6,313,766</u>	<u>6,619,484</u>	<u>5,362,329</u>	<u>1,257,155</u>
Public works:				
Engineering and Transportation Dept:				
Construction administration/permits	865,894	952,575	763,901	188,674
Engineering administration	1,456,411	1,489,475	1,379,882	109,593
Operations and Maintenance Dept:				
Service and maintenance	4,050,894	4,091,589	3,912,980	178,609
Graffiti abatement	340,400	340,400	326,765	13,635
Total public works	<u>6,713,599</u>	<u>6,874,039</u>	<u>6,383,528</u>	<u>490,511</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,431,788	5,535,387	5,506,403	28,984
Community Services & Neighborhood Connection:				
Administration	833,807	893,021	799,605	93,416
Planning and development	493,641	497,241	491,553	5,688
Culture	1,367,657	1,505,037	1,443,538	61,499
Recreation division	3,190,169	3,323,635	3,266,829	56,806
Facilities	718,321	697,762	626,017	71,745
Total parks and recreation	<u>12,035,383</u>	<u>12,452,083</u>	<u>12,133,945</u>	<u>318,138</u>
Public safety:				
Fire protection	25,735,655	27,315,004	26,623,758	691,246
Police protection	51,886,032	52,898,987	52,371,551	527,436
Total public safety	<u>77,621,687</u>	<u>80,213,991</u>	<u>78,995,309</u>	<u>1,218,682</u>
Total expenditures by department	<u>114,490,096</u>	<u>120,134,659</u>	<u>116,880,339</u>	<u>3,254,320</u>
Debt service:				
Principal retirement	9,719	9,719	9,719	
Interest	344	344	344	
Total debt service	<u>10,063</u>	<u>10,063</u>	<u>10,063</u>	
Total expenditures	<u>\$ 114,500,159</u>	<u>\$ 120,144,722</u>	<u>\$ 116,890,402</u>	<u>\$ 3,254,320</u>

The notes to required supplementary information are an integral part of this schedule

CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as the Original Budget in the budgetary comparison schedules.
4. During the fiscal year, changes to the adopted budget may be authorized, as follows:
 - a. Items requiring City Council action - appropriation of fund balance reserves; transfers of appropriations between funds; appropriation of any non-departmental revenue; new interfund loans or advances; and creation of new capital projects or increases to existing capital projects.
 - b. Items delegated to the City Manager - transfers between departments within funds; appropriation of unbudgeted departmental revenues; and approval of transfers that increase salary and benefit appropriations.
 - c. Items delegated to the Finance Director - approval authority over any changes in or transfers from budgeted allocations for Internal Service Fund charges.
 - d. Items delegated to Department Heads - allocation of departmental appropriations to line item level.
5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue, enterprise and internal service funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on this basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.
6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g., City Attorney), or an entire department having multiple organizations within the same fund (e.g., Operations and Maintenance), or an entire fund (e.g., Downtown Improvement District). All departments and funds completed the year within their legally authorized expenditures. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded to reserve the applicable appropriations, is employed in the governmental funds.

The City does, however, honor the contracts represented by year-end encumbrances and the subsequent year's appropriations provide authority to complete these transactions.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

Special Revenue Funds include funds which are restricted as to use by the Federal or State governments, and special purpose funds established by authority of the City Council. Nonmajor Special Revenue Funds include:

OPERATING GRANTS FUND – To account for a variety of governmental fund operating grants, including law enforcement grants.

LOCAL TRANSPORTATION FUND – To account for revenues and expenditures of Local Transportation Fund allocations for streets, urban trails, and non-motorized facilities. Allocations for the City bus system are reported directly in the Bus Enterprise Fund.

TRAFFIC SAFETY FUND – To account for receipts and expenditures of traffic safety fines.

SPECIAL GAS TAX STREET IMPROVEMENT FUND – To account for State-collected, locally-shared gas tax monies. These funds may be used for all street purposes including construction, purchase of rights-of-way, and maintenance.

DOWNTOWN IMPROVEMENT DISTRICT FUND – To account for the fiscal activities of Business Improvement Area A of the City of Modesto.

HOUSING AND COMMUNITY DEVELOPMENT FUND – To account for grants and other monies received and disbursed for projects developed and administered under the Housing and Community Development Act of 1974.

STRATEGIC PLANNING AND DEVELOPMENT FUND – Established to provide a funding source for future village planning, general plan update and other large expenses related to planning and development. This fund was originally financed with an apportionment of the PERS rebate related to AB702. Subsequent funding has been provided by transfers from the General Fund. Future funding will be provided by fees imposed on private development.

Nonmajor Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. Nonmajor Capital Projects Funds include:

SPECIAL FUND FOR CAPITAL OUTLAYS – To account for capital outlay authorized by the City Council. No monies placed in this fund are to be disbursed except for this purpose unless authorized by a vote of the people.

PARKS FUND – To account for a discretionary transfer of General Fund property tax revenue to provide for the development of parks within the City, as directed by the City Council.

McHENRY MANSION RESTORATION FUND – To account for donations and other revenues received and appropriated for the purpose of restoring the McHenry Mansion.

CAPITAL GRANTS FUND – To account for receipts and disbursements of a variety of Governmental Fund capital grants.

REDEVELOPMENT AGENCY FUND – To account for the construction of capital projects financed by the Redevelopment Agency of the City of Modesto.

IMPROVEMENT DISTRICTS FUND – To account for the construction of public improvements deemed to benefit properties against which special assessments are levied.

PUBLIC FINANCING AUTHORITY FUND – To account for the financing of various projects authorized by the Modesto Public Financing Authority.

Nonmajor Debt Service Funds

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

REDEVELOPMENT AGENCY FUND – To account for certificates of participation issued to finance the acquisitions and construction of the Modesto Centre Plaza.

PUBLIC FINANCING AUTHORITY FUND – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
ASSETS					
Cash and cash equivalents	\$ 776,508	\$ 559	\$ 374,251	\$ 7,350,153	\$ 60,985
Cash and cash equivalents with fiscal agent					
Receivables:					
Accounts	303,022			531	
Interest	4,040	4,661		27,716	254
Utilities, net	17,075				
Taxes				220,077	
Due from governments	1,396,081	3,808,348		265,974	
Notes receivable, net	229,102				
Prepaid expenses/expenditures	1,308				
Property held for resale					
Advances to other funds					
Total assets	<u>\$ 2,727,136</u>	<u>\$ 3,813,568</u>	<u>\$ 374,251</u>	<u>\$ 7,864,451</u>	<u>\$ 61,239</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 235,182		\$ 30,607	\$ 263,374	\$ 38
Accrued salaries and benefits	58,801			56,839	
Due to other funds		\$ 710,000			
Approved loans payable					
Deferred revenues	1,498,273	3,005,445		925	
Refundable deposits					
Advances from other funds					
Total liabilities	<u>1,792,256</u>	<u>3,715,445</u>	<u>30,607</u>	<u>321,138</u>	<u>38</u>
Fund balances:					
Reserved for:					
Encumbrances	649,497	1,527		832,434	
Loan programs and prepaids					
Interfund advances					
Property held for resale					
Set-aside requirement					
Debt service					
Unreserved/designated for:					
Pending projects			343,644	6,710,879	61,201
Unreserved/undesignated	<u>285,383</u>	<u>96,596</u>			
Total fund balances	<u>934,880</u>	<u>98,123</u>	<u>343,644</u>	<u>7,543,313</u>	<u>61,201</u>
Total liabilities and fund balances	<u>\$ 2,727,136</u>	<u>\$ 3,813,568</u>	<u>\$ 374,251</u>	<u>\$ 7,864,451</u>	<u>\$ 61,239</u>

Housing and Community Development	Strategic Planning and Development	Capital Projects					
		Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Redevelop- ment Agency	Public Financing Authority
\$ 2,612,711	\$ 1,802,294	\$ 1,673,921	\$ 1,451,013	\$ 6,632	8,416	\$ 8,088,802	\$
1,731,589			2,412,632				148,306
13,270	71,889						
8,339	5,075		5,691	28		25,022	
492,519			202,953		3,972,876		
13,959,189						929,016	
						780,000	
		102,124					
<u>\$ 18,817,617</u>	<u>\$ 1,879,258</u>	<u>\$ 1,776,045</u>	<u>\$ 4,072,289</u>	<u>\$ 6,660</u>	<u>3,981,292</u>	<u>\$ 9,822,840</u>	<u>\$ 148,306</u>
\$ 167,201	\$ 22,572	\$ 104,030	\$ 5,143		\$ 253,852	\$ 3,639	\$
14,300					3,610,000		
2,724,225							
1,756	71,889		202,953		2,020,524		
						1,000	
			168,583				
<u>2,907,482</u>	<u>94,461</u>	<u>104,030</u>	<u>376,679</u>		<u>5,884,376</u>	<u>4,639</u>	
270,387	1,801,374	2,196,009	291,273		1,861,115	217,356	
11,234,964		102,124				929,016	
						780,000	
						5,388,260	
4,404,784			3,404,337	\$ 6,660		2,503,569	148,306
	(16,577)	(626,118)			(3,764,199)		
<u>15,910,135</u>	<u>1,784,797</u>	<u>1,672,015</u>	<u>3,695,610</u>	<u>6,660</u>	<u>(1,903,084)</u>	<u>9,818,201</u>	<u>148,306</u>
<u>\$ 18,817,617</u>	<u>\$ 1,879,258</u>	<u>\$ 1,776,045</u>	<u>\$ 4,072,289</u>	<u>\$ 6,660</u>	<u>\$ 3,981,292</u>	<u>\$ 9,822,840</u>	<u>\$ 148,306</u>

(continued)

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2007

	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 931,177		\$ 25,137,422
Cash and cash equivalents with fiscal agent	1,981,634	\$ 4,689,277	10,963,438
Receivables:			
Accounts			388,712
Interest	13,668		94,494
Utilities, net			17,075
Taxes	372,806		592,883
Due from governments			10,138,751
Notes receivable, net			15,117,307
Prepaid expenses/expenditures			1,308
Property held for resale			780,000
Advances to other funds			102,124
Total assets	<u>\$ 3,299,285</u>	<u>\$ 4,689,277</u>	<u>\$ 63,333,514</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 598,137	\$	\$ 1,683,775
Accrued salaries and benefits			129,940
Due to other funds			4,320,000
Approved loans payable			2,724,225
Deferred revenues			6,801,765
Refundable deposits			1,000
Advances from other funds			168,583
Total liabilities	<u>598,137</u>		<u>15,829,288</u>
Fund balances:			
Reserved for:			
Encumbrances			8,120,972
Loan programs			12,163,980
Interfund advances			102,124
Property held for resale			780,000
Set-aside requirement			5,388,260
Debt service	2,701,148	4,689,277	7,390,425
Unreserved/designated for:			
Pending projects			17,583,380
Unreserved/undesignated			(4,024,915)
Total fund balances	<u>2,701,148</u>	<u>4,689,277</u>	<u>47,504,226</u>
Total liabilities and fund balances	<u>\$ 3,299,285</u>	<u>\$ 4,689,277</u>	<u>\$ 63,333,514</u>

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2007

	Operating Grants	Local Transportation	Traffic Safety	Special Revenue Special Gas Tax Street Improvement	Downtown Improvement District
REVENUES:					
Taxes				\$ 846,444	\$ 221,487
Licenses and permits	\$ 75,173			11,434	
Intergovernmental	1,356,813	\$ 2,737,811		5,502,051	
Charges for services	3,173,601			1,201,740	
Special assessments levied					
Interest and rent	19,585	49,721		148,181	(471)
Net increase (decrease) in fair value of investments	4,360	28,229		54,691	703
Fines and forfeits	12,737		\$ 1,528,545		
Miscellaneous	399,966			95,939	
Total revenues	<u>5,042,235</u>	<u>2,815,761</u>	<u>1,528,545</u>	<u>7,860,480</u>	<u>221,719</u>
EXPENDITURES:					
Current:					
General government	1,497,621				
Community development					220,115
Highways and streets		22,724		10,059,896	
Public works	3,723,236				
Parks and recreation	90,454				
Public safety	2,277,433		305,841		
Capital outlay:					
General government					
Community development					
Highways and streets		19,057		130,526	
Public works	64,890				
Parks and recreation	172,619				
Public safety	114,088				
Debt service:					
Principal retirement				40,634	
Interest				917	
Advance refunding escrow					
Other					
Total expenditures	<u>7,940,341</u>	<u>41,781</u>	<u>305,841</u>	<u>10,231,973</u>	<u>220,115</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,898,106)</u>	<u>2,773,980</u>	<u>1,222,704</u>	<u>(2,371,493)</u>	<u>1,604</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	2,648,523			4,984,943	
Transfers out		(2,685,131)	(1,052,000)	(1,265,085)	
Issuance of loans payable					
Issuance of lease revenue bonds					
Payments to refunded certificates of participation escrow agent					
Sale of assets					
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,648,523</u>	<u>(2,685,131)</u>	<u>(1,052,000)</u>	<u>3,719,858</u>	
NET CHANGE IN FUND BALANCES	(249,583)	88,849	170,704	1,348,365	1,604
FUND BALANCES, July 1	1,184,463	9,274	172,940	6,194,948	59,597
FUND BALANCES, June 30	<u>\$ 934,880</u>	<u>\$ 98,123</u>	<u>\$ 343,644</u>	<u>\$ 7,543,313</u>	<u>\$ 61,201</u>

Housing and Community Development	Strategic Planning and Development	Capital Projects					
		Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Redevelop- ment Agency	Public Financing Authority
						2,348,704	
\$ 3,294,634					\$ 4,725,001		
113,194	\$ 1,047,611		\$ 11,180				
331,687	39,724	\$ (17,182)	56,362	\$ 35		\$ 175,574	\$ 2,138
18,208	17,810	(895)	17,153	82		65,470	
3,340	10,000	31,500	97,966				
<u>3,761,063</u>	<u>1,115,145</u>	<u>13,423</u>	<u>182,661</u>	<u>117</u>	<u>4,725,001</u>	<u>2,589,748</u>	<u>2,138</u>
2,706,272	1,631,512					548,433	
		1,087,479			566,631		
		48	81,708		26,918		
		1,376					
179,144						58,480	
					1,892,691		
		2,795,998	984,427		595,752		
		528,741					
143,000							635,695
229,400							635,695
<u>3,257,816</u>	<u>1,631,512</u>	<u>4,413,642</u>	<u>1,066,135</u>		<u>3,081,992</u>	<u>606,913</u>	<u>635,695</u>
503,247	(516,367)	(4,400,219)	(883,474)	117	1,643,009	1,982,835	(633,557)
(2,781,795)	625,000	4,694,513	2,848,632		890,107	(25,807)	(2,582,013)
	44,138	(543,738)	(97,222)				3,363,876
			767,904				
(2,781,795)	669,138	4,150,775	3,519,314		890,107	(25,807)	781,863
(2,278,548)	152,771	(249,444)	2,635,840	117	2,533,116	1,957,028	148,306
18,188,683	1,632,026	1,921,459	1,059,770	6,543	(4,436,200)	7,861,173	
<u>\$ 15,910,135</u>	<u>\$ 1,784,797</u>	<u>\$ 1,672,015</u>	<u>\$ 3,695,610</u>	<u>\$ 6,660</u>	<u>\$ (1,903,084)</u>	<u>\$ 9,818,201</u>	<u>\$ 148,306</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2007

	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
REVENUES:			
Taxes	\$ 2,954,817		\$ 6,371,452
Licenses and permits			86,607
Intergovernmental			17,616,310
Charges for services			5,547,326
Special assessments levied			
Interest and rent	275,611	\$ 294,162	1,375,127
Net increase (decrease) in fair value of investments	44,164		249,975
Fines and forfeits			1,541,282
Miscellaneous			638,711
Total revenues	<u>3,274,592</u>	<u>294,162</u>	<u>33,426,790</u>
EXPENDITURES:			
Current:			
General government			1,497,621
Community development			5,106,332
Highways and streets			10,649,251
Public works			4,810,715
Parks and recreation			199,080
Public safety			2,583,322
Capital outlay:			
General government			1,376
Community development			237,624
Highways and streets			2,042,274
Public works			64,890
Parks and recreation			4,548,796
Public safety			642,829
Debt service:			
Principal retirement	835,000	545,000	1,563,634
Interest	1,111,365	3,052,718	4,394,400
Advance refunding escrow		822,228	822,228
Other	691,225	6,209	1,333,129
Total expenditures	<u>2,637,590</u>	<u>4,426,155</u>	<u>40,497,501</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>637,002</u>	<u>(4,131,993)</u>	<u>(7,070,711)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	25,807	3,522,384	20,239,909
Transfers out	(918,221)		(11,951,012)
Issuance of loans payable			44,138
Issuance of lease revenue bonds		58,911,124	62,275,000
Payments to refunded certificates of participation escrow agent		(58,911,124)	(58,911,124)
Sale of assets			767,904
TOTAL OTHER FINANCING SOURCES (USES)	<u>(892,414)</u>	<u>3,522,384</u>	<u>12,464,815</u>
NET CHANGE IN FUND BALANCES	(255,412)	(609,609)	5,394,104
FUND BALANCES, July 1	2,956,560	5,298,886	42,110,122
FUND BALANCES, June 30	<u>\$ 2,701,148</u>	<u>\$ 4,689,277</u>	<u>\$ 47,504,226</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 75,173	\$ 25,173
Intergovernmental	676,169	1,275,923	1,356,813	80,890
Charges for services	3,003,022	3,392,948	3,173,601	(219,347)
Special assessments				
Interest and rent - interest		1,133	19,585	18,452
Net increase in fair value of investments			4,360	4,360
Fines and forfeits	500	14,000	12,737	(1,263)
Miscellaneous	360,170	362,683	399,966	37,283
Total revenues	<u>4,089,861</u>	<u>5,096,687</u>	<u>5,042,235</u>	<u>(54,452)</u>
EXPENDITURES:				
General government	2,181,085	2,129,835	1,497,621	632,214
Public works	4,161,293	4,720,521	3,788,126	932,395
Parks and recreation	807,913	808,207	263,073	545,134
Public safety	4,682,276	5,296,663	2,391,521	2,905,142
Total expenditures	<u>11,832,567</u>	<u>12,955,226</u>	<u>7,940,341</u>	<u>5,014,885</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>(7,742,706)</u>	<u>(7,858,539)</u>	<u>(2,898,106)</u>	<u>4,960,433</u>
OTHER FINANCING SOURCES:				
Transfers in	<u>2,398,916</u>	<u>2,398,916</u>	<u>2,648,523</u>	<u>249,607</u>
NET CHANGE IN FUND BALANCE	<u>(5,343,790)</u>	<u>(5,459,623)</u>	<u>(249,583)</u>	<u>5,210,040</u>
FUND BALANCES, JULY 1	<u>1,184,463</u>	<u>1,184,463</u>	<u>1,184,463</u>	
FUND BALANCES, JUNE 30	<u>\$ (4,159,327)</u>	<u>\$ (4,275,160)</u>	<u>\$ 934,880</u>	<u>\$ 5,210,040</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,620,000	\$ 2,620,000	\$ 2,737,811	\$ 117,811
Interest and rent - interest			49,721	49,721
Net increase in fair value of investments			28,229	28,229
Total revenues	<u>2,620,000</u>	<u>2,620,000</u>	<u>2,815,761</u>	<u>195,761</u>
EXPENDITURES:				
Highways and streets	<u>1,039,534</u>	<u>1,039,534</u>	<u>41,781</u>	<u>997,753</u>
Total expenditures	<u>1,039,534</u>	<u>1,039,534</u>	<u>41,781</u>	<u>997,753</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,580,466</u>	<u>1,580,466</u>	<u>2,773,980</u>	<u>1,193,514</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(2,968,889)</u>	<u>(2,968,889)</u>	<u>(2,685,131)</u>	<u>283,758</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,968,889)</u>	<u>(2,968,889)</u>	<u>(2,685,131)</u>	<u>283,758</u>
NET CHANGE IN FUND BALANCE	<u>(1,388,423)</u>	<u>(1,388,423)</u>	<u>88,849</u>	<u>1,477,272</u>
FUND BALANCES, JULY 1	<u>9,274</u>	<u>9,274</u>	<u>9,274</u>	
FUND BALANCE (DEFICITS), JUNE 30	<u>\$ (1,379,149)</u>	<u>\$ (1,379,149)</u>	<u>\$ 98,123</u>	<u>\$ 1,477,272</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Motor vehicle fines	\$ 1,040,000	\$ 1,355,000	\$ 1,528,545	\$ 173,545
EXPENDITURES:				
Public safety	450,000	450,000	305,841	144,159
EXCESS OF REVENUES OVER EXPENDITURES	590,000	905,000	1,222,704	317,704
OTHER FINANCING USES:				
Transfers out	(1,052,000)	(1,052,000)	(1,052,000)	
NET CHANGE IN FUND BALANCE	(462,000)	(147,000)	170,704	317,704
FUND BALANCES, JULY 1	172,940	172,940	172,940	
FUND BALANCES, JUNE 30	\$ (289,060)	\$ 25,940	\$ 343,644	\$ 317,704

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL
GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental:				
State grants	\$ 3,510,000	\$ 5,026,292	\$ 5,283,279	\$ 256,987
Federal grants			(1,475)	(1,475)
Other grants			220,247	220,247
Total intergovernmental revenues	<u>3,510,000</u>	<u>5,026,292</u>	<u>5,502,051</u>	<u>475,759</u>
Taxes	826,459	826,459	846,444	19,985
Licenses and permits	10,200	10,200	11,434	1,234
Charges for services	1,320,692	1,415,501	1,201,740	(213,761)
Interest and rent			148,181	148,181
Net increase in fair value of investments			54,691	54,691
Miscellaneous	23,159	23,156	95,939	72,783
Total revenues	<u>5,690,510</u>	<u>7,301,608</u>	<u>7,860,480</u>	<u>558,872</u>
EXPENDITURES:				
Current:				
Highway and streets	10,199,107	13,811,662	10,190,422	3,621,240
Debt service:				
Principal retirement	41,553	41,553	40,634	919
Interest			917	(917)
Total expenditures	<u>10,240,660</u>	<u>13,853,215</u>	<u>10,231,973</u>	<u>3,621,242</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(4,550,150)</u>	<u>(6,551,607)</u>	<u>(2,371,493)</u>	<u>4,180,114</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	5,368,018	5,368,018	4,984,943	(383,075)
Transfers out	<u>(4,129,552)</u>	<u>(4,129,552)</u>	<u>(1,265,085)</u>	<u>2,864,467</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,238,466</u>	<u>1,238,466</u>	<u>3,719,858</u>	<u>2,481,392</u>
NET CHANGE IN FUNDS BALANCE	<u>(3,311,684)</u>	<u>(5,313,141)</u>	<u>1,348,365</u>	<u>6,661,506</u>
FUND BALANCES, JULY 1	<u>6,194,948</u>	<u>6,194,948</u>	<u>6,194,948</u>	
FUND BALANCES, JUNE 30	<u>\$ 2,883,264</u>	<u>\$ 881,807</u>	<u>\$ 7,543,313</u>	<u>\$ 6,661,506</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN
IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 221,830	\$ 221,830	\$ 221,487	\$ (343)
Interest and rent - interest	600	600	(471)	(1,071)
Net increase in fair value of investments			703	703
Total revenues	<u>222,430</u>	<u>222,430</u>	<u>221,719</u>	<u>(711)</u>
EXPENDITURES - community development				
Downtown improvement district administration:				
Professional and contractual services	184,590	184,590	186,791	(2,201)
Materials and supplies	5,740	5,740	6,757	(1,017)
Other	32,100	32,100	26,567	5,533
Total expenditures	<u>222,430</u>	<u>222,430</u>	<u>220,115</u>	<u>2,315</u>
NET CHANGE IN FUND BALANCE			1,604	1,604
FUND BALANCES, JULY 1	<u>59,597</u>	<u>59,597</u>	<u>59,597</u>	
FUND BALANCES, JUNE 30	<u>\$ 59,597</u>	<u>\$ 59,597</u>	<u>\$ 61,201</u>	<u>\$ 1,604</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING
AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental - federal grants	\$ 3,783,398	\$ 5,679,585	\$ 3,294,634	\$ (2,384,951)
Charges for services	136,911	136,911	113,194	(23,717)
Interest and rent - interest	293,250	293,250	331,687	38,437
Net increase in fair value of investments			18,208	18,208
Miscellaneous			3,340	3,340
Total revenues	<u>4,213,559</u>	<u>6,109,746</u>	<u>3,761,063</u>	<u>(2,348,683)</u>
EXPENDITURES - community development				
Housing program	2,593,094	2,993,322	2,463,201	530,121
Removal of architectural barriers	2,657,512	3,070,122	422,215	2,647,907
Debt service:				
Principal retirement	143,000	143,000	143,000	
Interest	229,400	229,400	229,400	
Total expenditures	<u>5,623,006</u>	<u>6,435,844</u>	<u>3,257,816</u>	<u>3,178,028</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(1,409,447)</u>	<u>(326,098)</u>	<u>503,247</u>	<u>829,345</u>
OTHER FINANCING USES:				
Transfers in				
Transfers out	<u>(5,502,829)</u>	<u>(5,502,829)</u>	<u>(2,781,795)</u>	<u>2,721,034</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,502,829)</u>	<u>(5,502,829)</u>	<u>(2,781,795)</u>	<u>2,721,034</u>
NET CHANGE IN FUND BALANCE	<u>(6,912,276)</u>	<u>(5,828,927)</u>	<u>(2,278,548)</u>	<u>3,550,379</u>
FUND BALANCES, JULY 1	<u>18,188,683</u>	<u>18,188,683</u>	<u>18,188,683</u>	
FUND BALANCES, JUNE 30	<u>\$ 11,276,407</u>	<u>\$ 12,359,756</u>	<u>\$ 15,910,135</u>	<u>\$ 3,550,379</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - STRATEGIC
PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 1,494,039	\$ 1,494,039	\$ 1,047,611	\$ (446,428)
Special assessments levied				
Interest and rent - interest			39,724	39,724
Net increase in fair value of investments			17,810	17,810
Miscellaneous	10,000	10,000	10,000	
Total revenues	<u>1,504,039</u>	<u>1,504,039</u>	<u>1,115,145</u>	<u>(388,894)</u>
EXPENDITURES:				
Community development	2,887,973	2,641,167	1,631,512	1,009,655
Public works				
Total expenditures	<u>2,887,973</u>	<u>2,641,167</u>	<u>1,631,512</u>	<u>1,009,655</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,383,934)	(1,137,128)	(516,367)	620,761
OTHER FINANCING USES:				
Transfers in	625,000	625,000	625,000	
Issuance of loan payable			44,138	44,138
TOTAL OTHER FINANCING SOURCES (USES)	<u>625,000</u>	<u>625,000</u>	<u>669,138</u>	<u>44,138</u>
NET CHANGE IN FUND BALANCE	(758,934)	(512,128)	152,771	664,899
FUND BALANCES, JULY 1	<u>1,632,026</u>	<u>1,632,026</u>	<u>1,632,026</u>	
FUND BALANCES, JUNE 30	<u>\$ 873,092</u>	<u>\$ 1,119,898</u>	<u>\$ 1,784,797</u>	<u>\$ 664,899</u>

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Nonmajor Enterprise Funds

Enterprise Funds are established to account for activities that render services on a user-charge basis to the general public. Nonmajor Enterprise Funds include:

PARKING FUND – Revenues in this fund consist of charges for off-street parking and the downtown parking garage, as well as in-lieu parking fees. The revenue is used to develop and maintain parking facilities.

STORM DRAIN FUND – To account for storm drain improvements, operations and maintenance. The activities of the fund include street cleaning, rock well maintenance, and compliance with Federal and State water quality standards on storm water discharge.

COMPOST FUND – To account for tip fees charged at the City's composting facility for processing various compostable materials and the sale of compost product. Excess revenues over expenses are set aside to protect the enterprise against market fluctuations, and to provide for capital improvements to the facility infrastructure.

AIRPORT FUND – To account for all airport operations as stipulated in the City-Stanislaus County agreement of January 1968. Amounts received from the Federal government, State of California, and Stanislaus County, requiring matching amounts by the City, are recorded in this fund and are appropriated to finance approved capital projects.

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.

CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - NON MAJOR ENTERPRISE FUNDS
June 30, 2007

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 1,372,855	\$ 950,800	\$ 483,510
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	1,320	654	140,151
Interest	4,956	3,059	2,403
Utilities, net		557,922	
Taxes			
Due from governments		4,538	
Property held for resale	630,000		
	<u>2,009,131</u>	<u>1,516,973</u>	<u>626,064</u>
Total current assets			
Capital assets:			
Land and construction in progress	3,142,479	1,942,719	
Other capital assets, net of accumulated depreciation	7,615,660	15,890,160	614,605
	<u>12,767,270</u>	<u>19,349,852</u>	<u>1,240,669</u>
Total assets			
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	38,208	112,283	22,740
Accrued salaries and benefits	3,716	20,405	5,844
Interest payable			2,807
Current portion - long-term debt			74,148
Deferred revenues			
Total current liabilities	<u>41,924</u>	<u>132,688</u>	<u>105,539</u>
Noncurrent liabilities:			
Obligations under capital leases			77,485
Certificates of participation			
Advances from other funds		878,704	
	<u>41,924</u>	<u>1,011,392</u>	<u>183,024</u>
Total liabilities			
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	10,758,139	17,832,879	540,457
Unrestricted	1,967,207	505,581	517,188
	<u>\$ 12,725,346</u>	<u>\$ 18,338,460</u>	<u>\$ 1,057,645</u>
Total net assets			

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,508,354	\$ 230,740	\$ 486,405	\$ 5,032,664
	610,647		610,647
8,743	35,723	52,989	239,580
5,765	177		16,360
			557,922
796			796
780,339			784,877
			630,000
<u>2,303,997</u>	<u>877,287</u>	<u>539,394</u>	<u>7,872,846</u>
4,644,747	494,938	3,764,844	13,989,727
5,221,878	2,976,956	10,864,762	43,184,021
<u>12,170,622</u>	<u>4,349,181</u>	<u>15,169,000</u>	<u>65,046,594</u>
756,609	43,679	21,923	995,442
5,014		12,048	47,027
	49,000		51,807
	215,000		289,148
	221,058		221,058
<u>761,623</u>	<u>528,737</u>	<u>33,971</u>	<u>1,604,482</u>
	5,435,000		77,485
			5,435,000
			878,704
<u>761,623</u>	<u>5,963,737</u>	<u>33,971</u>	<u>7,995,671</u>
9,866,625	(2,178,106)	14,629,606	51,449,600
1,542,374	563,550	505,423	5,601,323
<u>\$ 11,408,999</u>	<u>\$ (1,614,556)</u>	<u>\$ 15,135,029</u>	<u>\$ 57,050,923</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS
Year ended June 30, 2007

	Parking	Storm Drain	Compost
OPERATING REVENUES:			
Charges for services	\$ 1,128,584	\$ 5,375,186	\$ 1,254,137
Miscellaneous	171	28,288	
Total operating revenues	<u>1,128,755</u>	<u>5,403,474</u>	<u>1,254,137</u>
OPERATING EXPENSES:			
Salaries and wages	301,104	1,003,827	236,474
Contractual services	245,890	2,059,596	120,835
Utilities	110,050	20,786	5,862
Maintenance and supplies	149,236	1,186,068	512,404
Insurance	22,598	45,639	6,709
Employee benefits	67,261	425,371	179,890
Administration services	126,567	958,759	61,080
Allocated indirect administrative costs	26,679	249,352	
Other	4,337	6,099	1,317
Depreciation	387,929	591,157	69,354
Total operating expenses	<u>1,441,651</u>	<u>6,546,654</u>	<u>1,193,925</u>
OPERATING INCOME (LOSS)	<u>(312,896)</u>	<u>(1,143,180)</u>	<u>60,212</u>
NONOPERATING REVENUES (EXPENSES)			
Operating grants			
Gain (Loss) on disposition of capital assets		(210,348)	24,245
Tax revenue			
Tax expense	(14,047)		
Interest income	37,112	(16,301)	7,049
Net increase in fair value of investments	14,659	7,362	19,040
Rental income			
Interest expense			(7,870)
Total nonoperating revenues (expenses)	<u>37,724</u>	<u>(219,287)</u>	<u>42,464</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(275,172)	(1,362,467)	102,676
Capital contributions		844,912	
Transfers in	180,000		29,000
Transfers out			(128,000)
CHANGE IN NET ASSETS	(95,172)	(517,555)	3,676
NET ASSETS (DEFICIT), July 1	<u>12,820,518</u>	<u>18,856,015</u>	<u>1,053,969</u>
NET ASSETS (DEFICIT), June 30	<u>\$ 12,725,346</u>	<u>\$ 18,338,460</u>	<u>\$ 1,057,645</u>

Airport	Golf	Community Center	Total
\$ 601,017	\$ 2,189,384	\$ 538,659	\$ 11,086,967
3,197		14,219	45,875
<u>604,214</u>	<u>2,189,384</u>	<u>552,878</u>	<u>11,132,842</u>
317,500		774,864	2,633,769
767,833	1,677,254	50,243	4,921,651
106,631	(2,539)	172,540	413,330
99,532	8,546	419,588	2,375,374
29,119	13,911	42,303	160,279
130,661		229,814	1,032,997
93,646	53,630	8,604	1,302,286
38,256	92,135		406,422
35,030	18,951	12,191	77,925
390,774	310,649	778,103	2,527,966
<u>2,008,982</u>	<u>2,172,537</u>	<u>2,488,250</u>	<u>15,851,999</u>
(1,404,768)	16,847	(1,935,372)	(4,719,157)
554,649			554,649
		(3,342)	(189,445)
222,776			222,776
(754)			(14,801)
44,103	28,303	313	100,579
17,802	1,400	1,460	61,723
166,187	69,178	491,711	727,076
	(297,690)		(305,560)
<u>1,004,763</u>	<u>(198,809)</u>	<u>490,142</u>	<u>1,156,997</u>
(400,005)	(181,962)	(1,445,230)	(3,562,160)
1,077,802			1,922,714
9,550	42,061	724,826	985,437
			(128,000)
687,347	(139,901)	(720,404)	(782,009)
<u>10,721,652</u>	<u>(1,474,655)</u>	<u>15,855,433</u>	<u>57,832,932</u>
\$ <u>11,408,999</u>	\$ <u>(1,614,556)</u>	\$ <u>15,135,029</u>	\$ <u>57,050,923</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2007

	Parking	Storm Drain	Compost
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,136,260	\$ 5,385,719	\$ 1,377,158
Receipts from interfund services provided		23,521	
Payments to suppliers	(413,113)	(2,165,418)	(446,153)
Payments to employees	(369,049)	(1,427,342)	(414,161)
Payments for interfund services used	(278,655)	(2,351,387)	(243,018)
Net cash provided (used) by operating activities	<u>75,443</u>	<u>(534,907)</u>	<u>273,826</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received		9,684	
Taxes received			
Transfers in	180,000		29,000
Transfers out			(128,000)
New advances from other funds		878,704	
Net cash provided (used) by noncapital financing activities	<u>180,000</u>	<u>888,388</u>	<u>(99,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets		(1,138,537)	(1,397)
Principal repayments			(70,955)
Interest paid			(10,016)
Capital grants received		826,367	
Net cash used by capital and related financing activities		<u>(312,170)</u>	<u>(82,368)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	35,597	18,591	5,468
Net increase in the fair value of investments	14,659	7,362	19,040
Net cash provided by investing activities	<u>50,256</u>	<u>25,953</u>	<u>24,508</u>
Net increase (decrease) in cash and cash equivalents	305,699	67,264	116,966
CASH AND CASH EQUIVALENTS, JULY 1	<u>1,067,156</u>	<u>883,536</u>	<u>366,544</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 1,372,855</u>	<u>\$ 950,800</u>	<u>\$ 483,510</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:			
Cash and cash equivalents	\$ 1,372,855	\$ 950,800	\$ 483,510
Cash and cash equivalents with fiscal agent			
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,372,855</u>	<u>\$ 950,800</u>	<u>\$ 483,510</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 759,058	\$ 2,251,207	\$ 1,045,566	\$ 11,954,968
(600,105)	(1,660,902)	(598,333)	23,521
(449,346)		(1,003,242)	(5,884,024)
(212,375)	(160,847)	(118,526)	(3,663,140)
<u>(502,768)</u>	<u>429,458</u>	<u>(674,535)</u>	<u>(3,364,808)</u>
			<u>(933,483)</u>
554,649	1,149		565,482
222,776			222,776
9,550	42,061	724,826	985,437
			(128,000)
			<u>878,704</u>
<u>786,975</u>	<u>43,210</u>	<u>724,826</u>	<u>2,524,399</u>
(947,012)	(27,774)	(5,643)	(2,120,363)
	(205,000)		(275,955)
	(299,535)		(309,551)
<u>720,092</u>			<u>1,546,459</u>
<u>(226,920)</u>	<u>(532,309)</u>	<u>(5,643)</u>	<u>(1,159,410)</u>
42,750	33,520	539	136,465
17,802	1,400	1,460	61,723
<u>60,552</u>	<u>34,920</u>	<u>1,999</u>	<u>198,188</u>
117,839	(24,721)	46,647	629,694
<u>1,390,515</u>	<u>866,108</u>	<u>439,758</u>	<u>5,013,617</u>
\$ <u>1,508,354</u>	\$ <u>841,387</u>	\$ <u>486,405</u>	\$ <u>5,643,311</u>
\$ 1,508,354	\$ 230,740	\$ 486,405	\$ 5,032,664
	<u>610,647</u>		<u>610,647</u>
\$ <u>1,508,354</u>	\$ <u>841,387</u>	\$ <u>486,405</u>	\$ <u>5,643,311</u>
			(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)
Year ended June 30, 2007

	<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)	\$ (312,896)	\$ (1,143,180)	\$ 60,212
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	387,929	591,157	69,354
Rental income			
Taxes paid	(14,047)		
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	7,505	5,276	123,021
(Increase) in utilities receivable		490	
Increase (decrease) in accounts payable and accrued expenses	7,636	9,494	19,036
Increase in accrued salaries and benefits	(684)	1,856	2,203
Increase in deferred revenues			
Total adjustments	<u>388,339</u>	<u>608,273</u>	<u>213,614</u>
Net cash provided (used) by operating activities	<u>\$ 75,443</u>	<u>\$ (534,907)</u>	<u>\$ 273,826</u>

NONCASH INVESTING, CAPITAL AND FINANCING
ACTIVITIES:

Capital assets transferred from other funds	\$ 18,545	\$
Developer infrastructure contributions		

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(1,404,768)</u>	\$ <u>16,847</u>	\$ <u>(1,935,372)</u>	\$ <u>(4,719,157)</u>
390,774	310,649	778,103	2,527,966
166,187	69,178	491,711	727,076
(1,550)			(15,597)
2,878	(19,116)	977	120,541
			490
358,321	40,139	(11,390)	423,236
(1,185)		1,436	3,626
(13,425)	11,761		(1,664)
<u>902,000</u>	<u>412,611</u>	<u>1,260,837</u>	<u>3,785,674</u>
\$ <u><u>(502,768)</u></u>	\$ <u><u>429,458</u></u>	\$ <u><u>(674,535)</u></u>	\$ <u><u>(933,483)</u></u>
			\$ 18,545

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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 ASSETS - INTERNAL SERVICE FUNDS
June 30, 2007

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 14,186,997	\$ 444,965	\$ 3,433,307
Receivables:			
Accounts receivable	21,905	2,423	
Interest	38,251	1,135	10,283
Inventories		763,492	
Due from governments			
Advances to other funds	1,782,462		
Total current assets	<u>16,029,615</u>	<u>1,212,015</u>	<u>3,443,590</u>
Noncurrent assets:			
Land and construction in progress	821,033		
Other capital assets, net of accumulated depreciation	<u>16,856,577</u>	<u>66,670</u>	<u>2,409,428</u>
Total assets	<u>33,707,225</u>	<u>1,278,685</u>	<u>5,853,018</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	264,775	157,499	73,017
Accrued salaries and benefits	19,584	5,278	38,453
Interest Payable			1,038
Current portion - compensated absences			
Current portion - claims liability			
Current portion - long-term debt	28,226		73,962
Total current liabilities	<u>312,585</u>	<u>162,777</u>	<u>186,470</u>
Noncurrent liabilities:			
Compensated absences			
Claims liability			
Long-term debt:			
Notes payable	116,220		
Obligations under capital leases			137,392
Total liabilities	<u>428,805</u>	<u>162,777</u>	<u>323,862</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	17,649,384	66,670	2,198,074
Unrestricted	<u>15,629,036</u>	<u>1,049,238</u>	<u>3,331,082</u>
Total net assets	<u>\$ 33,278,420</u>	<u>\$ 1,115,908</u>	<u>\$ 5,529,156</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 15,944,621	\$ 19,306,031	\$ 66,418	\$ 53,382,339
821,403	12,225		857,956
18,396	76,173		144,238
			763,492
			<u>1,782,462</u>
<u>16,784,420</u>	<u>19,394,429</u>	<u>66,418</u>	<u>56,930,487</u>
			821,033
<u>19,942</u>	<u>3,931</u>	<u>153,175</u>	<u>19,509,723</u>
<u>16,804,362</u>	<u>19,398,360</u>	<u>219,593</u>	<u>77,261,243</u>
79,256	776,868	50,120	1,401,535
6,069	2,228	16,298	87,910
			1,038
	3,259,769		3,259,769
4,583,644			4,583,644
			102,188
<u>4,668,969</u>	<u>4,038,865</u>	<u>66,418</u>	<u>9,436,084</u>
	64,628,743		64,628,743
12,042,593			12,042,593
			116,220
			<u>137,392</u>
<u>16,711,562</u>	<u>68,667,608</u>	<u>66,418</u>	<u>86,361,032</u>
19,942	3,931	153,175	20,091,176
<u>72,858</u>	<u>(49,273,179)</u>		<u>(29,190,965)</u>
\$ <u>92,800</u>	\$ <u>(49,269,248)</u>	\$ <u>153,175</u>	\$ <u>(9,099,789)</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
Year ended June 30, 2007

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>
OPERATING REVENUES:			
Charges for services	\$ 9,264,500	\$ 95,407	\$ 4,460,538
Sales		4,757,411	
Cost of sales		(3,939,828)	
Total operating revenues	<u>9,264,500</u>	<u>912,990</u>	<u>4,460,538</u>
OPERATING EXPENSES:			
Salaries and wages	1,055,941	236,285	1,747,003
Contractual services	357,229	48,867	240,335
Utilities	8,180	894	273,047
Maintenance and supplies	2,528,952	50,152	1,063,215
Insurance	59,548	4,855	29,853
Claims expense			
Employee benefits	474,739	108,940	670,478
Administration services	49,850	7,122	539
Allocated indirect administrative costs	264,010		
Other	14,678	782	47,820
Depreciation	2,731,662	9,982	417,968
Total operating expenses	<u>7,544,789</u>	<u>467,879</u>	<u>4,490,258</u>
OPERATING INCOME (LOSS)	<u>1,719,711</u>	<u>445,111</u>	<u>(29,720)</u>
NONOPERATING REVENUES (EXPENSES)			
Operating grant	4,000		
Loss on disposition of capital assets	(565,386)	(10,876)	(73,868)
Interest income	427,854	6,690	73,004
Net increase (decrease) in fair value of investments	169,501	3,112	28,365
Interest expense	(9,539)		(1,038)
Total nonoperating revenues (expenses)	<u>26,430</u>	<u>(1,074)</u>	<u>26,463</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,746,141	444,037	(3,257)
Capital contributions	502,800		55,348
Transfers in	251,536		999,105
Transfers out	(29,000)		
CHANGE IN NET ASSETS	2,471,477	444,037	1,051,196
NET ASSETS (DEFICITS), July 1	<u>30,806,943</u>	<u>671,871</u>	<u>4,477,960</u>
NET ASSETS (DEFICITS), June 30	<u>\$ 33,278,420</u>	<u>\$ 1,115,908</u>	<u>\$ 5,529,156</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 23,127,940	\$ 4,602,821	\$ 2,089,804	\$ 43,641,010
			4,757,411
			(3,939,828)
<u>23,127,940</u>	<u>4,602,821</u>	<u>2,089,804</u>	<u>44,458,593</u>
340,780	60,318	939,111	4,379,438
49,528	82,587	204,463	983,009
640		202,632	485,393
11,368	26,225	255,522	3,935,434
13,284,442	825	19,372	13,398,895
9,231,869			9,231,869
204,121	8,960,009	433,396	10,851,683
1,329,877	44,550	72,385	1,504,323
			264,010
18,313	63,979	2,002	147,574
8,808	1,474	28,755	3,198,649
<u>24,479,746</u>	<u>9,239,967</u>	<u>2,157,638</u>	<u>48,380,277</u>
<u>(1,351,806)</u>	<u>(4,637,146)</u>	<u>(67,834)</u>	<u>(3,921,684)</u>
			4,000
		(9,152)	(659,282)
428,852	551,208	(5,844)	1,481,764
211,000	219,275	(2,772)	628,481
			(10,577)
<u>639,852</u>	<u>770,483</u>	<u>(17,768)</u>	<u>1,444,386</u>
(711,954)	(3,866,663)	(85,602)	(2,477,298)
			558,148
		47,694	1,298,335
<u>(9,550)</u>			<u>(38,550)</u>
(721,504)	(3,866,663)	(37,908)	(659,365)
<u>814,304</u>	<u>(45,402,585)</u>	<u>191,083</u>	<u>(8,440,424)</u>
<u>\$ 92,800</u>	<u>\$ (49,269,248)</u>	<u>\$ 153,175</u>	<u>\$ (9,099,789)</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
Year ended June 30, 2007

	Fleet Management	Central Services	Information & Technology Services
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 4,757,427	\$ 22,345	
Receipts from interfund services provided	4,531,980	888,222	\$ 4,460,538
Payments to suppliers	(2,631,017)	(339,053)	(1,582,141)
Payment of insurance claims			
Payments to employees	(1,532,636)	(344,135)	(2,411,250)
Payments for interfund services used	(516,635)	(47,621)	(65,806)
Net cash provided (used) by operating activities	<u>4,609,119</u>	<u>179,758</u>	<u>401,341</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	251,536		999,105
Transfers out	(29,000)		
Repayment of advances to other funds	121,014		
Operating grants received	4,000		1,038
Net cash provided (used) by noncapital financing activities	<u>347,550</u>	<u></u>	<u>1,000,143</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(3,416,388)	(20,048)	(295,928)
Proceeds from sale of capital assets	38,224		13,877
Principal repayments	(26,587)		
Interest paid	(9,539)		(1,038)
Net cash used by capital and related financing activities	<u>(3,414,290)</u>	<u>(20,048)</u>	<u>(283,089)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	401,196	6,804	69,402
Net increase in the fair value of investments	169,501	3,112	28,365
Net cash provided by investing activities	<u>570,697</u>	<u>9,916</u>	<u>97,767</u>
Net increase (decrease) in cash and cash equivalents	2,113,076	169,626	1,216,162
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,073,921</u>	<u>275,339</u>	<u>2,217,145</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 14,186,997</u>	<u>\$ 444,965</u>	<u>\$ 3,433,307</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 17,290	\$ 15,713		\$ 4,812,775
23,110,650	4,579,413	\$ 2,089,804	39,660,607
(13,589,166)	(140,989)	(552,887)	(18,835,253)
(8,936,742)			(8,936,742)
(545,797)	(2,747,431)	(1,374,839)	(8,956,088)
<u>(1,381,053)</u>	<u>(57,394)</u>	<u>(176,404)</u>	<u>(2,244,913)</u>
<u>(1,324,818)</u>	<u>1,649,312</u>	<u>(14,326)</u>	<u>5,500,386</u>
		47,694	1,298,335
(9,550)			(38,550)
			121,014
			<u>5,038</u>
<u>(9,550)</u>		<u>47,694</u>	<u>1,385,837</u>
1		1	(3,732,362)
			52,101
			(26,587)
			<u>(10,577)</u>
<u>1</u>		<u>1</u>	<u>(3,717,425)</u>
553,941	531,586	(5,844)	1,557,085
211,000	219,275	(2,772)	628,481
<u>764,941</u>	<u>750,861</u>	<u>(8,616)</u>	<u>2,185,566</u>
(569,426)	2,400,173	24,753	5,354,364
<u>16,514,047</u>	<u>16,905,858</u>	<u>41,665</u>	<u>48,027,975</u>
\$ <u>15,944,621</u>	\$ <u>19,306,031</u>	\$ <u>66,418</u>	\$ <u>53,382,339</u>
			(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
Year ended June 30, 2007

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,719,711	\$ 445,111	\$ (29,720)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,731,662	9,982	417,968
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(13,780)	(2,423)	
(Increase) decrease in due from governments	38,687		
Decrease in inventories		(246,573)	
Increase (decrease) in accounts payable and accrued expenses	134,795	(27,429)	6,862
Increase in accrued salaries and benefits payable	(1,956)	1,090	6,231
Increase in compensated absences			
Decrease in claims liability			
Total adjustments	<u>2,889,408</u>	<u>(265,353)</u>	<u>431,061</u>
Net cash provided (used) by operating activities	<u>\$ 4,609,119</u>	<u>\$ 179,758</u>	<u>\$ 401,341</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital assets transferred in	\$ 502,800		\$ 55,348
New capital lease transaction			211,354

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ <u>(1,351,806)</u>	\$ <u>(4,637,146)</u>	\$ <u>(67,834)</u>	\$ <u>(3,921,684)</u>
8,808	1,474	28,755	3,198,649
	(7,695)		(23,898)
			38,687
			(246,573)
(276,051)	19,783	27,085	(114,955)
(896)	1,338	(2,332)	3,475
	6,271,558		6,271,558
<u>295,127</u>			<u>295,127</u>
<u>26,988</u>	<u>6,286,458</u>	<u>53,508</u>	<u>9,422,070</u>
\$ <u><u>(1,324,818)</u></u>	\$ <u><u>1,649,312</u></u>	\$ <u><u>(14,326)</u></u>	\$ <u><u>5,500,386</u></u>
			\$ 558,148

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AGENCY FUNDS

Agency Funds account for assets held by the City as an agent for individuals, governmental entities and non-public organizations.

Special Districts – To account for collection of special district assessments from property owners and forwarding these collections to trustees for payment to bondholders.

Tuolumne River Regional Park – To account for cash and investments of the Tuolumne River Regional Park, a joint powers agency between the City of Modesto, Stanislaus County and City of Ceres. The agency provides financing, development, and maintenance of the Tuolumne River Regional Park facilities. The cash and investments of the Park are invested as part of the City's investment pool.

City-County Capital Improvements and Financing Agency - To account for cash and investments of the City-County Capital Improvements and Financing Agency, a joint powers agency between the City of Modesto and Stanislaus County. The agency built and maintains a joint City-County government complex in downtown Modesto. The cash and investments of the Agency are invested as part of the City's investment pool.

Stanislaus Drug Enforcement Agency - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, and Waterford. The agency's purpose is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. Cash and investments of the Agency are invested in the City's investment pool.

CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS
Year ended June 30, 2007

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Special Districts				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,250,422	\$ 2,205,342	\$ 851,804	\$ 2,603,960
Cash and cash equivalents with fiscal agent	4,512,890	1,064,402	1,735,546	3,841,746
	<u>\$ 5,763,312</u>	<u>\$ 3,269,744</u>	<u>\$ 2,587,350</u>	<u>\$ 6,445,706</u>
 <u>LIABILITIES</u>				
Due to special district bondholders	\$ <u>5,763,312</u>	\$ <u>3,269,744</u>	\$ <u>2,587,350</u>	\$ <u>6,445,706</u>
Tuolumne River Regional Park				
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>33,926</u>	\$ <u>2,242,121</u>	\$ <u>1,429,353</u>	\$ <u>846,694</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ <u>33,926</u>	\$ <u>2,242,121</u>	\$ <u>1,429,353</u>	\$ <u>846,694</u>
City/County Joint Powers Financing Authority				
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>94,720</u>	\$ <u>1,505,783</u>	\$ <u>1,348,992</u>	\$ <u>251,511</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ <u>94,720</u>	\$ <u>1,505,783</u>	\$ <u>1,348,992</u>	\$ <u>251,511</u>
Stanislaus Drug Enforcement Agency				
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>1,167,635</u>	\$ <u>2,808,748</u>	\$ <u>2,364,149</u>	\$ <u>1,612,234</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ <u>1,167,635</u>	\$ <u>2,808,748</u>	\$ <u>2,364,149</u>	\$ <u>1,612,234</u>
Totals - All Agency Funds				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,546,703	\$ 8,761,994	\$ 5,994,298	\$ 5,314,399
Cash and cash equivalents with fiscal agent	4,512,890	1,064,402	1,735,546	3,841,746
	<u>\$ 7,059,593</u>	<u>\$ 9,826,396</u>	<u>\$ 7,729,844</u>	<u>\$ 9,156,145</u>
 <u>LIABILITIES</u>				
Due to special district bondholders	\$ 5,763,312	\$ 3,269,744	\$ 2,587,350	\$ 6,445,706
Deposits held as agent for others	1,296,281	6,556,652	5,142,494	2,710,439
	<u>\$ 7,059,593</u>	<u>\$ 9,826,396</u>	<u>\$ 7,729,844</u>	<u>\$ 9,156,145</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 Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water user charges:

1. Water Utility System – Ten Largest Customers
2. Water revenues by customer class
3. Water rates

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Bonded Debt Pledged Revenue Coverage, Wastewater Revenue Bonds
5. Continuing Disclosure Requirements:
 - a. Wastewater Revenue Bonds and Refunding Revenue Bonds
 - b. Water Utility System Revenue Certificates of Participation and Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds and Refunding Revenue Bonds

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

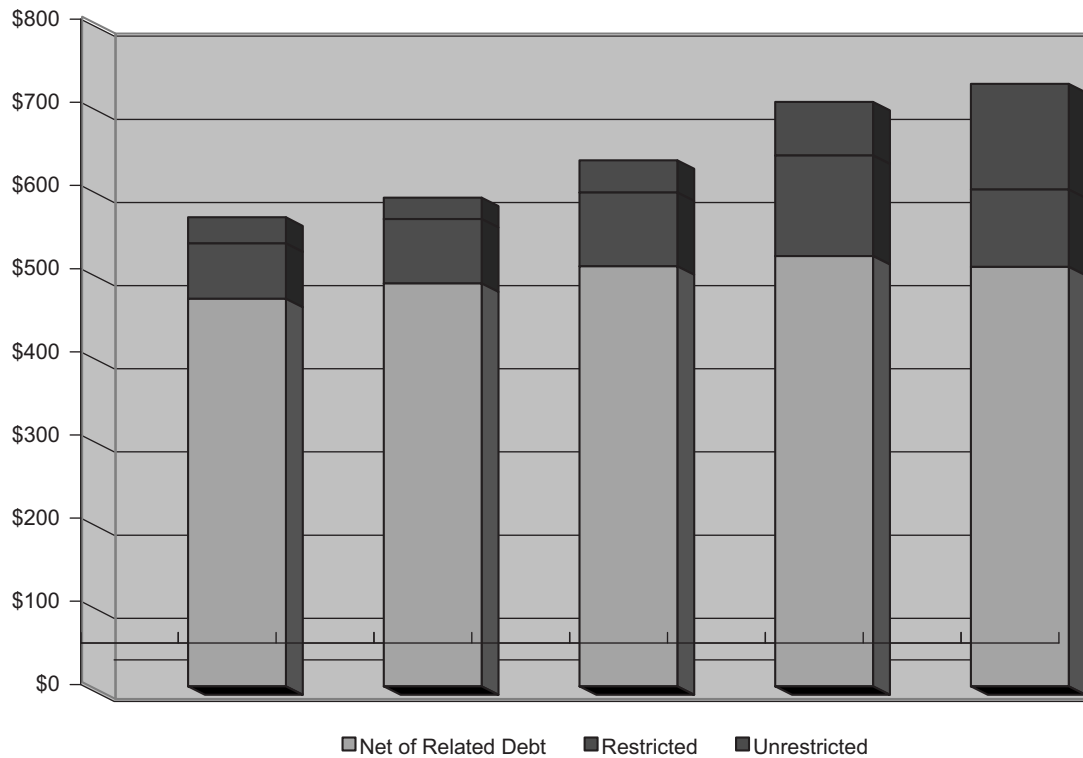
Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2002; however, for schedules presenting entity-wide information, the City has elected to include information beginning in fiscal year 2003.

CITY OF MODESTO
NET ASSETS BY COMPONENT
Last Four Fiscal Years
(accrual basis of accounting)



	2003	2004	2005	2006	2007
Governmental activities					
Invested in capital assets, net of related debt	\$259,156,770	\$275,171,096	\$288,391,776	\$296,401,824	\$333,409,532
Restricted	65,766,576	76,577,126	88,725,341	120,937,678	93,168,664
Unrestricted	2,530,581	(11,382,001)	(6,715,483)	(2,303,306)	(12,566,297)
Total governmental activities net assets	<u>\$327,453,927</u>	<u>\$340,366,221</u>	<u>\$370,401,634</u>	<u>\$415,036,196</u>	<u>\$414,011,899</u>
Business-type activities					
Invested in capital assets, net of related debt	\$206,792,699	\$209,230,461	\$216,558,150	\$220,881,691	\$170,791,021
Restricted	756,245	763,190			
Unrestricted	28,786,201	37,266,369	45,548,813	66,550,276	139,613,374
Total business-type activities net assets	<u>\$236,335,145</u>	<u>\$247,260,020</u>	<u>\$262,106,963</u>	<u>\$287,431,967</u>	<u>\$310,404,395</u>
Primary government					
Invested in capital assets, net of related debt	\$465,949,469	\$484,401,557	\$504,949,926	\$517,283,515	\$504,200,553
Restricted	66,522,821	77,340,316	88,725,341	120,937,678	93,168,664
Unrestricted	31,316,782	25,884,368	38,833,330	64,246,970	127,047,077
Total primary government net assets	<u>\$563,789,072</u>	<u>\$587,626,241</u>	<u>\$632,508,597</u>	<u>\$702,468,163</u>	<u>\$724,416,294</u>

CITY OF MODESTO
CHANGES IN NET ASSETS
Last Five Fiscal Years
(Accrual Basis of Accounting)

	2003	2004	2005	2006	2007
Expenses					
Governmental Activities:					
General Government	\$12,557,259	\$13,954,909	\$15,273,174	\$15,529,735	\$17,227,876
Community Development	13,823,955	\$10,517,243	\$14,105,411	\$12,241,213	12,025,105
Highways and streets	19,656,219	23,136,950	23,721,458	26,025,311	26,246,306
Public works	6,843,742	6,458,522	5,263,984	6,491,062	12,557,512
Parks and Recreation	16,723,475	12,682,746	13,334,330	11,733,698	14,568,192
Public safety	64,410,214	68,258,235	71,239,341	74,500,043	83,793,361
Interest on Long Term Debt	4,612,885	4,515,439	4,987,911	5,178,130	7,286,026
Total Governmental Activities Expenses	138,627,749	139,524,044	147,925,609	151,699,192	173,704,378
Business-Type Activities:					
Parking	1,153,145	651,330	1,162,479	1,287,450	1,475,340
Water	30,874,820	27,051,982	30,691,348	29,989,775	35,540,918
Sewer	23,266,170	21,386,084	22,422,268	22,716,100	24,156,577
Storm Drain	5,940,261	5,327,334	6,111,317	5,795,746	6,924,335
Compost				941,919	1,225,462
Airport	971,865	1,120,922	1,131,889	1,342,645	2,039,988
Bus	9,745,477	10,122,176	11,074,907	12,119,311	13,758,421
Golf	2,475,913	2,432,202	2,354,759	2,461,470	2,479,447
Community Center	2,390,517	2,078,752	2,323,169	2,465,644	2,543,121
Total Business-Type Activities Expenses	76,818,168	70,170,782	77,272,136	79,120,060	90,143,609
Total Primary Government Expenses	<u>\$215,445,917</u>	<u>\$209,694,826</u>	<u>\$225,197,745</u>	<u>\$230,819,252</u>	<u>\$263,847,987</u>
Program Revenues					
Governmental Activities:					
Charges for Services:					
General Government	\$3,453,403	\$3,321,760	\$3,252,732	\$4,179,505	3,775,368
Community Development	11,566,306	9,592,055	11,294,130	9,466,082	10,873,541
Highway and streets	1,303,305	2,005,336	14,081,840	12,104,089	10,719,009
Public Safety	9,173,932	9,267,650	2,024,509	1,986,957	1,757,648
Parks and Recreation	3,835,652	3,992,598	4,821,884	4,928,366	4,437,320
Public Safety	5,925,096	6,794,911	8,011,509	7,124,387	8,414,456
Operating Grants and Contributions	9,413,521	15,975,814	13,736,453	11,892,511	12,701,177
Capital Grants and Contributions	23,297,198	18,368,908	22,799,320	38,484,548	4,207,389
Total Government Activities Program Revenues	67,968,413	69,319,032	80,022,377	90,166,445	56,885,908
Business-Type Activities:					
Charges for Services:					
Parking	824,917	890,263	908,920	1,176,061	1,128,755
Water	28,200,885	31,353,046	31,315,920	42,639,348	49,305,033
Sewer	23,556,044	25,292,995	24,419,607	23,083,280	24,833,019
Storm Drain	5,169,831	5,227,844	5,162,217	5,277,304	5,403,474
Compost				1,317,105	1,254,137
Airport	590,960	559,479	559,215	577,688	604,214
Bus	2,137,065	2,077,503	2,264,506	2,645,622	2,545,790
Golf	2,120,689	2,160,223	2,115,712	2,222,738	2,189,384
Community Center	467,229	496,680	504,338	543,085	552,878
Operating Grants and Contributions	5,119,474	6,217,613	7,525,367	8,317,889	11,059,129
Capital Grants and Contributions	13,603,460	10,145,892	8,498,408	10,467,873	7,962,675
Total Business-Type Activities Program Revenue	81,790,554	84,421,538	83,274,210	98,267,993	106,838,488
Total Primary Government Program Revenues	<u>\$149,758,967</u>	<u>\$153,740,570</u>	<u>\$163,296,587</u>	<u>\$188,434,438</u>	<u>\$163,724,396</u>
Net (Expense)/Revenue					
Governmental Activities	(\$70,659,336)	(\$70,205,012)	(\$67,903,232)	(\$61,532,747)	(116,818,470)
Business-Type Activities	4,972,386	14,250,756	6,002,074	19,147,933	16,694,879
Total Primary Government Net Expense	<u>(\$65,686,950)</u>	<u>(\$55,954,256)</u>	<u>(\$61,901,158)</u>	<u>(\$42,384,814)</u>	<u>(\$100,123,591)</u>

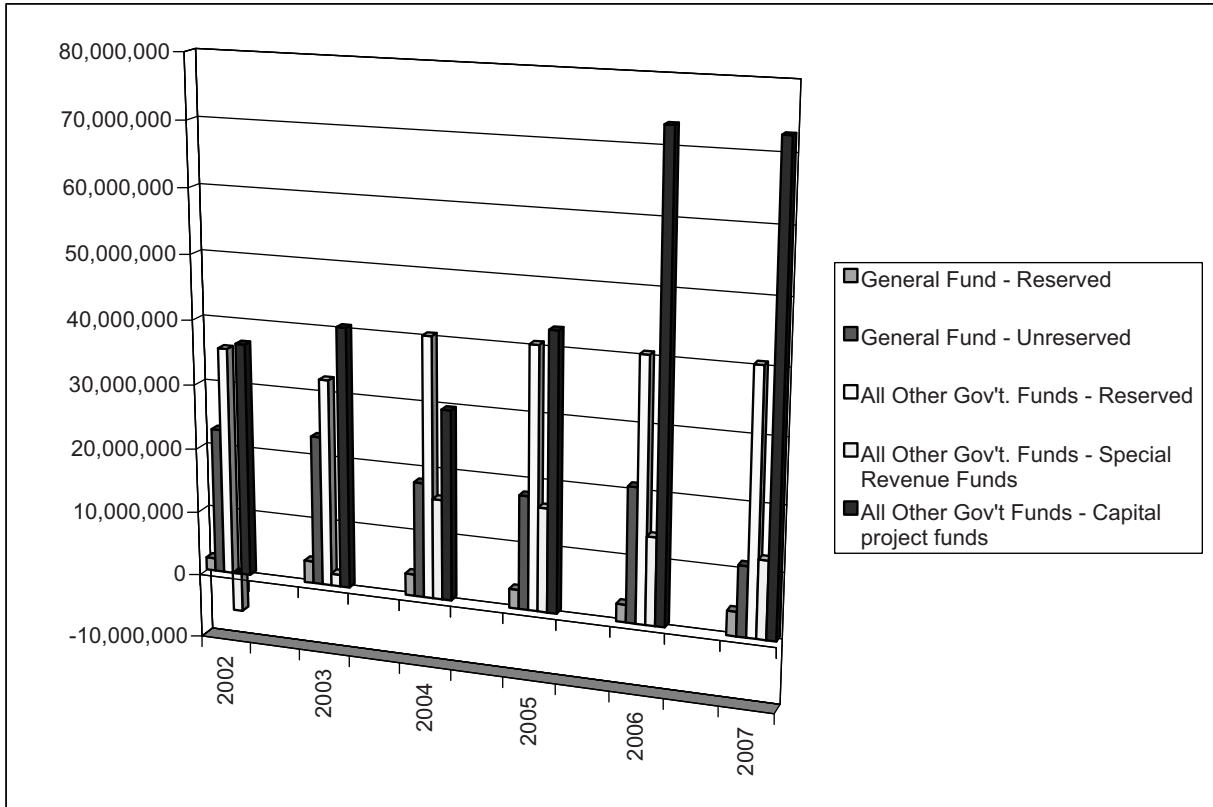
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CITY OF MODESTO
CHANGES IN NET ASSETS
 (continued)
 Last Five Fiscal Years
 (Accrual Basis of Accounting)

	2003	2004	2005	2006	2007
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Taxes:					
Utility Users Tax	\$13,732,571	\$14,659,986	\$15,621,566	\$17,583,690	\$18,319,573
Property taxes, levied for general purposes	10,169,004	11,294,599	11,316,694	14,318,747	16,456,379
Tax increments for redevelopment agency	2,631,695	3,183,871	3,909,452	4,450,836	5,303,521
Transient occupancy tax	2,097,901	2,110,909	2,098,303	2,181,467	2,264,699
Franchise tax	3,360,976	3,455,535	3,420,453	3,693,307	3,823,216
Business license tax - for general purposes	9,238,797	9,231,136	9,726,816	10,374,157	10,359,058
Business license tax - for downtown improvement district	172,847	190,644	201,308	214,022	221,487
Grants and contributions not restricted to specific programs:					
Sales tax	25,887,064	27,151,779	26,589,449	29,627,835	27,884,852
Motor vehicle license fee	11,746,283	9,052,449	16,403,864	14,986,883	16,233,262
Other	922,237	1,204,485	1,702,234	4,070,593	4,169,354
Unrestricted investment earnings	3,645,205	1,004,974	4,463,080	3,255,401	8,330,079
Miscellaneous	2,220,976	2,479,871	3,792,340	2,827,161	3,582,325
Transfers	(1,824,890)	(1,902,932)	(1,306,914)	(1,416,790)	(1,153,632)
Total Government Activities	84,000,666	83,117,306	97,938,645	106,167,309	115,794,173
Business-Type Activities:					
Taxes:					
Property taxes, generated by and allocated to the airport	166,043	204,091	239,518	166,641	209,722
Business license tax, generated by and allocated to the airport	21,816	7,870	20,546	41,108	13,054
Unrestricted investment earnings	2,003,214	857,751	1,819,870	2,504,291	5,406,639
Miscellaneous			1,306,914		
Transfers	1,824,890	1,902,932	7,396,627	1,416,790	1,153,632
Settlements and Recoveries				3,784,295	
Special item	(4,753,884)	(6,298,525)	(1,938,606)	(1,736,054)	(505,498)
Total Business-Type Activities	(737,921)	(3,325,881)	8,844,869	6,177,071	6,277,549
Total Primary Government	<u>\$83,262,745</u>	<u>\$79,791,425</u>	<u>\$106,783,514</u>	<u>\$112,344,380</u>	<u>\$122,071,722</u>
Change in Net Assets					
Governmental Activities	\$13,341,330	\$12,912,294	\$30,035,413	\$44,634,562	(1,024,297)
Business-Type Activities	4,234,465	10,924,875	14,846,943	25,325,004	22,972,428
Total Primary Government	<u>\$17,575,795</u>	<u>\$23,837,169</u>	<u>\$44,882,356</u>	<u>\$69,959,566</u>	<u>\$21,948,131</u>

Note: 'the City has elected to show only five years of data for this schedule.

CITY OF MODESTO
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Six Fiscal Years
(Modified Accrual Basis of Accounting)



	2002	2003	2004	2005	2006	2007
General Fund						
Reserved	\$1,961,061	\$3,393,560	\$3,327,569	\$2,955,054	\$2,702,381	\$3,734,973
Unreserved	22,512,913	23,008,629	17,651,800	17,460,005	20,607,134	10,713,910
Total General Fund	\$24,473,974	\$26,402,189	\$20,979,369	\$20,415,059	\$23,309,515	\$14,448,883
All Other Governmental Funds						
Reserved	\$35,241,185	\$31,889,387	\$40,013,124	\$40,160,539	\$40,168,886	\$40,174,920
Unreserved, reported in:						
Special revenue funds	(6,013,102)	1,844,576	15,398,402	15,931,290	13,431,304	11,885,910
Capital project funds	36,152,800	40,102,394	29,172,787	42,534,688	72,752,412	72,253,464
Total all other governmental funds	\$65,380,883	\$73,836,357	\$84,584,313	\$98,626,517	\$126,352,602	\$124,314,294

The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

Note: The City has elected to show only six years of data for this schedule.

CITY OF MODESTO
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
Last Six Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year Ended June 30,					
	2002	2003	2004	2005	2006	2007
Revenues						
Taxes	\$37,855,427	\$41,405,014	\$44,185,552	\$46,295,678	\$52,816,596	\$56,748,017
Licenses, permits and fees	173,348	169,108	250,129	128,754	146,854	187,289
Intergovernmental	62,726,570	66,228,880	70,583,373	73,889,063	64,759,658	66,129,862
Charges for services	33,633,119	31,789,634	33,203,507	41,660,016	37,802,149	36,979,023
Special assessments levied	823,091	2,015,090	386,368	107,696	65,909	51,634
Interest and rent	3,418,440	3,712,219	2,911,392	3,146,452	3,755,169	4,837,419
Net increase in fair value of investments	647,793	(339,331)	(1,458,065)	186,515	103,036	1,168,857
Fines and forfeits	1,055,966	1,030,389	1,294,193	1,646,472	1,675,926	2,699,445
Contribution from property owners					30,473,773	
Miscellaneous	1,111,982	2,220,976	2,479,871	2,991,745	2,821,161	2,814,421
Total Revenues	141,445,736	148,231,979	153,836,320	170,052,391	194,420,231	171,615,967
Expenditures						
Current:						
General government	10,168,110	11,352,860	11,878,443	11,819,603	14,111,535	15,517,544
Community development	7,950,839	13,123,011	10,113,628	12,832,640	12,296,072	11,789,640
Highways and streets	7,994,279	8,559,729	11,568,810	12,152,087	14,357,041	12,553,681
Public works	4,622,232	5,420,867	4,876,115	5,053,030	5,647,023	11,307,307
Parks and recreation	13,969,712	14,848,478	11,374,052	12,021,937	11,662,263	13,348,613
Public safety	52,812,553	56,576,055	62,747,623	70,882,176	74,527,875	80,988,650
Capital outlay	23,082,610	19,031,609	33,092,718	24,412,735	21,563,774	30,194,778
Debt service:						
Principal retirement	1,422,501	3,111,203	1,563,472	1,666,764	1,901,827	2,008,538
Interest	4,621,270	4,580,409	4,502,666	4,425,980	4,576,780	4,413,300
Advance refunding escrow						822,228
Other	29,611	57,038	18,355	553,645	618,742	1,333,129
Total Expenditures	126,673,717	136,661,259	151,735,882	155,820,597	161,262,932	184,277,408
Excess of revenues over (under) expenditures	14,772,019	11,570,720	2,100,438	14,231,794	33,157,299	(12,661,441)
Other Financing Sources (Uses)						
Transfers in	18,838,748	14,601,556	19,332,436	17,962,442	17,724,718	23,985,863
Transfers out	(21,098,333)	(15,441,935)	(20,819,979)	(19,644,937)	(20,267,476)	(26,399,280)
Proceeds of capital lease	2,020,418					
Proceeds of loan payable	191,835	192,759	212,241			44,138
Proceeds of notes payable			4,500,000			
Proceeds of lease revenue bonds						62,275,000
Sale of Assets				928,595	6,000	767,904
Payments to refunded debt escrow agent						(58,911,124)
Total other financing sources (uses)	(47,332)	(647,620)	3,224,698	(753,900)	(2,536,758)	1,762,501
Net Change in fund balances	14,724,687	10,923,100	5,325,136	13,477,894	30,620,541	(10,898,940)
FUND BALANCES, July 1	75,130,170	89,315,446	100,238,546	105,563,682	119,041,576	149,662,117
FUND BALANCES, June 30	\$89,854,857	\$100,238,546	\$105,563,682	\$119,041,576	\$149,662,117	\$138,763,177
Debt service as a percentage of noncapital expenditures	0.06198	0.07000	0.05389	0.04884	0.04886	0.04979

Note : The City has elected to show only six years of data for this schedule.

CITY OF MODESTO
REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE
WATER UTILITY CHARGES
(Fiscal Year ended June 30, 2007)

Ten Largest Customers of Water Utility System, Year Ended 6/30/07

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (1)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Signature Fruit	Cannery	541,261	1.45%	\$648,435	1.36%
2) Modesto City Schools	Education	458,038	1.19	635,965	1.33
3) Grover Landscaping (Parks)	Landscape Maintenance	392,111	1.20	580,507	1.22
4) Stanislaus Foods	Cannery	377,600	0.82	460,575	0.97
5) Foster Farms	Dairy Processor	338,786	0.56	398,235	0.83
6) Stanislaus County	Government	200,874	0.46	284,742	0.60
7) Modesto Irrigation District	Power Company	206,179	0.43	263,276	0.55
8) Stanislaus Housing Authority	Housing Authority	176,057	0.41	261,904	0.55
9) City of Modesto	Government	159,911	0.37	239,405	0.50
10) Sylvan Union School District	Education	141,445	0.32	191,940	0.40
Total Top Ten		2,992,262	7.30%	\$3,964,984	8.31%

Total Flat/Metered Revenues (Water Sales)

\$47,723,020

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/07

Residential - flat rates	\$30,716,386
Commercial, industrial and municipal - metered rates	17,006,634
Total Water Sales	<u>\$47,723,020</u>

Current Water Rates and Charges as of 6/30/07

The average monthly flat rate service charge for residential customers is: \$38.38

Commercial Accounts:

<u>Meter Size</u>	
3/4"	\$12.44
1"	17.64
1 1/2"	30.53
2"	46.06
3"	87.53
4"	134.13
6"	263.51
8"	418.82
10"	600.07
12"	1,117.74

In addition to these minimum charges, commercial accounts are charged \$1.16 per 100 cubic feet of water used.

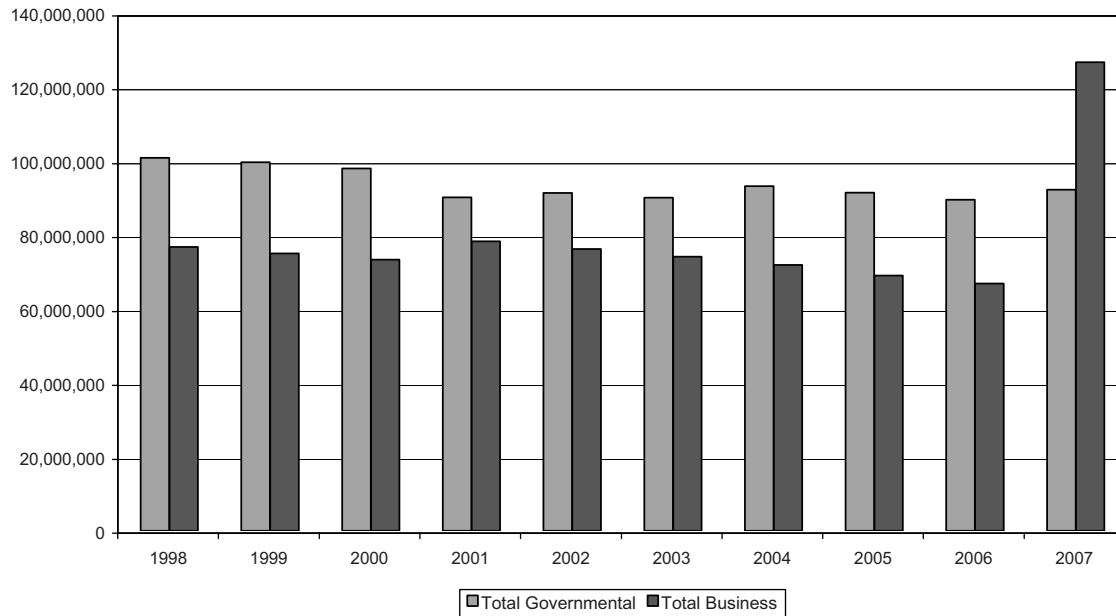
Water rates for both metered and flat rate services were increased on July 1, 2006.

Source:

City of Modesto-Customer Services

Note: Information about Water Utility Customers was not available for the year ended June 30, 1998.

CITY OF MODESTO
RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years



Governmental Activities						
Fiscal Year	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
1998	\$639,725	\$34,100,000	\$64,935,000		\$1,264,963	\$100,939,688
1999		33,490,000	64,835,000		1,462,933	99,787,933
2000		32,800,000	64,730,000		514,333	98,044,333
2001		25,280,000	64,615,000		329,594	90,224,594
2002	191,835	24,625,000	64,250,000	\$262,807	2,153,350	91,482,992
2003	348,273	23,935,000	63,865,000	241,880	1,753,685	90,143,838
2004	523,363	23,215,000	63,455,000	4,719,663	1,335,182	93,248,208
2005	485,077	22,455,000	63,000,000	4,696,076	896,833	91,532,986
2006	446,634	21,655,000	62,505,000	4,535,034	444,904	89,586,572
2007	449,138	20,820,000	66,440,000	4,365,446	211,354	92,285,938

Business-Type Activities						Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
Fiscal Year	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total			
1998	\$3,532,306	\$25,585,000	\$47,740,000	\$4,201	\$76,861,507	\$177,801,195	4.48%	973.40
1999	3,378,635	24,900,000	46,780,000		75,058,635	174,846,568	4.26%	947.16
2000	3,220,042	24,355,000	45,780,000		73,355,042	171,399,375	3.87%	910.31
2001	3,056,210	30,525,000	44,735,000		78,316,210	168,540,804	3.82%	895.13
2002	2,887,342	29,765,000	43,640,000		76,292,342	167,775,334	3.55%	844.79
2003	2,713,066	28,965,000	42,490,000		74,168,066	164,311,904	3.33%	808.22
2004	2,533,380	28,125,000	41,285,000		71,943,380	165,191,588	3.09%	801.12
2005	2,347,602	27,240,000	39,235,000	290,487	69,113,089	160,646,075	2.87%	773.70
2006	2,156,040	26,305,000	38,245,000	222,588	66,928,628	156,515,200	2.81%	752.09
2007	1,958,276	71,595,000	53,130,000	151,633	126,834,909	219,120,847	3.76%	1,047.55

Note: debt amounts are gross outstanding at year end without eliminating any premiums, discounts, or other amortization amounts.

(a) See Demographic and Economic Statistics for personal income and population data.

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2007

<u>Jurisdiction</u>	<u>Net Debt Outstanding (1)</u>	<u>Percentage Applicable to City of Modesto (2)</u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>0</u>	100%	\$ <u>0</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified District	23,994,806	10.0	2,399,481
Modesto Elementary School District	21,963,337	72.5	15,923,420
Modesto High School District	71,853,195	68.5	49,219,438
Sylvan School District	8,305,000	85.0	7,059,250
Salida Union Elementary District	1,490,000	27.0	402,300
Stanislaus Union School District	3,320,000	33.0	1,095,600
Yosemite Community College District	<u>88,490,000</u>	28.2	<u>24,954,180</u>
Total overlapping debt	<u>219,416,338</u>		<u>101,053,669</u>
Total direct and overlapping debt	\$ <u><u>219,416,338</u></u>		\$ <u><u>101,053,669</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, 2007

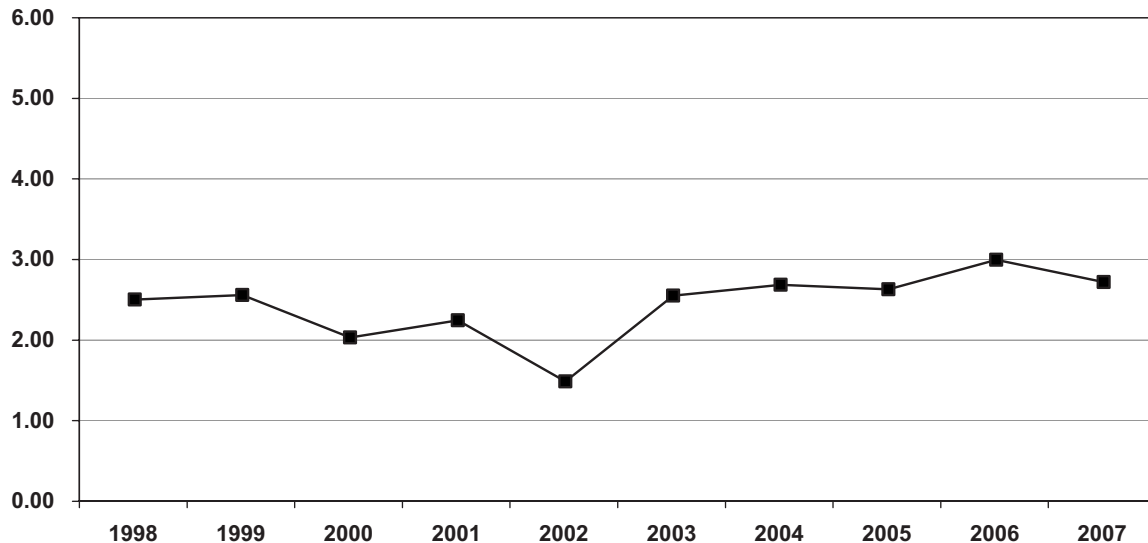
Net assessed value (1)	\$ 14,169,192,745
Plus homeowners' exemption (1)	<u>235,367,095</u>
Gross assessed value (1)	\$ 14,404,559,840
 Debt limit - 15% of gross assessed value (2)	 \$ 2,160,683,976
Amount of debt applicable to debt limit:	
Total general bonded debt, including special assessment debt	\$ <u>0</u>
Less: Assets in debt service funds available for payment of principal	\$ <u>0</u>
Other deductions: Special assessment debt	<u>0</u>
Total deductions	<u>0</u>
Total amount of debt applicable to debt limit	<u>0</u>
Legal debt margin	<u>\$ 2,160,683,976</u>

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
2006	\$ 1,911,402,504	\$ 0	\$ 1,911,402,504	0%
2007	\$ 2,160,683,976	\$ 0	\$ 2,160,683,976	0%

Notes: (1) Source of Data: Stanislaus County Auditor; Last Equalized Roll (AC2703, including aircraft)
(2) Section 43605 California Government Code.

Note: The City has elected to show only two years of data for this schedule.

CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
Last ten fiscal years



Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements(3)	Coverage
1998	\$20,191,250	\$11,192,431	\$8,998,819	\$3,637,239	2.47
1999	20,192,478	11,204,247	8,988,231	3,551,320	2.53
2000	19,490,824	12,380,840	7,109,984	3,549,445	2.00
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.66
2005	25,701,300	16,476,917	9,224,383	3,549,633	2.60
2006	24,695,878	16,044,781	8,651,097	2,916,462	2.97
2007	26,367,977	16,399,785	9,968,192	3,705,523	2.69

- Notes: (1) Consists of all receipts of the Sewer fund, including charges for services, interest and rental income, connection fees, not dedicated to capital spending purposes.
- (2) Total Sewer Fund operating expenses exclusive of depreciation. Beginning with 2005, the portion of transfers out to other funds, if any, that would have otherwise been an operating expense of the the Sewer Fund have been included.
- (3)Includes total principal and interest of Wastewater Treatment Facility Revenue Bonds, Series 1993 and 1997, and Refunding Revenue Bonds, Series 1987 and 1996, through 2005. During the 2005 fiscal year, these issues were refunded by Wastewater Refunding Revenue Bonds, Series 2005 A and 2005 B. In November 2006, Wastewater Revenue Bonds, Series 2006A were issued.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2007

Wastewater Revenue Refunding Bonds, Series 2005 A and B, and
Wastewater Revenue Bonds, Series 2006 A

Connection charge information: The Sewer Enterprise imposes connection fees on a on-time basis to new users of the sewer system and to users who significantly expand their usage. The fees have three components:

Capacity charge: \$4,876 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>Customer Base by Type of Account</u>			
<u>Category</u>	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	56,411	95.44%	50.0%
Commercial	2,647	4.48%	15.5%
Industrial	46	0.08%	34.5%
Total	<u>59,104</u>	<u>100.00%</u>	<u>100.00%</u>

Ten Largest Users of Sewer Facilities, Year Ended 6/30/07

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Foods	\$ 2,006,723	8.60%
2) Del Monte Foods	1,634,188	7.01%
3) Signature Fruit	1,184,651	5.08%
4) E & J Gallo Winery	810,468	3.47%
5) Foster Farms	573,266	2.46%
6) Frito-Lay, Inc.	573,126	2.46%
7) City of Ceres	430,843	1.85%
8) Nestle Food Company	156,613	0.67%
9) Stanislaus County	86,375	0.37%
10) Doctor's Hospital	79,695	0.34%
Total (Top Ten Customers)	<u>\$ 7,535,948</u>	<u>32.31%</u>
Total (All Customers)	<u>\$ 23,323,409</u>	

The average single-family residence monthly sewer charge is \$14.26.

<u>Commercial Group</u>	<u>Minimum Charge First 1,680 Cubic Feet</u>	<u>Charge Per 1,000 Gallons Additional</u>
Group 1 (no food, just toilets or working facilities)	\$21.95	\$1.73
Group 2 (commercial laundromats, service stations, hotels without food)	\$25.29	\$2.04
Group 3 (industrial laundromats, hotels with food)	\$31.00	\$2.47
Group 4 (restaurants, bakeries, auto steam, markets)	\$37.19	\$2.98

Industrial users pay a minimum charge of \$10.00, with additional charges of: \$892.23 per million gallons of flow, \$105.52 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$97.14 per 1,000 pounds of excess suspended solids (SS).

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

Updates of other required disclosures may be found elsewhere in this report, as follows:

Statement of Revenues, Expenses and Changes in Fund Net Assets	Page 25	
Principal Amount of Bonds and Other Parity Debt	Page 42-43	(Note III-C)
Historical Debt Service Coverage	Page 111	
	(continued)	

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2007

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation
Water Revenue Certificates of Participation, Series 2006 A
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D⁽¹⁾
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F⁽¹⁾

Reserve Account Requirement as of 6/30/07	\$3,768,210, covered by \$1,935,855 surety bond issued by Federal Guarantee Insurance Company, and balance in Parity Reserve Account
Balance in Parity Reserve Account as of 6/30/07	\$1,886,131
Balance in Rate Stabilization Account as of 6/30/07	\$3,000,000

Ten Largest Customers of Water Utility System, Year Ended 6/30/07

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (2)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Signature Fruit	Cannery	541,261	1.58%	\$648,435	1.36%
2) Modesto City Schools	Education	458,038	1.34%	635,965	1.33%
3) Grover Landscaping (1)	Landscape Maintenance	392,111	1.14%	580,507	1.22%
4) Stanislaus Foods	Cannery	377,600	1.10%	460,575	0.97%
5) Foster Farms	Dairy Processor	338,786	0.99%	398,235	0.83%
6) Stanislaus County	Government	200,874	0.59%	284,742	0.60%
7) Modesto Irrigation District	Power Company	206,179	0.60%	263,276	0.55%
8) Stanislaus Housing Authority	Housing Authority	176,057	0.51%	261,904	0.55%
9) City of Modesto	Government	159,911	0.47%	239,405	0.50%
10) Sylvan Union School District	Education	141,445	0.41%	191,940	0.40%
Total Top Ten		2,992,262	8.73%	\$3,964,984	8.31%

Total Flat/Metered Revenues (Water Sales)

\$47,723,020

(1) Grover Landscaping maintains City parks

(2) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/07

Residential - flat rates	\$30,716,386
Commercial, industrial and municipal - metered rates	17,006,634
Total Water Sales	<u>\$47,723,020</u>

The average monthly flat rate service charge for residential customers is \$38.38

Current Water Rates and Charges as of 6/30/07- Commercial Accounts

<u>Meter Size</u>	
3/4"	\$12.44
1"	17.64
1 1/2"	30.53
2"	46.06
3"	87.53
4"	134.13
6"	263.51
8"	418.82
10"	600.07
12"	1,117.74

In addition to these minimum charges, commercial accounts are charge \$1.16 per 100 cubic feet of water used.

Water rates for both metered and flat rate services were increased on July 1, 2006.

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. As of 6/30/07, the balance of the 1998 Bonds was \$73,780,000, and the balance of the 2007 Bonds was \$93,190,000. (continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, Water Revenue
Certificates of Participation, Series 2006 A

Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F

Water Utility System - Debt Service Coverage
Fiscal Year 2007

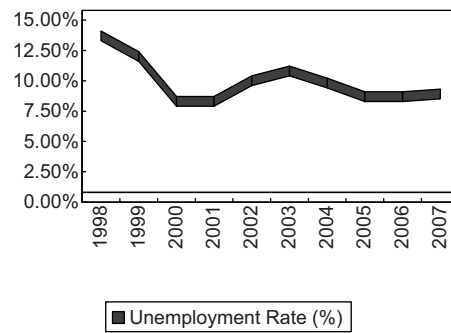
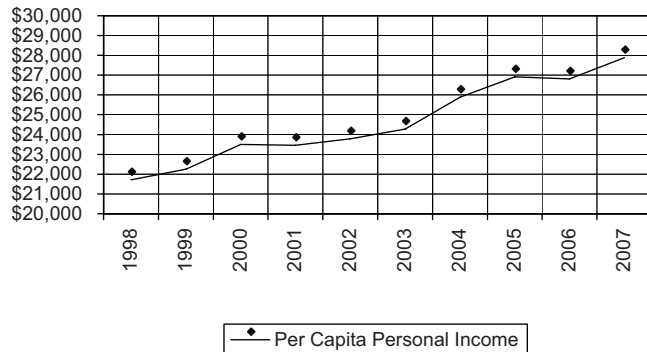
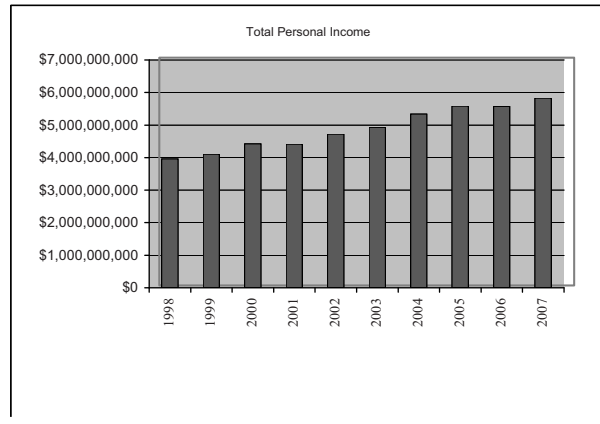
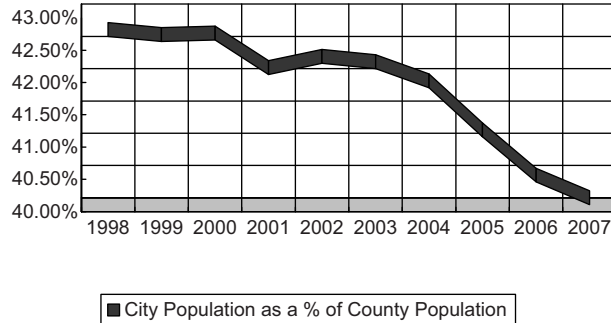
Gross Operating Revenues:	
Charges for services	\$49,289,417
Connection charges	2,023,224
Interest and rental income	2,279,905
Miscellaneous operating revenue	<u>15,616</u>
Total Gross Operating Revenues	<u>53,608,162</u>
Operating Expenses:	
Total operating expenses	32,466,468
Less: Depreciation	(2,396,440)
T&DA debt service component paid to MID	(6,687,444)
Plus: Property taxes	85,487
Operating transfers	<u>65,000</u>
Total Operating Expenses	<u>23,533,071</u>
Net Operating Revenues	<u>\$30,075,091</u>
Total Debt Service:	
1997 Refunding Revenue Certificates of Participation	\$1,794,120
2006 Revenue Certificates of Participation	1,082,432
Treatment & Delivery Agreement	6,687,444
CDWR Loan	<u>264,719</u>
Total Debt Service 2007	<u>\$9,828,715</u>
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	3.06

Updates of certain other required disclosures may be found elsewhere in this report, as follows:

Water Utility System Statement of Net Assets	Page 24	
Water Utility System Revenues and Expenses	Page 25	
Principal Amount of Certificates Outstanding	Page 40	(Note III-C)

The most recent information regarding additional disclosures required by the 2007 Modesto Irrigation District bond issue continuing disclosure agreement is contained in the final official statement of that issue. Updated information will be available next fiscal year.

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
1998	182,660	\$3,966,644,560	21,716	13.3%	427,642	42.71%
1999	184,600	\$4,106,242,400	22,244	11.6%	432,990	42.63%
2000	188,286	\$4,425,097,572	23,502	7.9%	441,364	42.66%
2001	188,286	\$4,417,566,132	23,462	7.9%	446,997	42.12%
2002	198,600	\$4,722,310,800	23,778	9.6%	469,512	42.30%
2003	203,300	\$4,935,310,800	24,276	10.4%	481,604	42.21%
2004	206,200	\$5,337,487,000	25,885	9.4%	491,900	41.92%
2005	207,634	\$5,588,469,110	26,915	8.3%	504,482	41.16%
2006	208,107	\$5,579,348,670	26,810	8.3%	514,370	40.46%
2007	209,174	\$5,833,026,164	27,886	8.5%	521,497	40.11%

Source: State of California, Department of Finance (population)
 State of California, Economic Development Department (unemployment rate)
 U.S. Department of Commerce, Bureau of Economic Analysis (income)

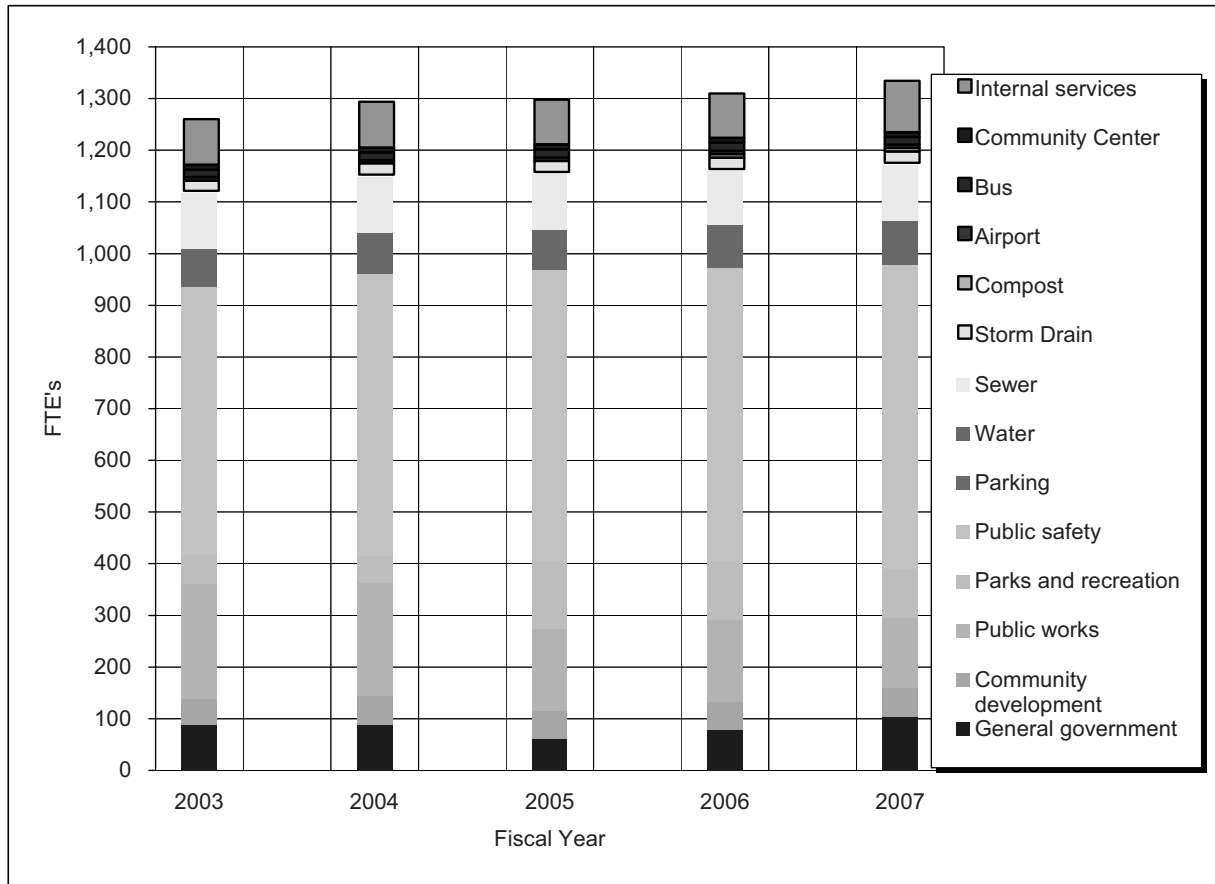
**CITY OF MODESTO
Principal Employers**

Employer	2006 - 07		Percentage of Total City Employment
	Number of Employees	Rank	
Stanislaus County	4,764	1	4.8%
Modesto City Schools	3,345	2	3.4%
E & J Gallo Winery	3,311	3	3.3%
Memorial Medical Center	2,700	4	2.7%
Edl Monte Foods	2,600	5	2.6%
Modesto Junior College	2,550	6	2.6%
Signature Fruit Company	2,321	7	2.3%
Stanislaus Food Products	2,000	8	2.0%
Doctors Medical Center	1,967	9	2.0%
City of Modesto	1,700	10	1.7%
Subtotal	<u>27,258</u>		27.5%
Total City Employment	99,100		
Total City Population	209,174		

Source: Stanislaus Economic Development & Workforce Alliance

Note: Information about Principal Employers was not available for the fiscal year 1997-98.

CITY OF MODESTO
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Five Fiscal Years



	2003	2004	2005	2006	2007
Function					
General government	88.25	88.25	62.25	79.00	104.10
Community development	51.00	56.00	53.00	54.00	56.00
Public works	221.80	219.00	159.00	159.50	136.50
Parks and recreation	56.25	52.50	130.50	112.50	93.25
Public safety	519.00	546.00	563.00	567.75	588.75
Parking	2.00	2.00	2.00	2.00	7.00
Water	70.00	76.00	76.00	81.00	78.00
Sewer	108.00	108.00	107.00	103.00	107.00
Storm Drain	20.00	22.00	22.00	22.00	22.00
Compost				7.00	7.00
Airport	7.00	6.00	6.00	6.00	6.00
Bus	14.00	15.00	16.00	16.00	15.00
Community Center	9.75	9.25	9.50	9.50	9.50
Internal services	88.75	89.00	87.00	86.00	99.60
Total	1,255.80	1,289.00	1,206.25	1,305.25	1,329.70

Source: City of Modesto

CITY OF MODESTO
OPERATING INDICATORS BY FUNCTION

	2006	2007
Function/Program		
Public safety:		
Fire:		
Fire calls for service	20,200	21,526
Primary fire inspections conducted	1,006	936
Police:		
Police calls for Service	129,225	92971
Law violations:		
Part I and Part II crimes	63,954	46401
Physical arrests (adult and juvenile)	13,054	15374
Traffic violations	23,104	27111
Parking violations	20,308	21,600
Public works		
Street resurfacing (miles)	9.98	10.06
Potholes repaired (square miles)	30,252	31,055
Airport:		
Number of passengers enplaned	23,969	50,782
Number of tenant aircraft	201	202
Number of hangers	109	109
Number of runways	2	2
Annual fuel consumption in gallons	998,978	1,102,439
Bus Service:		
Number of buses	43	51
Number of routes	19	19
Total route miles	305	356
Average weekday number of passengers	11,206	12,295
Total number of passengers carried	3,629,191	3,629,128
Community Development		
Permits issued in 2005-2006	5,968	5,174
Estimated cost of construction	\$298,025,900	\$228,814,464
Building Inspections made	49,852	44,542
Culture and recreation:		
Community Services:		
Recreation class participants	5,291	5,175
Solid Waste:		
Recyclables Processed (tons per year)	61,080	74,645

Source: City of Modesto - Various Departments

Note: The City has elected to show only two years of data for this schedule

CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

	2006	2007
Function/Program		
Public safety:		
Fire stations	11	11
Police stations	1	1
Police patrol units	98	102
Public works		
Traffic & Streets		
Miles of streets (1)	672	674
Street lights	13,358	13,595
Traffic Signals	140	140
Water:		
Miles of water mains	N/A	990
Fire hydrants	7,060	7,200
Storage capacity (thousands of gallons)	N/A	9,400,000
Wastewater:		
Miles of sanitary sewers	480.8	641
Miles of storm sewers	130.2	132.9
Number of treatment plants (2)	2	2
Treatment capacity (millions of gallons)	70	70
Community services:		
City parks	75	75
City parks acreage	1,088	1,088
Playgrounds	55	55
City trails	4	4
City trails miles	11	11
Regional park acreage	324	324
Regional park facilities:		
Golf courses (18 holes)	2	2
Golf courses (9 holes)	1	1
Clubhouse and banquet facility	8	8
Historic house	4	4
Community gardens	2	2
Community centers	6	6
Senior centers	1	1
Sports centers	1	1
Performing arts centers	1	1
Swimming pools	16	16
Tennis courts	37	37
Baseball/softball diamonds	24	24
Soccer/football fields	22	22

(1) Information now reported from the City's GIS system and is more accurate.

(2) The City has both a Primary and a Secondary treatment facility.

Source: City of Modesto - Various Departments

Note: N/A denotes information is not available.

Note: The City has elected to show only two years of data for this schedule

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Sidley Austin LLP, San Francisco, California, Bond Counsel, proposes to render its final opinion with respect to the 2008 Bonds in substantially the following form:

[CLOSING DATE]

Modesto Public Financing Authority
Modesto, California

City of Modesto
Modesto, California

\$ _____
Modesto Public Financing Authority
Lease Revenue Refunding Bonds
Series 2008

Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Public Financing Authority (the “Authority”) in connection with the issuance of its Lease Revenue Refunding Bonds, Series 2008 (the “Bonds”) in the aggregate principal amount of \$ _____. The Bonds are issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and an Indenture, dated as of August 1, 2008 (the “Indenture”) between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In connection with the issuance of the Bonds, the City of Modesto (the “City”), the Redevelopment Agency of the City of Modesto (the “Redevelopment Agency”) and the City-County Capital Improvements and Financing Agency (the “Financing Agency”) have leased certain properties to the Authority pursuant to a facilities lease (Parking Garage) (the “Parking Garage Facilities Lease”), a facilities lease (Police Facilities and Miscellaneous Facilities) (the “City Facilities Lease”), a facilities lease (City-County Administration Building) (the “City-County Facilities Lease”) and a facilities lease (Communications Dispatch Center) (the “Communications Facilities Lease” and, together with the Parking Garage Facilities Lease, the City Facilities Lease and the City-County Facilities Lease, the “Facilities Leases”), each dated as of August 1, 2008. The Authority has in turn leased such properties to the City pursuant to the terms of a lease agreement (the “Lease Agreement”), dated as of August 1, 2008 between the City and the Authority. The Bonds are secured as to payment from Base Rental Payments to be made by the City to the Authority under the Lease Agreement and certain other revenues and moneys pledged under the Indenture.

We have examined a certified copy of the record of proceedings relating to the issuance of the Bonds and such other documents and records of the Authority and the City as we have deemed necessary for the purpose of this opinion. We have assumed the genuineness of all documents and

signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Facilities Leases and the Lease Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

Certain requirements and procedures contained or referred to in the Indenture, the Facilities Leases and the Lease Agreement, or other documents pertaining to the Bonds, may be changed, and certain actions may be taken or omitted, 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 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 Bonds for federal income tax purposes..

Based on the foregoing and our examination of existing constitutional, statutory and decisional law, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion that:

1. The Bonds have been duly authorized, executed and delivered by the Authority and are legal, valid and special limited obligations of the Authority, payable from Revenues pledged therefore under the Indenture.

2. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority.

3. The Facilities Leases have been duly authorized, executed and delivered by the City, the Redevelopment Agency, the Financing Agency and the Authority and constitute the legal, valid and binding obligations of the parties thereto.

4. The Lease Agreement has been duly authorized, executed and delivered by the City and the Authority and constitutes the legal, valid and binding obligation of the parties thereto.

5. Based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the Authority and the City with certain covenants in the Indenture, the Facilities Leases, the Lease Agreement and the Tax Certificate executed by the Authority and the City and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bond and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

7. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

We express no opinion with respect to any collateral tax consequences resulting from the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

With respect to the opinions expressed herein, the rights and obligations under the Bonds, the Indenture, the Facilities Leases and the Lease Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers authorities or cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in or subject to the lien of the Facilities Leases, the Lease Agreement or the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on any such property.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

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APPENDIX E

BOOK ENTRY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority and the Underwriter believe to be reliable, but neither the Authority nor the Underwriter takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 for 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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 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 ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the

actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bond by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.



This Supplement has been duly approved, executed and delivered by the City and the Authority.

CITY OF MODESTO, CALIFORNIA

By: 
Director of Finance

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Auditor and Treasurer

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

CERTIFICATE REGARDING CITY RESOLUTION

May 12, 2023

I, Diane Nayares-Perez, hereby certify that I am the City Clerk of the City of Modesto (the “City”), a charter city duly organized under the Constitution and the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the City.

I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. 2023-190 (the “Resolution”), adopted at the regular meeting of the City Council of the City held on April 11, 2023, of which meeting all of the members of the City Council of the City had due notice and at which a quorum was present and acting throughout.

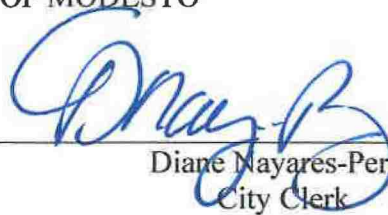
I hereby further certify that I have carefully compared the same with the original Resolution so adopted at said meeting and that it is a full, true and correct copy of said Resolution; and that said Resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

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IN WITNESS WHEREOF, I have hereunto set my hand as of the date first written above.

CITY OF MODESTO

By:


Diane Nayares-Perez
City Clerk

(Signature Page to Certificate Regarding City Resolution)

**MODESTO CITY COUNCIL
RESOLUTION NO. 2023-190**

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MODESTO
RELATING TO MODESTO PUBLIC FINANCING AUTHORITY LEASE
REVENUE REFUNDING BONDS SERIES 2008; APPROVING AMENDMENT
NO. 1 TO REIMBURSEMENT AGREEMENT AMONG BMO HARRIS BANK
N.A., CITY OF MODESTO AND MODESTO PUBLIC FINANCING
AUTHORITY; AMENDMENT NO. 1 TO FEE LETTER AGREEMENT; AND A
SUPPLEMENT TO OFFICIAL STATEMENT; AND AUTHORIZING CERTAIN
OTHER RELATED ACTIONS**

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

WHEREAS, the Modesto Public Financing Authority (the “Authority”) is authorized under the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the “Act”), to lease and/or purchase real property and to issue bonds for the financing and refinancing of public capital improvements whenever there are significant public benefits, and

WHEREAS, the Authority previously issued its \$65,170,000 original aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 (the “2008 Bonds”), and

WHEREAS, Bank of America, N.A., as Credit Facility Provider, issued its Irrevocable Transferable Letter of Credit dated August 28, 2008 (the “Initial Credit Facility”) to provide credit support for the 2008 Bonds, and

WHEREAS, on June 13, 2019, the City replaced the Initial Credit Facility with a replacement letter of credit (the “Current Credit Facility”) by BMO Harris Bank N.A.

(successor in interest to Bank of the West) (the “Bank”); and

WHEREAS, in connection with the issuance of the Current Credit Facility, the City, the Authority and the Bank entered into a Reimbursement Agreement and related Fee Letter Agreement; and

WHEREAS, the Current Credit Facility has a stated expiration date of June 13, 2023; and

WHEREAS, prior to the expiration date thereof, the City wishes to extend the Current Credit Facility; and

WHEREAS, in connection with the extension of the Current Credit Facility, the City, the Authority and the Bank will enter into an Amendment No. 1 to Reimbursement Agreement (the “Reimbursement Agreement Amendment”) and related Amendment No. 1 to Fee Letter Agreement (the “Fee Letter Amendment”), and

WHEREAS, staff recommends TD Securities (USA) LLC replace Raymond James & Associates, Inc. as the remarketing agent for the 2008 Bonds, and

WHEREAS, in connection with the extension of the Current Credit Facility, the City and the Authority will prepare a supplement to the Official Statement for the 2008 Bonds describing certain material information regarding the Bank, the Current Credit Facility and the Reimbursement Agreement (as amended by the Reimbursement Agreement Amendment) (the “Supplement to Official Statement”), and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required

by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided,

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Modesto, as follows:

Section 1. Findings. The City Council hereby specifically finds and determines that the actions authorized hereby constitute and are with respect to the public affairs of the City and that the statements, findings and determinations of the City set forth above and in the preambles of the documents approved herein are true and correct and that the consummation of the transactions contemplated therein shall result in significant public benefits to the City.

Section 2. Approval of the Reimbursement Agreement Amendment and Fee Letter Amendment. The City Council hereby approves the extension of the Stated Expiration Date of the Current Credit Facility. The Reimbursement Agreement Amendment and related Fee Letter Amendment proposed to be executed and entered into by the City, in the forms presented at this meeting and on file with the City Clerk, are hereby approved, and each of the City Manager and the Finance Director, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Reimbursement Agreement Amendment and Fee Letter Amendment in substantially said forms, with such changes therein as such officer executing the Reimbursement Agreement Amendment and Fee Letter Amendment may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. Approval of the Supplement to Official Statement. The Supplement to Official Statement proposed to be executed and delivered by the City, in the form presented at this meeting and on file with the City Clerk, is hereby approved, and each of the City Manager and the Finance Director, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Supplement to Official Statement in substantially said form, with such changes therein as such officer executing the Supplement to Official Statement may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. Attestations. The City Clerk is hereby authorized and directed to attest the signature of the City Manager and the Finance Director and to affix and attest the seal of the City, as may be required or appropriate in connection with the documents approved by this Resolution.

Section 5. Other Actions. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or desirable in order to consummate the transactions authorized hereby and to carry out, give effect to and comply with the terms and intent of this Resolution, the Reimbursement Agreement Amendment, the Fee Letter Amendment and the Supplement to Official Statement; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 6. Effective Date. This Resolution shall take effect immediately upon its passage.

The foregoing resolution was introduced at a regular meeting of the Council of the City of Modesto held on the 11th day of April, 2023, by Councilmember Bavaro, who moved its adoption, which motion being duly seconded by Councilmember Alvarez, was upon roll call carried and the resolution adopted by the following vote:

AYES: Councilmembers: Alvarez, Bavaro, Escutia-Braaton, Ricci, Williams, Wright, Mayor Zwahlen

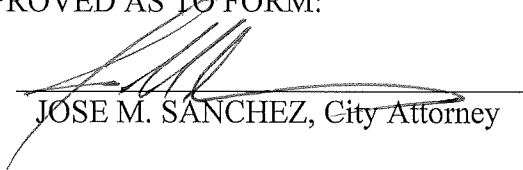
NOES: Councilmembers: None

ABSENT: Councilmembers: None

ATTEST: 
DIANE NAYARES-PEREZ, CMC,
City Clerk

(SEAL)

APPROVED AS TO FORM:

BY: 
JOSE M. SANCHEZ, City Attorney

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

CERTIFICATE REGARDING AUTHORITY RESOLUTION

May 12, 2023

I, Diane Nayares-Perez, hereby certify that I am the Secretary of the Commission of the Modesto Public Financing Authority (the “Authority”), a joint exercise of powers authority organized under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. 01-2023 (the “Resolution”), adopted at the special meeting of the Commission of the Authority held on April 11, 2023, of which meeting all of the members of the Governing Board had due notice and at which a quorum was present and acting throughout.

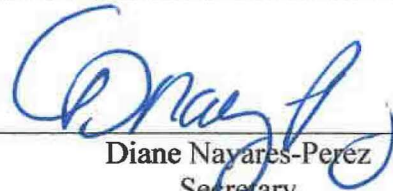
I hereby further certify that I have carefully compared the same with the original Resolution so adopted at said meeting and that it is a full, true and correct copy of said Resolution; and that said Resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

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IN WITNESS WHEREOF, I have hereunto set my hand as of the date first written above.

MODESTO PUBLIC FINANCING AUTHORITY

By:



Diane Nayares-Perez
Secretary

(Signature Page to Certificate Regarding Authority Resolution)

**MODESTO PUBLIC FINANCING AUTHORITY
RESOLUTION NO. 01-2023**

**RESOLUTION OF THE MODESTO PUBLIC FINANCING AUTHORITY
RELATING TO MODESTO PUBLIC FINANCING AUTHORITY LEASE
REVENUE REFUNDING BONDS SERIES 2008 APPROVING THE EXTENSION
OF A CREDIT FACILITY AND APPROVING THE FORM OF AND
AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDMENT
NO. 1 TO REIMBURSEMENT AGREEMENT, AN AMENDMENT NO. 1 TO FEE
LETTER AGREEMENT WITH BMO HARRIS BANK N.A. (SUCCESSOR IN
INTEREST TO BANK OF THE WEST), AND A SUPPLEMENT TO OFFICIAL
STATEMENT; APPROVING THE FORMS OF AND AUTHORIZING THE
EXECUTION AND DELIVERY OF A REMARKETING AGREEMENT WITH
TD SECURITIES; AND AUTHORIZING CERTAIN OTHER RELATED
ACTIONS**

WHEREAS, the Modesto Public Financing Authority (the “Authority”) is a joint exercise of powers authority duly organized and existing pursuant to the Modesto Public Financing Joint Exercise of Powers Agreement, dated as of December 5, 1989, by and between the City of Modesto (the “City”), a charter city and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California, and the Industrial Development Authority of the City;

WHEREAS, the Authority previously issued its \$65,170,000 original aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 (the “2008 Bonds”);

WHEREAS, Bank of America, N.A., as the initial Credit Facility Provider, issued its Irrevocable Transferable Letter of Credit dated August 28, 2008 (the “Initial Credit Facility”) to provide credit support for the 2008 Bonds;

WHEREAS, on June 13, 2019, the City replaced the Initial Credit Facility with a replacement letter of credit (the “Current Credit Facility”) provided by BMO Harris Bank N.A. (successor in interest to Bank of the West) (the “Bank”);

WHEREAS, in connection with the issuance of the Current Credit Facility, the City, the Authority and the Bank entered into a Reimbursement Agreement and related Fee Letter Agreement;

WHEREAS, the Current Credit Facility has a stated expiration date of June 13, 2023;

WHEREAS, prior to the expiration date thereof, the City wishes to extend the Current Credit Facility;

WHEREAS, in connection with the extension of the Current Credit Facility, the City, the Authority and the Bank will enter into an Amendment No. 1 to Reimbursement Agreement (the “Reimbursement Agreement Amendment”) and related Amendment No. 1 to Fee Letter Agreement (the “Fee Letter Amendment”);

WHEREAS, in connection with the extension of the Current Credit Facility, the Authority desires to replace Raymond James & Associates, Inc. as remarketing agent for the 2008 Bonds with TD Securities (USA) LLC; and

WHEREAS, in connection with the replacement of the remarketing agent, the Authority proposes to execute a Remarketing Agreement (the “Remarketing Agreement”) with TD Securities (USA) LLC; and

WHEREAS, in connection with the extension of the Current Credit Facility, the City and the Authority will prepare a supplement to the Official Statement for the 2008 Bonds describing certain material information regarding the Bank, the Current Credit Facility and the Reimbursement Agreement (as amended by the Reimbursement Agreement Amendment) (the “Supplement to Official Statement”); and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Authority is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided.

NOW, THEREFORE, BE IT RESOLVED by the Commission of the Authority, as follows:

Section 1. Findings. The Commission of the Authority hereby specifically finds and determines that the statements, findings and determinations of the Authority set forth above and in the preambles of the documents approved herein are true and correct.

Section 2. Approval of the Reimbursement Agreement Amendment and Fee Letter Amendment. The Reimbursement Agreement Amendment and Fee Letter Amendment, proposed to be executed and entered into by and among the Authority, the City and the Bank, in the forms presented at this meeting and on file with the Secretary of the Authority, are hereby approved, and each of the Chairperson, Vice Chairperson, Executive Director, and Auditor and Treasurer of the Authority (each, a “Authorized Officer”), acting singly, is hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Reimbursement Agreement Amendment and the Fee Letter Amendment in substantially said forms, with such changes therein as such officer executing the Reimbursement Agreement Amendment

and the Fee Letter Amendment may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. Approval of the Remarketing Agreement. The Remarketing Agreement proposed to be executed and entered into by the Authority, in the form presented at this meeting and on file with the Secretary of the Authority, is hereby approved, and each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Remarketing Agreement in substantially said form, with such changes therein as such officer executing the Remarketing Agreement may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. Approval of the Supplement to Official Statement. The Supplement to Official Statement, proposed to be executed and delivered by the City and the Authority, in the form presented at this meeting and on file with the Secretary of the Authority, is hereby approved, and each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Supplement to Official Statement in substantially said form, with such changes therein as such officer executing the Supplement to Official Statement may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Attestations. The Secretary of the Authority is hereby authorized and directed to attest the signatures of each Authorized Officer in connection with the documents approved by this Resolution.

Section 6. Other Actions. Each Authorized Officer is hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or desirable in order to consummate the transactions authorized hereby and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Reimbursement Agreement Amendment, the Fee Letter Amendment, the Remarketing Agreement and the Supplement to Official Statement, and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 7. Effective Date. This Resolution shall take effect immediately upon its passage.

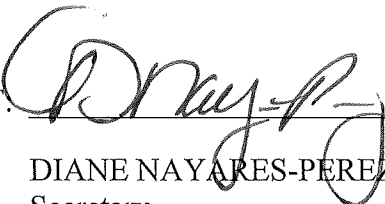
The foregoing resolution was introduced at a meeting of the Modesto Public Financing Authority held on the 11th day of April, 2023, by Authority Member Wright, who moved its adoption, which motion being duly seconded by Mayor Zwahlen was upon roll call carried and the resolution adopted by the following vote:

AYES: Authority Boardmembers: Alvarez, Bavaro, Escutia-Braaton, Ricci, Williams, Wright, Mayor Zwahlen

NOES: Authority Boardmembers: None

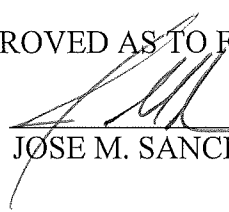
ABSENT: Authority Boardmembers: None

ATTEST.


DIANE NAYARES-PEREZ, CMC,
Secretary

(SEAL)

APPROVED AS TO FORM:

BY: 
JOSE M. SANCHEZ, Authority Counsel

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

CLOSING, SIGNATURE AND INCUMBENCY CERTIFICATE OF THE CITY

May 12, 2023

The undersigned, the Finance Director/Treasurer and City Clerk, respectively, of the City of Modesto (the “City”), a charter city duly organized and existing under the laws of the State of California, hereby certify on behalf of the City, in connection with the \$65,170,000 original aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 (the “Bonds”), as follows:

(a) the representations and warranties set forth in the Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023 (the “Reimbursement Agreement Amendment”), by and among the City, the Modesto Public Financing Authority (the “Authority”) and BMO Harris Bank N.A. (the “Bank”) and in any other certificate, letter, writing or instrument delivered by the City to the Bank pursuant thereto or in connection therewith, are true and correct as of the date hereof;

(b) no material adverse change has occurred in the condition (financial or otherwise) of the City prior to the date hereof;

(c) on the date hereof no Event of Default or event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default under the Reimbursement Agreement, has occurred and is continuing and no default has occurred and is continuing under any of the Related Documents;

(d) there is no lawsuit, tax claim or other dispute pending or threatened against the City which, if lost, would impair the City’s financial condition or ability to repay the unreimbursed Drawings, except as have been disclosed in writing to the Bank;

(e) the City is in compliance with the terms and conditions of the Reimbursement Agreement and has performed or complied with all of its Obligations, agreements and covenants to be performed or complied with pursuant to the Reimbursement Agreement on or prior to the date hereof;

(f) all information, documents, statements and certificates provided to the Bank by or on behalf of the City in connection with the Letter of Credit Amendment No. 1 are true and correct on and as of the date hereof and were provided in expectation of the Bank’s reliance thereon in issuing the Letter of Credit Amendment No. 1;

(g) the City has delivered to the Bank true, correct and complete copies of the Related Documents and such documents were duly issued, adopted or executed and delivered, have not been modified, amended or rescinded and are in full force and effect on and as of the date hereof and the Title Insurance Policy has not been modified, amended or rescinded and is in full force and effect on and as of the date hereof; and

(h) all information set forth in the Lease Estoppel Certificate dated June 13, 2019 executed by the City, as Successor Agency to the Redevelopment Agency, is true and correct on and as of the date hereof and such reaffirmation is provided in expectation of the Bank's reliance thereon in issuing the Letter of Credit Amendment No. 1.

The officers identified below are duly authorized by the City Council of the City to execute on behalf of the City, the Reimbursement Agreement Amendment, the Fee Letter Agreement Amendment No. 1 and any other documents, certificates and agreements to be delivered by the City under the Reimbursement Agreement Amendment and that pursuant to such authority such documents, certificates and agreements have been executed by such persons, and attested to by the signature of the City Clerk of the City, and, each of the undersigned by their signature confirms that the other signatures set forth below are genuine. The officers identified below are duly authorized to represent the City in connection with the Letter of Credit, the Reimbursement Agreement and the Fee Letter Agreement, and the Bank may rely upon such certification until it receives a new certificate with respect thereto.

Authorized officers of the City have executed and delivered on behalf of the City the Reimbursement Agreement Amendment and the Fee Letter Agreement Amendment No. 1.

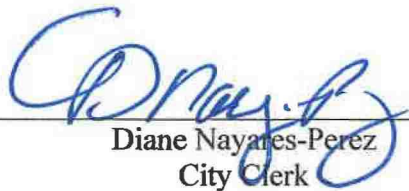
Capitalized terms used herein not otherwise defined shall have the meanings ascribed thereto (including by incorporation) in the Reimbursement Agreement Amendment.

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IN WITNESS WHEREOF, each of the persons below has set their hand as of the date first written above.

CITY OF MODESTO

By: 
DeAnna Christensen
Finance Director/Treasurer

By: 
Diane Nayaes-Perez
City Clerk

(Signature Page to Closing, Signature and Incumbency Certificate of the City)

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

CLOSING, SIGNATURE AND INCUMBENCY CERTIFICATE OF THE AUTHORITY

May 12, 2023

The undersigned, the Auditor and Treasurer and Secretary, respectively, of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, hereby certify on behalf of the Authority, in connection with the \$65,170,000 original aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 (the "Bonds"), as follows:

(a) the representations and warranties set forth in the Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023 (the "Reimbursement Agreement Amendment"), by and among the City of Modesto (the "City"), the Authority and BMO Harris Bank N.A. (the "Bank") and in any other certificate, letter, writing or instrument delivered by the Authority to the Bank pursuant thereto or in connection therewith, are true and correct as of the date hereof;

(b) no material adverse change has occurred in the condition (financial or otherwise) of the Authority prior to the date hereof;

(c) on the date hereof no Event of Default or no event, act or omission which with notice, lapse of time or both, would constitute such an Event of Default, has occurred and is continuing;

(d) there is no lawsuit, tax claim or other dispute pending or threatened against the Authority which, if lost, would impair the Authority's financial condition or ability to repay the unreimbursed Drawings, except as have been disclosed in writing to the Bank;

(e) the Authority is in compliance with the terms and conditions of the Reimbursement Agreement and has performed or complied with all of its Obligations, agreements and covenants to be performed or complied with pursuant to the Reimbursement Agreement on or prior to the date hereof;

(f) all information, documents, statements and certificates provided to the Bank by or on behalf of the Authority in connection with the Letter of Credit Amendment No. 1 are true and correct on and as of the date hereof and were provided in expectation of the Bank's reliance thereon in issuing the Letter of Credit Amendment No. 1;

(g) the Authority has delivered to the Bank true, correct and complete copies of the Related Documents and such documents were duly issued, adopted or executed and

delivered, have not been modified, amended or rescinded and are in full force and effect on and as of the date hereof; and

(h) all information set forth in the Lease Estoppel Certificate dated June 13, 2019 executed by the Authority, is true and correct on and as of the date hereof and such reaffirmation is provided in expectation of the Bank's reliance thereon in issuing the Letter of Credit Amendment No. 1.

The officers identified below are duly authorized by the Commission of the Authority to execute on behalf of the Authority, the Reimbursement Agreement Amendment, the Fee Letter Agreement Amendment No. 1 and certain other documents, certificates and agreements to be delivered by the City under the Reimbursement Agreement Amendment, and that pursuant to such authority such documents, certificates and agreements have been executed by such persons, and attested to by the signature of the Secretary of the Commission, and, each of the undersigned by their signature confirms that the other signatures set forth below are genuine. The officers identified below are duly authorized to represent the Authority in connection with the Letter of Credit, the Reimbursement Agreement and the Fee Letter Agreement, and the Bank may rely upon such certification until it receives a new certificate with respect thereto.

Authorized officers of the Authority have executed and delivered on behalf of the Authority the Reimbursement Agreement Amendment and the Fee Letter Agreement Amendment No. 1.

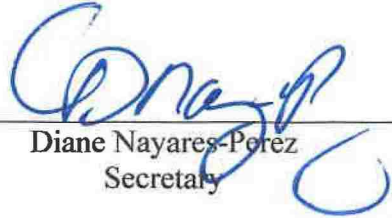
Capitalized terms used herein not otherwise defined shall have the meanings ascribed thereto (including by incorporation) in the Reimbursement Agreement Amendment.

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IN WITNESS WHEREOF, each of the persons below has set their hand as of the date first written above.

MODESTO PUBLIC FINANCING AUTHORITY

By: 
DeAnna Christensen
Auditor and Treasurer

By: 
Diane Nayares-Perez
Secretary

(Signature Page to Closing, Signature and Incumbency Certificate of the Authority)

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

CERTIFICATE OF THE BANK

May 12, 2023

The undersigned authorized representative of BMO Harris Bank N.A., as successor in interest to Bank of the West (the “Bank”), hereby certifies that, to the best of the undersigned officer’s knowledge, the information set forth in the Supplement No. 4, dated May 11, 2023 to Official Statement, dated August 26, 2008, relating to the above-referenced bonds, set forth under the heading “INFORMATION CONCERNING THE BANK,” is true and correct in all material respects.

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IN WITNESS WHEREOF, the undersigned has executed this certificate on behalf of the Bank as of the date first written above.

BMO HARRIS BANK N.A.

By: Edward C Neu
Name: Edward C. Neu
Title: Managing Director

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

TAX CERTIFICATE OF THE BANK

May 12, 2023

The undersigned, an authorized signatory of BMO Harris Bank N.A. (as successor in interest to Bank of the West) (the “Bank”), hereby certifies as follows with respect to the above-referenced bonds (the “Bonds”) and the irrevocable transferrable letter of credit issued by the Bank on June 13, 2019, and amended on May 12, 2023, as credit and liquidity support for the Bonds (the “Letter of Credit”), which Letter of Credit was issued pursuant to the Reimbursement Agreement dated as of June 1, 2019, as amended by an Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023 (collectively, the “Agreement”), each among the Bank, the City of Modesto and the Modesto Public Financing Authority:

1. The Letter of Credit is an unconditional obligation of the Bank to pay the principal of and interest on the Bonds, and to pay the purchase price of unremarketed Bonds, in accordance with the terms of the Letter of Credit.

2. The fees payable to the Bank under the Agreement were determined in arm’s length negotiations and are in consideration of the credit and liquidity support being provided by the Bank pursuant to the Letter of Credit. Such fees represent a charge only for the transfer of credit risk and liquidity support. No portion of such fees represents any payment for any direct or indirect services, including any indirect payment of costs of issuance, rating agency fees, or the costs of underwriting or remarketing the Bonds. No portion of the fees payable to the Bank under the Agreement is refundable to the City or the Authority.

3. The Bank does not reasonably expect to make any payments under the Letter of Credit other than payments for which it will be reimbursed immediately or upon commercially reasonable terms.

This Certificate is provided solely for the information of and to provide assistance to the City and the Authority, for purposes of establishing the qualification of the Letter of Credit as a “qualified guarantee,” as defined in Treas. Reg. § 1.148-4(f). However, the Bank provides no assurances and makes no representations regarding whether or not the Letter of Credit qualifies as a qualified guarantee as defined in Treas. Reg. Section 1.148-4(f) and the Bank makes no representations as to the treatment of fees and other payments made with respect to the Letter of Credit under Treas. Reg. Section 1.148-4(f).

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IN WITNESS WHEREOF, I have hereunto set my hand as of the date first written above.

BMO HARRIS BANK N.A., as successor in
interest to Bank of the West

By: Edward C. Neely
Its: Managing Director

(Signature Page to Tax Certificate of the Bank)

NOTICE OF EXTENSION OF LIQUIDITY FACILITY
\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

NOTICE IS HEREBY GIVEN by the Modesto Public Financing Authority (the “Authority”) to The Bank of New York Mellon Trust Company, N.A., pursuant to the applicable provisions of the governing documents of the above captioned bonds (the “Bonds”) that the Stated Expiration Date of Irrevocable Transferable Letter of Credit No. MB60517199 dated June 13, 2019, has been extended to June 8, 2026. No mandatory tender for purchase of any outstanding Bonds will be effected by such extension.

Dated: May 12, 2023

NOTICE OF EXTENSION OF CREDIT FACILITY
\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

NOTICE IS HEREBY GIVEN to the parties listed on Exhibit A hereto and the Owners of the above captioned bonds (the “Bonds”) pursuant to the applicable provisions of the governing documents of the Bonds that the Stated Expiration Date of Irrevocable Transferable Letter of Credit No. MB60517199 dated June 13, 2019, has been extended to June 8, 2026. No mandatory tender for purchase of any outstanding Bonds will be effected by such extension.

By: The Bank of New York Mellon Trust Company, N.A., as trustee

Dated: May 12, 2023

EXHIBIT A
NOTICE PARTIES

Authority

Modesto Public Financing Authority
c/o City of Modesto
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Auditor and Treasurer
Telephone No.: (209) 577-5387
Facsimile No.: (209) 571-5880

Rating Agencies

Fitch Ratings
One State Street Plaza
38th Floor
New York, New York 10004
Telephone No.: (212) 908-0500
Facsimile: (212) 480-4421

Standard and Poor's
Attn: Muni Structured Finance
55 Water Street, 38th Floor
New York, New York 10041
Telephone No.: (212) 438-2000
Email: Pubfin_structured@standardandpoors.com

Swap Provider

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

City

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Finance Director
Telephone No.: (209) 577-5387
Facsimile No.: (209) 571-5880



555 Capitol Mall, Suite 1200
Sacramento, California 95814
tel (916) 556-1531
fax (916) 556-1516
www.meyersnave.com

Jose M. Sanchez
jsanchez@meyersnave.com

May 12, 2023

City of Modesto
Modesto, California

BMO Harris Bank N.A.
San Francisco, California

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

Ladies and Gentlemen:

As City Attorney of the City of Modesto (the "City"), I have reviewed the following documents in connection with the extension of a letter of credit supporting the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008, in the original aggregate principal amount of \$65,170,000 (the "Bonds"): (i) Resolution No. 2023-190 adopted by the City Council of the City on April 11, 2023 (the "City Resolution"); (ii) the Fee Letter Agreement, dated June 13, 2019 (the "Original Fee Letter"), by and among BMO Harris Bank N.A (as successor in interest to Bank of the West) (the "Bank"), the City and the Modesto Public Financing Authority (the "Authority"); (iii) Amendment No. 1 to Fee Letter Agreement, dated May 12, 2023, by and among the Bank, the City and the Authority (the "Fee Letter Amendment," and together with the Original Fee Letter, the "Fee Letter"); (iv) the Reimbursement Agreement, dated as of June 1, 2019, by and among the City, the Authority and the Bank (the "Original Reimbursement Agreement"); (v) Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023, by and among the City, the Authority, and the Bank (the "Reimbursement Agreement Amendment," together with the Original Reimbursement Agreement, the "Reimbursement Agreement"); and (vi) the Lease Agreement, dated as of August 1, 2008, by and between the Authority and the City, as amended by that certain Amendment No. 1 to Lease Agreement, dated as of August 1, 2011, by and between the City and the Authority (collectively, the "Lease Agreement" and, collectively with the Fee Letter and the Reimbursement Agreement, the "City Agreements").

All capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Reimbursement Agreement.

Based upon the foregoing and upon such other information and documents as I consider necessary to render this opinion, I am of the opinion that:

(a) the City is a charter city duly organized and validly existing under and by virtue of the laws of the State of California with full legal right, power and authority to execute, deliver and perform all of its obligations under the City Agreements;

(b) the City Resolution was duly adopted at a meeting of the City Council of the City which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the City Resolution is in full force and effect and has not been modified, amended or rescinded as of the date hereof; and aside from adoption of the City Resolution no further action on the part of the City is required in order for the City to execute and deliver the City Agreements and to perform its obligations thereunder;

(c) to the best of my knowledge after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the City, challenging the existence of the City or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the City Agreements or the pledge of Base Rental Payments (as defined in the Lease Agreement) under the Lease Agreement or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the City's ability to perform its obligations under the City Agreements;

(d) the adoption of the City Resolution, the execution and delivery of the City Agreements and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute, on the part of the City, a breach or default under any agreement or instrument to which the City is a party or by which it is bound or, to the best of my knowledge, any existing law, regulation, court order or consent decree to which the City is subject;

(e) the City Agreements have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, the City Agreements constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against public agencies in the State of California;

(f) no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the City Agreements or for the adoption of the City Resolution which has not been obtained; and

(g) The City is not entitled to claim immunity on the grounds of sovereignty or other similar grounds with respect to itself or its revenues or financial assets (irrespective of their use or intended use) from (i) suit, (ii) jurisdiction of any court or, (iii) except to the extent provided in Part 5 of Division 3.6 of Title 1 of the Government Code of the State of California (x) relief by way of injunction, order for specific performance or for recovery of property, (y) attachment of its financial assets (whether before or after judgment) or (z) execution or enforcement of any judgment to which it or its revenues or financial assets might otherwise be subject.

This opinion applies only to matters referred to herein and existing on the date of this letter. This opinion is solely for the benefit of the addressees and their successors and assigns and is not to be relied upon by any other person or used, or quoted, or otherwise referred to for any other purpose.

Respectfully submitted,



Jose M. Sanchez
City Attorney

JMS:SD



555 Capitol Mall, Suite 1200
Sacramento, California 95814
tel (916) 556-1531
fax (916) 556-1516
www.meyersnave.com

Jose M. Sanchez
jsanchez@meyersnave.com

May 12, 2023

Modesto Public Financing Authority
Modesto, California

BMO Harris Bank N.A.
San Francisco, California

\$65,170,000 original aggregate principal amount of
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

Ladies and Gentlemen:

I have acted as counsel to the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized and existing pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California, as amended. This opinion is rendered in connection with the extension of a letter of credit supporting the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008, in the original aggregate principal amount of \$65,170,000 (the "Bonds").

In rendering this opinion, I have examined: (i) Resolution No. 01-2023 adopted by the Commission of the Authority on April 11, 2023 (the "Authority Resolution"); (ii) the Fee Letter Agreement, dated June 13, 2019 (the "Original Fee Letter"), by and among BMO Harris Bank N.A (as successor in interest to Bank of the West) (the "Bank"), the City of Modesto (the "City") and the Authority; (iii) Amendment No. 1 to Fee Letter Agreement, dated May 12, 2023, by and among the Bank, the City and the Authority (the "Fee Letter Amendment," and together with the Original Fee Letter, the "Fee Letter"); (iv) the Reimbursement Agreement, dated as of June 1, 2019, by and among the City, the Authority and the Bank (the "Original Reimbursement Agreement"); (v) Amendment No. 1 to Reimbursement Agreement, dated May 12, 2023, by and among the City, the Authority, and the Bank (the "Reimbursement Agreement Amendment," and together with the Original Reimbursement Agreement, the "Reimbursement Agreement"); (vi) the Lease Agreement, dated as of August 1, 2008, by and between the Authority and the City, as amended by that certain Amendment No. 1 to Lease Agreement, dated as of August 1, 2011 by and between the City and the Authority (collectively, the "Lease Agreement"); (vii) the Remarketing Agreement, dated May 13, 2019, by and between the Authority and Raymond James & Associates, Inc., as remarketing agent (the "Remarketing Agent"), and (viii) the Facilities Lease (Parking Garage), dated as of August 1,

2008, by and between the Modesto Redevelopment Successor Agency, as successor in interest to the Redevelopment Agency of the City of Modesto pursuant to Part 1.85 of Division 24 of the California Health and Safety Code (the "Successor Agency") and the Authority (the "Facilities Lease," and, collectively with the Fee Letter, the Reimbursement Agreement, the Lease Agreement and the Remarketing Agreement, the "Authority Agreements").

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Reimbursement Agreement.

Based upon the foregoing and my review of such other information, documents and matters of law as I consider necessary, I am of the opinion that:

(a) the Authority is a joint powers authority under Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California duly organized and validly existing under and by virtue of the Joint Exercise of Powers Agreement, dated as of December 1, 1989 (the "JPA Agreement") and the laws of the State of California with full legal right, power and authority to execute, deliver and perform all of its obligations under the Authority Agreements;

(b) the Authority Resolution was duly adopted at a meeting of the Commission of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Authority Resolution is in full force and effect and has not been modified, amended or rescinded as of the date hereof; and aside from adoption of the Authority Resolution no further action on the part of the Authority is required in order for the Authority to execute and deliver the Authority Agreements and to perform its obligations thereunder;

(c) to the best of my knowledge after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the Authority, challenging the existence of the Authority or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Authority Agreements or the Bonds or the collection of the Base Rental Payments (as defined in the Lease Agreement) under the Lease Agreement or contesting the powers of the Authority or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the Authority's ability to perform its obligations under the Authority Agreements or the Bonds;

(d) the adoption of the Authority Resolution, the execution and delivery of the Authority Agreements and compliance by the Authority with the provisions of the foregoing and the Bonds, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute, on the part of the Authority, a breach or default under the JPA Agreement or any other agreement or other instrument to which the Authority is a party or by which it is bound or, to the best of

my knowledge, any existing law, regulation, court order or consent decree to which the Authority is subject;

(e) the Authority Agreements have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the Authority enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against public agencies in the State of California;

(f) no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Authority Agreements or for the adoption of the Authority Resolution which has not been obtained; and

(g) the Authority is not entitled to claim immunity on the grounds of sovereignty or other similar grounds with respect to itself or its revenues or financial assets (irrespective of their use or intended use) from (i) suit, (ii) jurisdiction of any court or, (iii) except to the extent provided in Part 5 of Division 3.6 of Title 1 of the Government Code of the State of California (x) relief by way of injunction, order for specific performance or for recovery of property, (y) attachment of its financial assets (whether before or after judgment) or (z) execution or enforcement of any judgment to which it or its revenues or financial assets might otherwise be subject.

This opinion applies only to matters referred to herein and existing on the date of this letter. This opinion is solely for the benefit of the addressees and their successors and assigns and is not to be relied upon by any other person or used, or quoted, or otherwise referred to for any other purpose.

Respectfully submitted,



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May 12, 2023

Modesto Redevelopment Successor Agency
Modesto, California

BMO Harris Bank N.A.
San Francisco, California

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

Ladies and Gentlemen:

I have acted as counsel to the Modesto Redevelopment Successor Agency, as successor in interest to the Redevelopment Agency of the City of Modesto pursuant to Part 1.85 of Division 24 of the California Health and Safety Code (the "Successor Agency"). This opinion is rendered in connection with the extension of a letter of credit supporting the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008, in the original aggregate principal amount of \$65,170,000 (the "Bonds").

In rendering this opinion, I have examined the Facilities Lease (Parking Garage), dated as of August 1, 2008, by and between the Successor Agency and the Authority (the "Facilities Lease").

All capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Reimbursement Agreement.

Based upon the foregoing and upon such other information and documents as I consider necessary to render this opinion, I am of the opinion that:

(a) the Successor Agency is a public agency duly organized and validly existing under and by virtue of Part 1.85 of Division 24 of the California Health and Safety Code with full legal right, power and authority to execute, deliver and perform all of its obligations under the Facilities Lease;

(b) to the best of my knowledge after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the Successor Agency,

challenging the existence of the Successor Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Facilities Lease or the pledge of Base Rental Payments (as defined in the Lease Agreement) under the Lease Agreement or contesting the powers of the Successor Agency or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the Successor Agency's ability to perform its obligations under the Facilities Lease;

(c) the execution and delivery of the Facilities Lease and compliance by the Successor Agency with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute, on the part of the Successor Agency, a breach or default under any agreement or instrument to which the Successor Agency is a party or by which it is bound or, to the best of my knowledge, any existing law, regulation, court order or consent decree to which the Successor Agency is subject;

(d) the Facilities Lease has been duly authorized, executed and delivered by the Successor Agency and, assuming due authorization, execution and delivery by the other parties thereto, the Facilities Lease constitutes the legal, valid and binding agreement of the Successor Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against public agencies in the State of California;

(e) no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Successor Agency is required for the valid authorization, execution, delivery and performance by the Successor Agency of the Facilities Lease which has not been obtained; and

(f) The Successor Agency is not entitled to claim immunity on the grounds of sovereignty or other similar grounds with respect to itself or its revenues or financial assets (irrespective of their use or intended use) from (i) suit, (ii) jurisdiction of any court or, (iii) except to the extent provided in Part 5 of Division 3.6 of Title 1 of the Government Code of the State of California (x) relief by way of injunction, order for specific performance or for recovery of property, (y) attachment of its financial assets (whether before or after judgment) or (z) execution or enforcement of any judgment to which it or its revenues or financial assets might otherwise be subject.

This opinion applies only to matters referred to herein and existing on the date of this letter. This opinion is solely for the benefit of the addressees and their successors and assigns and is not to be relied upon by any other person or used, or quoted, or otherwise referred to for any other purpose.

Respectfully submitted,



Jose M. Sanchez
Successor Agency Counsel



City of Modesto
Letter of Credit Extension for 2008 Lease Revenue Bonds
Standby Certificate Purchase Agreement for 2008 Water COPs
Distribution List as of May 9, 2023

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