

CLOSING MEMORANDUM

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

SUBSTITUTION OF NEW LETTER OF CREDIT;

This memorandum will summarize the procedures to be followed in satisfying the conditions precedent to the substitution of a new letter of credit issued by Bank of the West for the Modesto Public Financing Authority (the “Authority”) of its Lease Revenue Refunding Bonds Series 2008 (the “Bonds”). It also includes documents relating to the appointment of the new Remarketing Agent, Raymond James & Associates, Inc. (which replacement predates this closing).

CLOSING SCHEDULE

Wednesday June 12, 2019	Via Norton Rose Fulbright’s Virtual Closing Site	Pre-Closing
Thursday, June 13, 2019	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: Tuesday, June 13, 2019

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

Modesto Public Financing Authority (the “Authority”)

*City of Modesto (the “City”)

Adam Lindgren, Esq., City Attorney, General Counsel for the Authority and counsel to the
Successor Agency
 (“City Attorney”)

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

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

*Bank of the West (the “Bank”)

Hawkins Delafield & Wood LLP (“Bank Counsel”)

Public Financial Management, Inc. (“PFM”)

Raymond James & Associates, Inc. (“Remarketing Agent”)

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

Pre-Closing

The Pre-Closing will be held on Wednesday June 12, 2019, via Norton Rose Fulbright's Virtual Closing Site.

The parties indicated below will deliver five (5) originals of each of the respective documents so indicated below. The documents will be executed in advance of the Closing 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 mandatory purchase of the Bonds and substitution of the new letter of credit for the Bonds on the Closing Date, 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.

	<u>Index Number</u>
I. <u>BASIC DOCUMENTS</u>	
1. Certified copy of the Indenture, dated as of August 1, 2008, by and between the Authority and the Trustee. (BC)	1
2. Certified copy of the:	2
(a) LEASE AGREEMENT, dated as of August 1, 2008, and amended by AMENDMENT NO.1 TO LEASE AGREEMENT, dated as of August 1, 2011, by and between the Authority and the City;	
(b) FACILITIES LEASE (PARKING GARAGE) (the “Parking Garage Facilities Lease”), dated as of August 1, 2008, by and between the Authority and the City, as successor agency to the Redevelopment Agency of the City of Modesto (the “Redevelopment Agency”) pursuant to Part 1.85 of Division 24 of the California Health and Safety Code (the “Successor Agency”);	
(c) FACILITIES LEASE (POLICE FACILITIES AND MISCELLANEOUS FACILITIES) (the “City Facilities Lease”), dated as of August 1, 2008, by and between the City and the Authority;	
(d) FACILITIES LEASE (CITY-COUNTY ADMINISTRATIVE BUILDING) (the “City-County Facilities Lease”), dated as of August 1, 2008, by and between the Financing Agency and the Authority; and	
(e) FACILITIES LEASE (COMMUNICATIONS DISPATCH CENTER), dated as of August 1, 2008, by and between the City and the Authority. (BC)	

	<u>Index Number</u>
3. Executed copy of REIMBURSEMENT AGREEMENT, dated as of June 1, 2019, by and among the City, the Authority and the Bank. (Bank Counsel)	3
4. Executed copy of FEE LETTER AGREEMENT, dated June 13, 2019, by and among the City, the Authority and the Bank. (Bank Counsel)	4
5. Specimen copy of the LETTER OF CREDIT. (Bank Counsel)	5
6. Evidence of Surrender of BofA letter of credit and discharge of obligations to BofA under the BofA Reimbursement Agreement. (BC)	6
7. SUPPLEMENT NO. 3, dated June 4, 2019, to OFFICIAL STATEMENT, originally dated August 26, 2008. (BC)	7
8. Executed copy of REMARKETING AND INTEREST SERVICE AGREEMENT, dated May 13, 2019 by between the Authority and the Remarketing Agent. (BC)	8
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1. Certified copy of Resolution No. 2019-224 of the City Council of the City, adopted May 7, 2019, entitled RESOLUTION APPROVING A REIMBURSEMENT AGREEMENT AMONG BANK OF THE WEST, THE CITY OF MODESTO AND MODESTO PUBLIC FINANCING AUTHORITY, AND A RELATED FEE LETTER; A SUPPLEMENT TO AN OFFICIAL STATEMENT; A REMARKETING AND INTEREST SERVICES AGREEMENT BY AND BETWEEN MODESTO PUBLIC FINANCE AUTHORITY AND RAYMOND JAMES & ASSOCIATES, INC.; AND AUTHORIZING CERTAIN OTHER ACTIONS RELATED TO AUTHORITY'S LEASE REVENUE REFUNDING BONDS, SERIES 2008. (BC)	9

B. By the Authority

- | | | |
|----|---|----|
| 1. | Certified copy of Resolution No. 01-2019 of the Commission of the Authority, adopted May 7, 2019, entitled “A RESOLUTION OF THE MODESTO PUBLIC FINANCING AUTHORITY RELATING TO MODESTO PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS SERIES 2008 APPROVING A NEW CREDIT FACILITY AND APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A REIMBURSEMENT AGREEMENT, A FEE LETTER AND A SUPPLEMENT TO OFFICIAL STATEMENT; APPROVING A NEW REMARKETING AGENT AND THE FORM OF A NEW REMARKETING AND INTEREST SERVICES AGREEMENT AND AUTHORIZING CERTAIN OTHER RELATED ACTIONS. (BC) | 10 |
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III. CLOSING DOCUMENTS

A. Documents Relating to the City

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|----|---|----|
| 1. | CLOSING CERTIFICATE OF THE CITY, pursuant to Sections 3.1 (f) of the Reimbursement Agreement. (BC) | 11 |
| 2. | CLOSING, SIGNATURE AND INCUMBENCY CERTIFICATE OF THE CITY, as required by Section 3.1(h) of the Reimbursement Agreement. (BC) | 12 |
| 3. | Copy of 2008 Title Policy, with endorsement, together with evidence of required insurance endorsements. (City) | 13 |
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CERTIFIED COPY OF 2008 BOND INDENTURE

The undersigned, Modesto Public Financing Authority, as the issuer (the "Authority"), DOES HEREBY CERTIFY that attached hereto is a full, true and correct copy of the BOND 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 Bond Trustee, relating to the \$65,170,000 Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008, and such agreement has not been amended, modified or rescinded and is now in full force and effect.

IN WITNESS WHEREOF, the Authority has caused this certificate to be executed by one of its authorized signatories this 13th day of June, 2019

**MODESTO PUBLIC FINANCING
AUTHORITY**

By: _____



Authorized Signatory

MODESTO PUBLIC FINANCING AUTHORITY

and

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

INDENTURE

Dated as of August 1, 2008

relating to

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

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THIS INDENTURE, made and entered into as of August 1, 2008, by and between the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "Authority"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America, being qualified to accept and administer the trusts hereby created, as trustee (the "Trustee");

WITNESSETH:

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

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

WHEREAS, the Authority previously issued its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "2007 Bonds") and its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds" and, together with the 2007 Bonds, the "Prior Bonds") to assist in the financing of certain public capital improvements in the City of Modesto, California (the "City");

WHEREAS, the Authority desires to issue its Lease Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds") for the purposes, among others, of refunding all of the Prior Bonds and, to that end, the Authority desires to enter into separate escrow agreements related to the 1998 Bonds and the 2007 Bonds, respectively, dated August 28, 2008 (the "Escrow Agreements"), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A. (as successor trustee), as escrow agent thereunder (the "Escrow Agent");

WHEREAS, the Authority desires to enter into a Lease Agreement, dated as of August 1, 2008 (the "Lease Agreement") with the City, which Lease Agreement shall provide for the payment by the City of amounts sufficient, together with certain amounts, and with income from the investment thereof, held in the funds and accounts established under this Indenture, to enable the Authority to pay the principal of and interest on the Series 2008 Bonds and other costs incurred in connection with the 2008 Project;

WHEREAS, the Series 2008 Bonds, when issued hereunder, will be initially secured by an irrevocable direct-pay letter of credit (the "Initial Credit Facility") issued by Bank of America, N.A. (the "Initial Credit Facility Provider");

WHEREAS, as security for the Series 2008 Bonds, the Authority will assign and pledge to the Trustee its rights under the Lease Agreement;

WHEREAS, in order to provide for the authentication and delivery of the Series 2008 Bonds and Additional Bonds, if any, issued hereunder, to establish and declare the terms and

conditions upon which such Bonds are to be issued and secured and to secure the full and timely payment of the principal thereof and premium, if any, and interest thereon, the Authority has authorized the execution and delivery of this Indenture;

WHEREAS, in order to manage interest rate risk with respect to the Series 2008 Bonds, the Authority and the City have authorized the execution of the Swap Agreement (including the schedule thereto), dated August 22, 2008, between the Authority and Bank of America, N.A., and pursuant thereto confirmation, dated as of August 22, 2008, between the Authority and Bank of America, N.A.; and

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

GRANTING CLAUSE

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

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

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

Accreted Value

“Accreted Value” means, with respect to Capital Appreciation Bonds 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

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

Additional Bonds

“Additional Bonds” means any Bonds issued hereunder pursuant to the provisions of Section 3.06 and a Supplemental Indenture.

Additional Payments

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

Alternate Credit Facility

“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 Section 4.19 of this Indenture, which replaces the Credit Facility then in effect for such Series.

Alternate Liquidity Facility

“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 hereof with respect to such Series of Bonds as a replacement or substitute for any Liquidity Facility then in effect for such Series.

Alternate Rate

“Alternate Rate” means, on any Rate Determination Date, for any Series of Bonds in a Daily Mode, a Weekly Mode, a Flexible Rate Mode or a Term Rate Mode, a rate per annum equal to (a) the 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 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.

Authority

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

Authority Account

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

Authorized Denominations

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

Authorized Officer or Authorized Representative

“Authorized Officer” or “Authorized Representative” means, with respect to the Authority, any of its Chairperson, Vice Chairperson, Executive Director, Auditor, 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

“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

“Available Amount” shall mean 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

“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 this 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

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

Basic Bond Rate

“Basic Bond Rate” shall mean the rate of interest applicable to any Series of Bonds that are not Liquidity Facility Bonds or Credit Facility Bonds.

Beneficial Owner

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

Bond Counsel

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

Bond Insurer

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

Bond Insurer Failure

“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

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

Bond Purchase Fund

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

Bonds

“Bonds” means, collectively, the Series 2008 Bonds and any Additional Bonds issued, and at any time Outstanding pursuant to this Indenture.

Business Day

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

Capital Appreciation Bonds

“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 or Requisition of the Authority or the City

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

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

City

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

Code

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

Costs of Issuance

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the City and related to the authorization, issuance, sale and delivery of 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

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

Credit Facility

“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 Section 4.19 of this Indenture or, in the event of the delivery of an Alternate Credit Facility, such Alternate Credit Facility.

Credit Facility Account

“Credit Facility Account” means an Eligible Account by that name in the Bond Purchase Fund established pursuant to Section 4.17 and held in the name of the Trustee for the benefit of the Owners of the applicable Series of Bonds.

Credit Facility 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

“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

“Credit Facility Provider Failure” shall mean (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

“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

“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

“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

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

Daily Mode

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

Daily Rate

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

Daily Rate Period

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

Date of Issuance

“Date of Issuance,” with respect to each Series of Bonds, means the date of issuance and delivery for such Series of Bonds and, with respect to the Series 2008 Bonds, means August 28, 2008.

Debt Service

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

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

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

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

Delayed Remarketing Period

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

DTC

“DTC” means The Depository Trust Company, New York, New York, and its successors or assigns.

Electronic Means

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

Eligible Account

“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

“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.

Escrow Agent

“Escrow Agent” means the Bank of New York Mellon Trust Company, N.A.

Escrow Agreements

“Escrow Agreements” means the Series 1998 Escrow Agreement and the Series 2007 Escrow Agreement.

Event of Default

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

Expiration Date

“Expiration Date” means (i) the date upon which a Liquidity Facility 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

“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

“Facilities Leases” shall have the meaning set forth in the Lease Agreement.

Favorable Opinion of Bond Counsel

“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 this 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

“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

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

Fitch

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

Fixed Rate

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

Fixed Rate Bonds

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

Fixed Rate Mode

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

Fixed Rate Period

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

Fixed Rate Remarketing Agent

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

Flexible Mode

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

Flexible Rate

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

Flexible Rate Bonds

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

Flexible Rate Period

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

Holder, Bondholder or Owner

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

Immediate Termination Date

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

Indenture

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

Initial Credit Facility

“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

“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

“Initial Credit Facility Reimbursement Agreement” means the Reimbursement, Agreement, 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

“Insurance and Condemnation Fund” means the fund by that name in the Revenue Fund established pursuant to Section 5.06.

Insured Bonds

“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

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

Interest Accrual Period

“Interest Accrual Period” means the period during which Bonds of any Series accrue interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of the Bonds 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 shall evidence interest from the date to which interest has previously been paid in full or made available for payment in full with respect to the Bonds.

Interest Payment Date

“Interest Payment Date” means each date on which interest is to be paid and is: (i) with respect to a Series of Bonds in 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

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

Joint Powers Agreement

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

Lease Agreement

“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 on August 28,

2008 under Recorders Serial No. 2008-094321, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions hereof and thereof.

Lease Default Event

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

Leased Property

“Leased Property” means the real property described in Exhibit B 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 this Indenture or the Lease Agreement.

Liquidity 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

“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

“Liquidity Facility Account” means an Eligible Account by that name in the Bond Purchase Fund established pursuant to Section 4.17 and held in the name of the Trustee for the benefit of the Owners of the applicable Series of Bonds.

Liquidity Facility Bonds

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

Liquidity Facility Provider

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

Liquidity Facility Provider Failure

“Liquidity Facility Provider Failure” shall mean (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

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

Long-Term Mode

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

Mandatory Credit Tender

“Mandatory Credit Tender” shall mean the mandatory tender of a Series of Bonds pursuant to Section 4.09(B)(2) hereof 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

“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 shall be a Business Day not less than twenty (20) days after the Trustee’s receipt of notice of such event of default from the applicable Liquidity Facility Provider and in no event later than the Business Day preceding the termination date specified in the notice of event of default delivered to the Trustee by such Liquidity Facility Provider; 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 shall 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

“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

“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

“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 shall not exceed the highest rate then permitted by law.

Mode

“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

“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

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

Moody’s

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

Nationally Recognized Municipal Securities Information Repository or NRMSIR

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

New Mode

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

Noticed Termination Date

“Noticed Termination Date” means the date on which a Liquidity Facility 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 shall 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

“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

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

Optional Redemption Account

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

Outstanding

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

Permitted Encumbrances

“Permitted Encumbrances” means (1) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the 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) this 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

“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 hereto to the extent deposits and withdrawals may be made by the Trustee directly; and

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

Person

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

Principal Account

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

Principal Office

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

Prior Bonds

“Prior Bonds” means the Series 1998 Bonds and the Series 2007 Bonds.

Project

“Project” means the Series 2008 Project and any Subsequent Project.

Project Fund

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

Provider Payment Account

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

Providers

“Providers” means, collectively, the Swap Providers, the Liquidity Facility Providers, 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

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

Purchase Price

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

Rate Determination Date

“Rate Determination Date” means any date on which the interest rate with respect to a Series of Bonds shall be determined, which: (i) in the case of a Flexible Mode, shall be the first day of an Interest Period; (ii) in the case of a Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) a Series of Bonds become subject to the Daily Mode; (iii) in the case of the initial conversion to a Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date for a Series of Bonds, and thereafter, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next succeeding such Wednesday; (iv) in the case of a Term Rate Mode, shall be a Business Day no earlier than fifteen (15) Business Days and no later than the Business Day next preceding the first day of an Interest Period for such Series of Bonds, as determined by the Remarketing Agent; and (v) in the case of a Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one (1) Business Day prior to the Mode Change Date.

Rating Agency

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

Rating Confirmation Notice

“Rating Confirmation Notice” shall mean 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

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

Record Date

“Record Date” means: (i) with respect to a Series of Bonds in a Short-Term Mode, the last Business Day before each Interest Payment Date; 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

“Redemption Date” shall mean 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

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

Redemption Price

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

Regular Swap Payment

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

Related Obligations

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

Remarketing Agent

“Remarketing Agent” means, with respect to any Series of Bonds, any Remarketing Agent or successor or additional Remarketing Agent appointed in accordance with this Indenture with respect to such Series of Bonds. “Principal Office” of the Remarketing Agent means the address for the Remarketing Agent designated in writing to the Trustee and the Authority.

Remarketing Agreement

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

Remarketing Proceeds Account

“Remarketing Proceeds Account” means an Eligible Account by that name within the Bond Purchase Fund established pursuant to Section 4.17 and held in the name of the Trustee for the benefit of the Owners.

Required Stated Amount

“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

“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 shall 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

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

Reserve Facility Provider

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

Reserve Fund

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

Reserve Fund Requirement

“Reserve Fund Requirement” means with respect to all Outstanding Bonds an amount equal to the lesser of (i) the maximum annual Debt Service attributable to the Outstanding Bonds and (ii) 125% of average annual Debt Service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of an Additional Series of Bonds the amount calculated shall be the least of (i) or (ii) above, or the amount derived by the addition of 10% of the proceeds from the sale of such Series of Additional Bonds to the Reserve Fund and provided further that the Reserve Fund Requirement shall be reduced to the extent necessary so that all amounts therein may be deposited from Bond proceeds without requiring a portion thereof to be yield restricted in accordance with requirements of the Code. For purposes of determining the Reserve Fund Requirement, 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 Series 2008 Bonds shall be the fixed swap rate under the Series 2008 Interest Rate Swap Agreement.

Revenues

“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 Section 5.09, of any money in any fund or account (other than the Rebate Fund) established pursuant to this Indenture or the Lease Agreement, (iii) Swap Revenues, if any, and (iv) any additional security, pursuant to Section 5.11, for such Series of Bonds provided for pursuant to a Supplemental Indenture.

S&P

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

Securities Depository

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

Serial Bonds

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

Series

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

Series 1998 Bonds

“Series 1998 Bonds” means the Modesto Public Financing Authority Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project).

Series 1998 Escrow Agent

“Series 1998 Escrow Agent” means the Bank of New York Mellon Trust Company, N.A..

Series 1998 Escrow Agreement

“Series 1998 Escrow Agreement” means the escrow agreement, dated August 28, 2008, between the Series 1998 Escrow Agent and the Authority, related to the defeasance of the Series 1998 Bonds.

Series 2007 Bonds

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

Series 2007 Escrow Agent

“Series 2007 Escrow Agent” means the Bank of New York Mellon Trust Company, N.A..

Series 2007 Escrow Agreement

“Series 2007 Escrow Agreement” means the escrow agreement, dated August 28, 2008, between the Series 2007 Escrow Agent and the Authority, related to the defeasance of the Series 2007 Bonds.

Series 2008 Bonds

“Series 2008 Bonds” means the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008.

Series 2008 Interest Rate Swap Agreement

“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

“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

“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

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

State

“State” means the State of California.

Subsequent Project

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

Substitution Date

“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

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

Swap

“Swap” means an interest rate swap, 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

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

Swap Provider

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

Swap Revenues

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

Swapped Bonds

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

Tax Certificate

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

Tender Notice

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

Tender Notice Deadline

“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

“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

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

Term Rate Mode

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

Term Rate Period

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

Trustee

“Trustee” means The Bank of New York 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 hereunder as provided in Section 8.01.

2008 Project

“2008 Project” means the refunding of all of the Prior Bonds, all to be financed with proceeds of the Series 2008 Bonds.

Variable Rate Bonds

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

Weekly Mode

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

Weekly Rate

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

Weekly Rate Period

“Weekly Rate Period” means the period during which a Series of Bonds evidence interest at a Weekly Rate, which shall be the period commencing on Thursday of each week to and

including Wednesday of the following week, except the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date.

SECTION 1.02. Content of Certificates and Opinions.

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

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

SECTION 1.03. Interpretation.

(A) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

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

(C) All references herein to "Article," "Section" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof,"

“hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE BONDS

SECTION 2.01. Authorization of Bonds.

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

(B) An initial Series of Bonds is hereby created and designated as “Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008” and is authorized to be issued hereunder. The aggregate principal amount of the Series 2008 Bonds which may be issued and Outstanding under this Indenture shall not exceed \$75,000,000.

(C) The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Series 2008 Bonds and has found, as a result of such review, and hereby finds and determines that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of the Series 2008 Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and that the Authority is now duly authorized, pursuant to each and every requirement of the Act, to issue the Series 2008 Bonds in the form and manner provided herein for the purpose of providing funds to finance and refinance the 2008 Project, and that the Series 2008 Bonds shall be entitled to the benefit, protection and security of the provisions hereof.

(D) The validity of the issuance of the Series 2008 Bonds shall not be dependent on or affected in any way by the proceedings taken by the Authority for the finance and refinancing of the 2008 Project or by any contracts made by the Authority or its agents in connection therewith, and shall not be dependent upon the performance by any person, firm or corporation of his or its obligation with respect thereto. The recital contained in the Series 2008 Bonds that the same are issued pursuant to the Act and pursuant hereto shall be conclusive evidence of their validity and of the regularity of their issuance, and all Series 2008 Bonds shall be incontestable from and after their issuance. The Series 2008 Bonds shall be deemed to be issued, within the meaning hereof, whenever the definitive Series 2008 Bonds (or any temporary Series 2008 Bonds exchangeable therefor) shall have been delivered to the purchaser thereof and the proceeds of sale thereof received.

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

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

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

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

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

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

(F) During each Interest Period for each Mode, the interest rate or rates shall be payable on the applicable Interest Payment Date for such Interest Period; provided that the interest rate or rates shall not exceed the Maximum Rate. All Bonds of a Series shall evidence interest in the same Mode, but need not evidence interest at the same rate at any one time. Interest with respect to a Series of Bonds accruing at the Daily Rate, Weekly Rate or Flexible Rate shall be computed upon the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest with respect to a Series of Bonds accruing at a Fixed Rate or a Term Rate shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. Each Bond shall evidence interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate evidenced by such Bond on the date on which such principal became due and payable. Notwithstanding the foregoing, the interest rate and payment terms of the Credit Facility Bonds or the Liquidity Facility Bonds shall be governed by the provisions of the Liquidity Facility or the Credit Facility Reimbursement Agreement, as applicable.

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

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

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

(J) The Series 2008 Bonds and the authentication and registration endorsement and assignment to appear thereon shall be substantially in the forms set forth Exhibit A hereto attached and by this reference herein incorporated.

(K) If for any reason, the Credit Facility Provider Bonds or the Liquidity Facility Bonds remain in book-entry and are not assigned a separate CUSIP number, the Trustee shall pay the principal of, redemption premium, if any, and interest with respect to such Bonds in accordance with the letter of representations with DTC computed at the Basic Bond Rate; and the Authority shall pay to the Trustee for payment to the Credit Facility Provider or the Liquidity Facility Provider outside the book-entry system the remainder of (i) the interest then due with respect to the Credit Facility Provider Bonds or the Liquidity Facility Bonds computed at the applicable interest rate minus (ii) the interest that would then be due with respect to the Credit Facility Provider Bonds or the Liquidity Facility Bonds if such interest were computed at the Basic Bonds Rate.

(L) The first Mode for the Series 2008 Bonds shall be a Weekly Mode. The Series 2008 Bonds shall initially evidence interest at a rate of 1.90% for the period commencing on and including the Date of Issuance and ending on and including September 2, 2008, with interest payable on each Interest Payment Date. The Mode for the Series 2008 Bonds may be changed in accordance with this Article II.

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

In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers of the Authority before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the Authority, such Bonds may

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

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

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

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

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

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

may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

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

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

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

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

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

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

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

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

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

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

(E) So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assign, the Authority and the Trustee shall cooperate with Cede & Co., as sole

registered Bondholder, and its registered assigns in effecting payment of the principal of and premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

SECTION 2.10. Reserved.

SECTION 2.11. Determination of Flexible Rates and Interest Periods During Flexible Mode.

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

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

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

(D) In the event the use of the Book-Entry System is discontinued, in order to receive payment of the Purchase Price of any Flexible Rate Bond in the Flexible Mode, the Owner of

such Flexible Rate Bond must present such Flexible Rate Bond to the Trustee, by 12:00 noon New York City time on the applicable Mandatory Purchase Date. Upon receipt of such Flexible Rate Bond by 12:00 noon New York City time on a Mandatory Purchase Date, the Trustee shall pay the Purchase Price to such Owner by 2:30 p.m. New York City time on such Mandatory Purchase Date.

SECTION 2.12. Determination of Interest Rates During the Daily Mode and the Weekly Mode.

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

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

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

SECTION 2.13. Determination of Term Rates and Fixed Rates.

(A) Term Rates. (1) The interest rate for a Series of Bonds in the Term Rate Mode shall be the minimum rate which, in the opinion of the Remarketing Agent, would result in a sale of such Bonds, under then existing market conditions, at a price equal to 100% of the principal amount thereof on the Rate Determination Date for a Term Rate Period of the duration selected by the Authority, written notice of which shall have been delivered by the Authority to the Remarketing Agent prior to such Rate Determination Date. Notwithstanding the foregoing, if the Authority shall deliver a Favorable Opinion of Bond Counsel, the interest rate set for some or all of the affected Bonds may include a premium or a discount. In no event shall any Term Rate be greater than the Maximum Rate and no Term Rate Period may extend beyond the Maturity Date.

(2) The Term Rate shall be determined by the Remarketing Agent not later than 4:00 p.m. New York City time on the Rate Determination Date and the Remarketing Agent shall make the Term Rate available by telephone or Electronic Means after 5:00 p.m. New York City time on the Rate Determination Date to the Authority and each other Notice Party

requesting such Term Rate. A copy of each such notice shall be provided to the applicable Bond Insurer, Credit Facility Provider and Liquidity Facility Provider for the applicable Series.

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

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

SECTION 2.14. Alternate Rates.

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

(B) The following shall be the methods by which the interest rates and, in the case of the Flexible Rate Mode and Term Rate Modes, the Interest Periods, shall be determined for Bonds of a Series or for any Flexible Rate Bond as to which any of the events described in clauses (i), (ii) or (iii) above shall be applicable. Such methods shall be applicable from and after the date any of the events described in clauses (i), (ii) or (iii) of the immediately preceding paragraph shall become applicable until such time as the events described in clauses (i), (ii) or (iii) of the immediately preceding paragraph are no longer applicable to Bonds of a Series or any Flexible Rate Bond. Notwithstanding any other provision herein, these provisions shall not apply with respect to the selection of the length of the Term Rate Period for the Bonds of a Series in a Term Rate Mode if the Authority fails to select the length of the Term Rate Period for such Bonds for a reason other than as described in clause (ii) of the immediately preceding paragraph.

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

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

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

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

(A) Changes to Modes Other Than Fixed Rate Mode. At the option of the Authority, Bonds of any Series may be changed from one Mode to another Mode (other than a Fixed Rate Mode) as set forth below:

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

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

(2) Notice to Owners. Notice of the proposed change in Mode, unless otherwise specified in Section 2.15(D) hereof, shall be given by the Trustee to the Owners of such Series of Bonds not less than the fifteenth (15th) day next preceding the applicable Mode Change Date; provided that no notice need be given for a Mode Change Date occurring on the first Business Day following the last day of a Flexible Rate Period or a Term Rate Mode or on a Substitution Date. Such notice shall state the Mode to which the conversion will be made and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to Section 4.09(B) hereof. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical such Series of Bonds and procedures for payment of Purchase Price. Notwithstanding any other provision of this Indenture, the Trustee shall not mail such written notice if such Series of Bonds are being converted from a Flexible Mode until the Trustee shall have received a written confirmation from the Remarketing Agent to the effect that no Interest Period for such Bonds extends beyond the proposed Mode Change Date. The Trustee shall provide a copy of such notice to the Authority and to each of the other Notice Parties.

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

(4) Conditions Precedent:

(a) The Mode Change Date shall be: (i) in the case of a change from a Flexible Mode, the next Mandatory Purchase Date for all of the Flexible Rate Bonds; (ii) in the case of a change from a Daily Mode or a Weekly Mode, any Business Day; and (iii) in the case of a change from a Term Rate Mode to another Mode, or from a Term Rate Period to a Term Rate Period of a different duration, the Mode Change Date shall be limited to (yy) any Interest Payment Date on which Bonds of a Series are subject to optional redemption or (zz) the last Interest Payment Date of the current Term Rate Period. The Bonds of a Series shall be subject to mandatory tender for purchase on such Mode Change Date in accordance with Section 4.09(B) hereof, and, except as is otherwise provided herein, such Bonds shall be purchased on the Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof plus accrued interest, if any; provided, however, that if such Bonds are to be purchased on an

Interest Payment Date other than the last Interest Payment Date applicable to such Bonds, and if such Bonds would otherwise be subject to optional redemption on such Mode Change Date at a redemption price of more than 100% of the principal amount thereof plus accrued interest thereon, if any, then such Bonds shall be purchased at a Purchase Price equal to such redemption price.

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

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

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

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

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

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

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

(B) [Reserved].

(C) [Reserved].

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

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

(a) in the case of a change from a Flexible Mode, the day which is the last regularly scheduled Interest Payment Date on which

interest is payable for any Interest Period established for such Series of Bonds to be converted for the Flexible Rate Bonds of such Series;

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

(c) in the case of a change from a Term Rate Mode, the Mode Change Date shall be limited to a regularly scheduled Interest Payment Date on which a new Term Rate Mode would have otherwise have commenced such Series of Bonds. The Bonds of a Series in a Term Rate Mode shall be subject to mandatory tender for purchase pursuant to Section 4.09(B) hereof and shall be purchased on such Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof; provided that if such Bonds would otherwise be subject to optional redemption on such Mode Change Date at a redemption price of more than 100% of the principal amount thereof, such Bonds shall be purchased at a Purchase Price equal to such redemption price.

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

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

(4) Notice to Owners. Not less than thirty (30) days prior to the proposed Mode Change Date, the Trustee shall mail notice of such proposed change to the Owners of such Bonds, such notice to state that the Mode on such Bonds will be changed to a Fixed Rate Mode and to set forth the proposed Mode Change Date. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to Section 4.09(B) hereof. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical Bonds and the procedures for payment of Purchase Price. Notwithstanding any other provision of this Indenture, the Trustee shall not mail such written notice if such Bonds are being converted from a Flexible Mode until the Trustee shall have received a written confirmation from the Remarketing Agent to the effect that

no Interest Period for such Bonds extends beyond the proposed Mode Change Date. The Trustee shall provide a copy of such notice to the Authority and to each of the other Notice Parties.

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

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

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

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

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

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

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

failed Mode Change Date in accordance with Section 2.11 hereof. If the failed change in Mode was from a Daily Mode, such Bonds shall remain in the Daily Mode, and if the failed change in Mode was from a Weekly Mode, such Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of Section 2.12 hereof on and as of the failed Mode Change Date. If the failed change in Mode was from a Term Rate Mode, then such Bonds shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for Bonds of a Series in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the failed Mode Change Date in accordance with Section 2.13(A) hereof.

(F) Rescission of Election. Notwithstanding anything herein to the contrary, the Authority may rescind any election by it to change a Mode as described above prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date at any time prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Mode Change Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of Bonds of such Series, then such notice of change in Mode shall be of no force and effect. If the Trustee receives notice from the Authority of rescission of a Mode change after the Trustee has given notice thereof to the Owners of Bonds of such Series, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date.

If the proposed change in Mode was from a Flexible Mode, Bonds of such Series shall remain in the Flexible Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the proposed Mode Change Date in accordance with Section 2.11 hereof. If the proposed change in Mode was from a Daily Mode, Bonds of such Series shall remain in the Daily Mode, and if the proposed change in Mode was from a Weekly Mode, Bonds of such Series shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of Section 2.12 hereof on and as of the proposed Mode Change Date. If the proposed change in Mode was from a Term Rate Mode, then Bonds of such Series shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for such Bonds in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the proposed Mode Change Date in accordance with Section 2.13(A) hereof. If the Remarketing Agent is unable to determine the interest rate on the proposed Mode Change Date, the provisions of Section 2.14 shall apply.

(G) Form of Notices. Upon request, the form of any notice from the Trustee to the Owners of a Series of Bonds required by this Section 2.15 and by Section 4.09(B) shall be furnished by the Authority to the Trustee.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01. Issuance of Bonds. At any time after the execution of this Indenture, the Authority may execute and the Trustee shall authenticate and, upon Request of the Authority, deliver the Series 2008 Bonds in the aggregate principal amount of Sixty-Five Million One Hundred and Seventy Thousand dollars (\$65,170,000).

SECTION 3.02. Application of Proceeds of Bonds. The proceeds received from the sale of the Series 2008 Bonds in the amount of \$64,971,132.06 (the aggregate par amount of \$65,170,000.00 less \$198,867.94 paid to the Underwriter) shall be deposited in trust with the Trustee, who shall forthwith set aside the following amounts in the following funds:

- (1) the sum of \$406,461.95 in the Costs of Issuance Fund;
- (2) the sum of \$8,728.42 in the Reserve Fund, being in an amount sufficient to cause the balance on deposit in, or credited to the Reserve Fund, to be equal to the Reserve Fund Requirement upon delivery of the Series 2008 Bonds;
- (3) the sum of \$61,200,000.00, which shall be transferred by the Trustee to Series 2007 Escrow Agent, as escrow agent pursuant to the Series 2007 Escrow Agreement, for deposit in the escrow fund created pursuant to the Series 2007 Escrow Agreement; and
- (4) the sum of \$3,355,941.69, which shall be transferred by the Trustee to Series 1998 Escrow Agent, as escrow agent pursuant to the Series 1998 Escrow Agreement, for deposit in the escrow fund created pursuant to the Series 1998 Escrow Agreement.

The Trustee may, in its discretion, establish a temporary fund or account to facilitate or properly account for the foregoing deposits and transfers.

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

SECTION 3.04. Establishment and Application of the Project Fund.

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

(B) Before any payment from the Project Fund shall be made, the City shall file or cause to be filed with the Trustee a Requisition of the City (as agent of the Authority) in substantially the form attached hereto as Exhibit B stating (1) the item number of such payment; (2) the name of the Person to whom each such payment is due (unless such payment is for interest on the Bonds during the construction of the Project, in which event the Requisition shall so specify), which may be the City in the case of reimbursement for Project costs theretofore paid by the City; (3) the respective amounts to be paid; (4) the purpose by general classification

for which each obligation to be paid was incurred; and (5) that obligations in the stated amounts have been incurred by the City and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid from the Project Fund.

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

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

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

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

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

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

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

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

(E) The 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.

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

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

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

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

(J) The Authority shall have obtained any consent required by any of the Providers.

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

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

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

(1) an Opinion of Counsel setting forth that (i) such Counsel has examined the Supplemental Indenture and the amendment to the Lease Agreement and the site lease required by Section 3.06(E), (F) and (G); (ii) the execution and delivery of the Additional Bonds have been duly authorized by the Authority; and (iii) said Supplemental Indenture and the amendment

to the Lease Agreement and the site lease if any, when duly executed by the City and the Authority, will be valid and binding obligations of the City and the Authority;

(2) a Certificate of the Authority stating that the requirements of Section 3.06 have been met;

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

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

(5) a Certificate of the City stating that the insurance required by Article V of the Lease Agreement is in effect;

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

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

(8) As long as any Series of Bonds are rated by S&P, a Rating Confirmation Notice shall be provided by each Rating Agency then rating such Series of Bonds.

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

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

- (1) Bonds of any Series authorized pursuant to Section 3.07;
- (2) agreements providing for a Reserve Facility or Related Obligations;

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

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

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

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

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

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

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

ARTICLE IV

REDEMPTION AND TENDER OF BONDS; REMARKETING

SECTION 4.01. Terms of Redemption.

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

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

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

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

(D) [Reserved].

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

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

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

(H) The Series 2008 Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments established pursuant to Section 5.04(C) on any September 1 on or after September 1, 2009, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. If any Series 2008 Bonds has been optionally redeemed, the amounts of such Sinking Fund Installments shall be reduced

as directed by the Authority, or if not so directed, proportionally in increments of Authorized Denominations, by the principal amount of all such Series 2008 Bonds so optionally redeemed.

(I) Notwithstanding anything in this Indenture to the contrary, Credit Facility Bonds or Liquidity Facility Bonds shall be subject to redemption as provided in the applicable Credit Facility Reimbursement Agreement or Liquidity Agreement.

(J) So long as a Credit Facility secures any Bonds to be redeemed, such Bonds shall be redeemed from a draw upon the applicable Credit Facility pursuant to Section 5.12.

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

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

First: Any Bonds of such Series that are Credit Facility Bonds;

Second: Any Bonds of such Series that are Liquidity Facility Bonds; and

Third: Any other Bonds of such Series

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

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

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

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

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

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

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

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

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

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

SECTION 4.08. Mandatory Purchase in Lieu of Redemption. Each Owner, by purchase and acceptance of any Bonds of any Series irrevocably grants to the Authority the option to purchase such Bonds of such Series on any date such Bonds are subject to redemption as provided in paragraph (B) to (H) of Section 4.01, at a purchase price equal to the Redemption Price then applicable to such Bonds, plus accrued interest thereon to the date of purchase. In order to exercise such option, the Authority shall deliver to the Trustee a Favorable Opinion of Bond Counsel and shall direct the Trustee to provide notice of mandatory purchase in lieu of redemption, such notice to be provided, as and to the extent applicable, in accordance with the provisions set forth in Section 4.09(B) hereof. On the date fixed for purchase of any Bonds of any Series pursuant to this Section 4.08, and in accordance with Section 5.04 or Section 5.07 hereof, the Authority shall pay the purchase price of such Bonds to the Trustee in immediately available funds and the Trustee shall pay the same to the Owners of such Bonds being purchased against delivery thereof. All such Bonds so purchased shall be delivered to the Trustee to hold for the benefit of the Authority or for cancellation upon the receipt of such instructions from the Authority. Without the prior written consent of the applicable Credit Facility Provider, no Series 2008 Bonds shall be purchased in lieu of redemption by the Authority, the City or any of its affiliates unless such Series 2008 Bonds are redeemed, defeased or cancelled.

Notwithstanding any other provision of this Indenture, the purchase price of any Bonds of any Series secured by a Credit Facility subject to mandatory purchase in lieu of redemption pursuant to this Section 4.08 shall be paid from a draw upon the applicable Credit Facility pursuant to Section 5.12. In the event that the Authority lacks sufficient funds to pay the purchase price of any Bond subject to mandatory purchase in lieu of redemption pursuant to this Section 4.08 on the date fixed for such purchase, the Authority shall cancel such mandatory purchase in lieu of redemption and shall return each such Bond to the Owner who shall have tendered such Bond for mandatory purchase in lieu of redemption pursuant to this Section 4.08. The Trustee shall give notice that such mandatory purchase was not effected promptly following the date fixed for such purchase. Any failure to pay the purchase price of any Bond subject to mandatory purchase pursuant to this Section 4.08 shall not constitute an Event of Default under this Indenture.

SECTION 4.09. Purchase of Bonds.

(A) Purchase of the Bonds on Demand of Owner.

(1) During Daily Rate Period. Subject to Section 4.14, if the Interest Rate Mode for a Series of Bonds is the Daily Rate, any such Bonds shall be purchased on the demand of the owner thereof on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or Electronic Means to the Remarketing Agent and to the Trustee, at its Principal Office not later than 11:00 a.m. (New York City time) on such Business Day of such owner's demand for purchase pursuant to this Section 4.09(A)(1), which notice (a) states the number and principal amount (or portion thereof) of such Bond to be purchased, (b) states the Purchase Date on which

such Bond shall be purchased and (c) irrevocably requests such purchase and agrees 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 such 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 paragraph.

(2) During Weekly Rate Period. Subject to Section 4.14, if the Interest Rate Mode for Bonds is the Weekly Rate, any such 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 or Electronic Means to the Remarketing Agent and to the Trustee, at its Principal Office no 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 (a) states the number and principal amount (or portion thereof) of such Bond to be purchased, (b) states the Purchase Date on which such Bond shall be purchased and (c) irrevocably requests such purchase and agrees 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 paragraph.

(3) Notwithstanding any other provision of this Section 4.09(A), the owner of a Bond may demand purchase of a portion of such Bond only if the portion to be purchased and the portion to be retained by such owner each will be in an authorized denomination.

(B) Mandatory Purchases of Bonds.

(1) Mandatory Tender for Purchase on Mandatory Purchase Date. (a) The Bonds of a Series shall be subject to mandatory purchase on each Mandatory Purchase Date applicable to the Bonds of such Series. Except in the case of a mandatory purchase on a Mandatory Purchase Date as described in clauses (vi) or (viii) of the definition of "Mandatory Purchase Date," the Trustee shall give notice of each such mandatory purchase, such notice to be given by mail to the Owners of such Bonds subject to mandatory purchase no less than fifteen (15) days prior to the applicable Mandatory Purchase Date. No notice shall be required to be given nor shall any notice be given with respect to any Bond in a Flexible Rate Mode in connection with the Mandatory Purchase Date occurring at the end of each Interest Period for such Bonds. The form of the notice of mandatory purchase shall be provided to the Trustee by the Authority.

(b) Any notice to be given pursuant to this Section 4.09(B) shall state the Mandatory Purchase Date, shall set forth the Purchase Price applicable on such Mandatory Purchase Date, and shall identify the Bonds to be purchased. Such notice shall also state that interest on the Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory purchase of any other Bond with respect to which notice was

so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical certificates and the procedures for payment of Purchase Price. A copy of any notice delivered by the Trustee pursuant to this Section 4.09(B) shall also be provided to each of the Notice Parties.

(2) Mandatory Purchase Upon Event of Default Under Reimbursement Agreement or Expiration or Termination of the Credit Facility. (a) Any Series of Bonds secured by a Credit Facility shall be subject to mandatory purchase (i) on a Business Day within five (5) days of receipt by the Trustee of notice from the Credit Facility Provider, if any, that an “event of default” (as defined in the Credit Facility Reimbursement Agreement) has occurred and requiring the Trustee to cause a mandatory tender of the Bonds, such date to be determined by the Trustee, and (ii) on the second Business Day following receipt of a notice from the Credit Facility Provider that the amount available to be drawn under the Credit Facility has not been reinstated in accordance with its terms, in each case at a purchase price equal to par plus accrued interest, without premium. The Trustee shall give notice to the Authority, the applicable Remarketing Agent, the Holders and each Rating Agency then rating the Bonds as soon as practicable following the Trustee’s receipt of such notice from the Credit Facility Provider or promptly upon failure to receive an extension of the Expiration Date of the Credit Facility, such notice to set forth the information required by Section 4.08. Bonds purchased pursuant to this Section 4.09(B)(2) shall be remarketed only with the written consent of the Credit Facility Provider and reinstatement of the Credit Facility to the Required Stated Amount, in the case of Bonds purchased pursuant to (a)(i) hereof or upon the delivery of an Alternate Credit Facility to the Trustee, in the case of Bonds purchased pursuant to (a)(iii) hereof, and in each case subject to the terms of the Remarketing Agreement.

(b) Upon receipt of notice from the Credit Facility Provider that an “event of default” has occurred under and as defined in the Credit Facility Reimbursement Agreement and upon receipt of the written request of the Credit Facility Provider, the Trustee shall transfer to the Credit Facility Provider all moneys and Investment Securities then on deposit in the related accounts of the Interest Fund, Principal Fund, and Project Fund (or any of such related funds or accounts specified by the Credit Facility Provider). Such moneys and Investment Securities shall be held and applied by the Credit Facility Provider as provided in the Credit Facility Reimbursement Agreement.

(3) Drafts for Payment under the Credit Facility. The Trustee shall, at or before 4:00 p.m., New York City time, on the Business Day immediately preceding the date fixed for purchase, present drafts for payment under the Credit Facility in an amount equal to the purchase price of all the tendered Bonds of the affected Series. The Trustee shall promptly deposit the proceeds of such draw on the Credit Facility that it receives into the Credit Facility Account for such Series of the Bond Purchase Fund.

SECTION 4.10. Reserved.

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

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

(1) the Remarketing Agent shall notify the Trustee and the Authority by 11:00 a.m. New York City time of the principal amount of such tendered Bonds it has remarketed and of the principal amount of such tendered Bonds it has not remarketed, such notice to be provided by Electronic Means;

(2) the Remarketing Agent shall cause the proceeds of the remarketing received by the Remarketing Agent of such tendered Bonds to be paid to the Trustee in immediately available funds not later than 11:15 a.m., New York City time, on the Purchase Date for such tendered Bonds;

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

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

(B) On each date on which a Bond is to be purchased, except pursuant to 4.09(B), (i) if the Remarketing Agent shall have given notice to the Trustee pursuant to clause (A)(1) above that it has been unable to remarket all or any portion of any tendered Bonds or (ii) if the Trustee shall not have received any notice from the Remarketing Agent pursuant to clause (A)(1) above, the Trustee shall draw on the applicable Credit Facility or Liquidity Facility, if any, by 11:30 a.m. New York City time in an amount equal to the Purchase Price of all such Bonds that have not been successfully remarketed for payment by 2:30 p.m. New York City time and shall notify the Bond Insurer, if any, for such Series of such draw; provided, however, that if the draw is in connection with a Mandatory Purchase Date resulting from a Substitution Date, the draw shall be made on the existing Credit Facility or Liquidity Facility that is being replaced. In no event shall the Trustee draw on a Credit Facility or Liquidity Facility to pay the Purchase Price of any Bond not covered by such Credit Facility or Liquidity Facility or to pay the Purchase Price of a Bond owned by the Authority or the City.

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

(D) If the Trustee does not have funds in the applicable Remarketing Proceeds Account and the applicable Credit Facility Account or Liquidity Facility Account, as applicable, sufficient to pay the Purchase Price of such Bonds on any Purchase Date, the Trustee shall give

the Authority notice of such insufficiency by 2:30 p.m. New York City time on such Purchase Date.

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

(A) immediately available funds on deposit in the Remarketing Proceeds Account, excluding funds received from the Authority or the City;

(B) immediately available funds on deposit in the applicable Credit Facility Account for such Series, if any; and

(C) immediately available funds on deposit in the applicable Liquidity Facility Account for such Series, if any; and

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

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

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

(2) Each Bond purchased by the Trustee with moneys described in Section 4.12(B) or 4.12(C) hereof shall be registered immediately in the name of the applicable Credit Facility Provider or Liquidity Facility Provider or its nominee (which may be the Securities Depository) as provided in Section 4.14(C)(3)(d), if any, on or before 3:00 p.m. New York City time. The Trustee shall not release any Credit Facility Bonds or Liquidity Facility Bonds unless the Trustee shall have received written notice that the applicable Credit Facility or Liquidity Facility has been reinstated to an amount equal to the principal amount of unremarketed Bonds, including Credit Facility Bonds or Liquidity Facility Bonds, plus interest at the Maximum Rate for the number of days required under the applicable Credit Facility or Liquidity Facility.

(3) Each Bond purchased by the Authority with moneys described in Section 4.12(D) hereof shall be registered immediately in the name of the Authority or its nominee on or before 3:00 p.m. New York City time. Any Bond so owned by the Authority shall continue to be Outstanding under the terms of this Indenture and be subject to all of the terms and conditions of the Indenture and shall be subject to remarketing by the applicable

Remarketing Agent; provided, however, that the Authority shall not be considered a Owner for the purpose of voting such Bonds under this Indenture.

SECTION 4.14. Book-Entry Tenders.

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

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

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

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

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

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

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

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

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

(a) to draw upon the applicable Credit Facility or Liquidity Facility for such Series, (i) if in the event the Remarketing Agent for the Series of Bonds notifies the Trustee as provided herein that the Bonds of such Series have not been remarketed on or before the Purchase Date therefor, which draw shall be in an amount equal to the difference between such Purchase Price and any remarketing proceeds received by the Remarketing Agent in connection with a partial remarketing of such Bonds or (ii) if no such notice is received, the entire amount of the Purchase Price, and to remit the amount so drawn to or upon the order of the Securities Depository for the benefit of the tendering Beneficial Owners;

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

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

(d) to take all necessary action to obtain a separate CUSIP number and to qualify Credit Facility Bonds or Liquidity Facility Bonds for book-entry in accordance with the procedures of DTC. If for any reason the Credit Facility Bonds or Liquidity Facility Bonds are not assigned a separate CUSIP number, at the request of the applicable Credit Facility Provider or Liquidity Facility Provider, Credit Facility Bonds or Liquidity Facility Bonds shall be registered in the name of the applicable Credit Facility Provider or Liquidity Facility Provider or its nominees or registered assigns, and not in the name of the Securities Depository, DTC, Cede & Co. or other nominee or its registered assign. In such case, the Trustee shall take all necessary action to withdraw Credit Facility Bonds or Liquidity Facility Bonds from the Securities Depository in order to register Credit Facility Bonds or Liquidity Facility Bonds in the name of the applicable Credit Facility Provider or Liquidity Facility Provider, or the nominee or registered assigns thereof.

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

(A) Each Bond shall be delivered (with all necessary endorsements) at or before 12:00 noon New York City time on the Purchase Date at the corporate trust office of the Trustee; provided, however, that payment of the Purchase Price shall be made pursuant to this Section 4.15(A) only if the Bond so delivered to the Trustee conforms in all respects to the

description thereof in the notice provided pursuant to Section 4.09 hereof, as applicable. Payment of the Purchase Price with respect to purchases pursuant to the provisions set forth in this Section shall be made to the Owners of tendered Bonds by wire transfer in immediately available funds by the Trustee by 3:00 p.m. New York City time on the Purchase Date.

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

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

SECTION 4.16. Bonds Deemed Purchased.

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

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

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

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

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

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

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

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

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

(H) Eligible Accounts. Each of the Remarketing Proceeds Account, Credit Facility Account and the Liquidity Facility Account shall meet the requirements of an Eligible Account and be held in the name of the Trustee for the benefit of the Owners. In the event the Remarketing Proceeds Account, Credit Facility Account or the Liquidity Facility Account no longer meet the requirements of an Eligible Account, the Trustee shall promptly (and, in any

case, within not more than 30 calendar days) move such account to another financial institution such that each account will meet the requirements of an Eligible Account.

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

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

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

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

(D) During a Delayed Remarketing Period, the Remarketing Agent shall continue to use its best efforts to remarket such Tendered Bonds. Once the Remarketing Agent has advised the Trustee that it has a good faith belief that it is able to remarket all of such Tendered Bonds, the Trustee shall give written notice by mail to the Owners of such Tendered Bonds not later than five Business Days prior to the proposed Purchase Date, which notice shall state: (1) that such Tendered Bonds will be subject to mandatory tender for purchase on the proposed Purchase Date; (2) the proposed Purchase Date; (3) the Mode applicable to such Tendered Bonds from and after the proposed Purchase Date; (4) the procedures for such mandatory tender for purchase; (5) the Purchase Price applicable to such Tendered Bonds; and (6) the consequences of a failed remarketing.

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

SECTION 4.19. Credit Facility; Liquidity Facility; Alternate Credit Facility; Alternate Liquidity Facility.

(A) The Authority may provide a Credit Facility or a Liquidity Facility for the Bonds of a Series in a Daily Mode, a Weekly Mode, a Flexible Mode and in a Term Rate Mode. Each such Credit Facility or Liquidity Facility (and any Alternate Credit Facility or Alternate Liquidity Facility provided in replacement thereof) shall provide for the purchase of the Bonds of such Series upon their optional or mandatory tender in accordance with Section 4.09 hereof and,

in the case of a Credit Facility, provide for the payment of the principal of and interest on the applicable Series of Bonds pursuant to Section 5.12. Any Credit Facility (or Alternate Credit Facility) or Liquidity Facility (or Alternate Liquidity Facility) shall be a facility provided by a Credit Facility Provider or a Liquidity Facility Provider in an amount equal to the Required Stated Amount for a Series of Bonds and, in the case of a Liquidity Facility, be acceptable to the applicable Bond Insurer for such Series of Bonds. The Initial Credit Facility will be delivered to the Trustee in connection with the issuance of the Series 2008 Bonds.

(B) If a Credit Facility or Liquidity Facility is in effect with respect to the Bonds of such Series, on each date on which a Bond of such Series is to be purchased, the Trustee, by demand given by Electronic Means before 11:30 a.m. New York City time, shall 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 pursuant to Section 4.17 hereof.

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

(D) The Authority may provide an Alternate Credit Facility or an Alternate Liquidity Facility for the Bonds of such Series on any Business Day not later than the fifth (5th) Business Day prior to the Expiration Date of the Credit Facility or Liquidity Facility then in effect for the Bonds of such Series. The Authority shall give at least thirty (30) days' written notice to the Trustee and each of the Notice Parties of its intent to furnish an Alternate Credit Facility or Alternate Liquidity Facility to the Trustee, which notice shall specify the nature of such Credit Facility or Liquidity Facility, the identity of the Credit Facility Provider or Liquidity Facility Provider and the proposed Substitution Date. The Trustee shall give notice of each Mandatory Purchase Date resulting from the proposed delivery of an Alternate Credit Facility or an Alternate Liquidity Facility in accordance with the provisions set forth in Section 4.09(B) hereof.

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

existing Credit Facility or Liquidity Facility for such Series to pay the Purchase Price for Bonds of such Series subject to mandatory purchase on such Substitution Date. Notwithstanding any other provision of this Indenture to the contrary, if any condition precedent to the substitution of Alternate Credit Facility or an Alternate Liquidity Facility is not satisfied, the substitution shall not occur but the affected Bonds of such Series shall remain subject to mandatory purchase on the proposed Substitution Date.

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

SECTION 4.20. Appointment of Remarketing Agent.

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

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

(C) The Remarketing Agent may at any time resign and be discharged of the duties and obligations created herein as set forth in the Remarketing Agreement entered into by such Remarketing Agent and the Authority. The Remarketing Agent may suspend its remarketing efforts in accordance with the provisions set forth in Remarketing Agreement entered into by the Remarketing Agent and the Authority. The Remarketing Agent may be removed at any time, at the direction of the Authority in accordance with the provisions set forth in the Remarketing Agreement entered into by the Remarketing Agent and the Authority. The Authority shall provide written notice to each of the Notice Parties of the appointment of any successor Remarketing Agent.

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

SECTION 4.21. Duties of Remarketing Agent. Each Remarketing Agent shall use its best efforts to offer for sale: (A) all Bonds of a Series (or portions thereof to be remarketed) for which notice of optional tender pursuant to Section 4.09 hereof has been given; (B) all Bonds of a Series that are required to be purchased (yy) on a Mandatory Purchase Date described in clauses (i), (ii), (iii), (iv) or (vii) of the definition of Mandatory Purchase Date set forth in

Section 1.01 hereof and (zz) on a Mandatory Purchase Date described in clause (v) of the definition of Mandatory Purchase Date set forth in Section 1.01 hereof if no Liquidity Facility is required to be delivered by the Authority in connection with such Mandatory Purchase Date; and (C) all Liquidity Facility Bonds that are: (1) purchased on a Purchase Date described above in clause (A) or (B) of this Section 4.21, (2) with respect to which the Liquidity Facility Provider has provided notice that it is ready to reinstate the Available Amount, such notice to have been provided to the Authority, the Trustee and the Remarketing Agent, (3) with respect to which an Alternate Liquidity Facility is in effect, or (4) which are being marketed as Fixed Rate Bonds (if the Remarketing Agent shall have been engaged to be the Fixed Rate Remarketing Agent).

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

Notwithstanding any provision of this Indenture to the contrary, if there shall have occurred and be continuing either a Credit Enhancement Provider Failure or a Liquidity Facility Provider Failure, the applicable Remarketing Agent shall not be required to remarket any of the Bonds.

ARTICLE V

REVENUES; FUNDS AND ACCOUNTS

SECTION 5.01. Pledge and Assignment; Revenue Fund.

(A) Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, there are hereby pledged all of the Revenues and any other amounts held in any fund or account established pursuant to this Indenture (other than the Bond Purchase Fund and the Rebate Fund) to (1) secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions hereof and thereof, and (2) secure the payment of any Related Obligations. Said pledge shall constitute a first lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

(B) The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers, all of the Revenues and other assets pledged in subsection (A) of this Section and all of the rights of the Authority under the 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 shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall take all steps, actions and

proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the City under the Lease Agreement.

(C) The Authority shall 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 shall be deposited in the Revenue Fund and Regular Swap Payments shall be paid from the Interest Account. Any Extraordinary Swap Payments owed to the Swap Provider shall be paid from the applicable subaccount of the Provider Payment Account on a subordinate basis to any amounts then due and owing on the Bonds payable hereunder or to the Credit Facility Provider under the Credit Facility Reimbursement Agreement.

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

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

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

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

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

SECOND: to the Principal Account, on or before each September 1 commencing September 1, 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 shall be subordinate to all amounts becoming due and payable on all Bonds and any Regular Swap Payments becoming due and payable on Swaps.

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

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

SECTION 5.04. Application of Principal Account.

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

(B) On each Sinking Fund Installment date established pursuant to Section 5.04(C) herein or in a Supplemental Indenture, the Trustee shall apply the Sinking Fund Installment required on that date to the redemption (or payment at maturity, as the case may be) of a Series of Bonds, upon the notice and in the manner provided in Article IV; provided that, pursuant to Section 4.08, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in the Principal Account to the purchase of such Series of Bonds as directed in writing by the Authority, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Series of Bonds so purchased. If, during the twelve-month period immediately preceding a Sinking Fund Installment payment date, the Trustee has purchased a Series of Bonds with moneys in the Principal Account pursuant to Section 4.08 or a Series of Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Sinking Fund Installment, such Bonds shall be applied, to the extent of the full principal amount thereof to reduce said Sinking Fund Installment. All Bonds purchased or deposited pursuant to this subsection, if any, shall be cancelled by the Trustee. Bonds purchased from the Principal Account, purchased or redeemed from the Redemption Fund shall be allocated first to the next succeeding Sinking Fund Installment, then as a credit against such future Sinking Fund Installments as the Authority may specify in writing.

(C) Subject to the terms and conditions set forth in this Section and in Section 4.01(H), the Series 2008 Bonds shall be redeemed (or paid at maturity, as the case may

be) by application of Sinking Fund Installments in the following amounts and on the following dates:

Sinking Fund Installment Date (September 1)	Sinking Fund Installments	Sinking Fund Installment Date (September 1)	Sinking Fund Installments
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*	\$4,745,000
2021	\$2,390,000		

* Final Maturity

If any Series 2008 Term Bonds has been optionally redeemed, the amounts of such Sinking Fund Installments shall be reduced as directed by the Authority, or if not so directed, proportionally in increments of Authorized Denominations, by the principal amount of all such Series 2008 Term Bonds so optionally redeemed.

(D) Notwithstanding the foregoing, no Bond (other than a Liquidity Facility Bond or a Credit Facility Bond) shall be optionally redeemed while any Liquidity Facility Bond or Credit Facility Bond is Outstanding unless all Outstanding Liquidity Facility Bonds or Credit Facility Bonds are redeemed or purchased by the Trustee and cancelled concurrently with such redemption or purchase.

(E) If for any reason, the Credit Facility Bonds or the Liquidity Facility Bonds remain in book-entry but have not been assigned a separate CUSIP number, the Trustee shall apply the amounts in the Sinking Fund set aside for redemption to the purchase from the applicable Credit Facility Provider or the Liquidity Facility Provider of the applicable Credit Facility Bonds or the Liquidity Facility Bonds in an aggregate principal amount not in excess of the principal amount intended to be redeemed at a purchase price equal to the redemption price specified above. The Credit Facility Bonds or the Liquidity Facility Bonds so purchased shall be cancelled by the Trustee, and the principal amount thereof shall be credited against the principal amount of the Bonds otherwise required to be redeemed.

SECTION 5.05. Reserve Fund.

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

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

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

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

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

(F) Notwithstanding anything to the contrary contained in this Indenture, at any time one or more Reserve Facilities are on deposit in the Reserve Fund, the Trustee shall 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 shall be applied (i) first to reimburse draws on any Reserve Facilities and (ii) to replenish cash withdrawn from the Reserve Fund.

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

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

in such account may be transferred to the Revenue Fund and credited against Base Rental Payments in order of their due date as set forth in a Request of the Authority.

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

SECTION 5.08. Rebate Fund.

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

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

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

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

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

any Rebate Amount, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Authority.

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

SECTION 5.09. Investment of Moneys in Funds and Accounts.

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

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

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

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

the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

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

SECTION 5.10. Application of Provider Payment Account. The Trustee shall establish a sub-account for each Provider within the Provider Payment Account. All amounts in the Provider Payment Account shall be used and withdrawn by the Trustee solely for the purpose of paying any amounts owed to Providers, including Extraordinary Swap Payments, when due. To the extent amounts deposited therein are insufficient to pay all amounts owed to Providers, such amounts shall be applied on a pro rate basis to the payment of amounts owed to Providers. Payments of fees and termination payments for any Swap are subordinate to payments to a Credit Facility Provider.

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

SECTION 5.12. Payments from Credit Facility. Notwithstanding anything to the contrary herein, so long as any Series of Bonds are secured by a Credit Facility, the Trustee shall 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 Section 5.04(C) hereof, 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 Section 7.02 hereof, 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 shall notify the City by Electronic Means of such deficiency no later than 4:00 p.m., New York City time, and shall 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 Section 5.02 of the Indenture. The Trustee shall 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 shall deposit in the appropriate subaccount of the Credit Facility Account all proceeds of draws made under the Credit Facility and shall make payments on the applicable Series of Bonds from the appropriate subaccount of the Credit Facility Account to the extent described in this Section. The Trustee shall 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.

(B) In no event shall 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.

ARTICLE VI

PARTICULAR COVENANTS

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

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

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

SECTION 6.04. Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondholders under this Indenture against all claims and demands of all Persons whomsoever.

SECTION 6.05. Tax Covenants; Rebate Fund.

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

(B) Any funds remaining in the Rebate Fund after redemption and payment with respect to all of the Bonds and all other amounts due hereunder or under the 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), shall be withdrawn by the Trustee and remitted to or upon the direction of the Authority.

(C) The Authority shall not use or permit the use of any proceeds of the Series 2008 Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not take or permit to be taken any other action or actions, which would cause any of the Series 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 shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority shall comply with all requirements of Section 148 and 149(b) of the Code to the extent applicable to the Series 2008 Bonds. In the event that at any time the Authority is of the opinion that for purposes of this Section 6.05(C) it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under this Indenture, the Authority shall so instruct the Trustee under this Indenture in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

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

(E) The Authority shall not use or permit the use of any proceeds of the Series 2008 Bonds or any funds of the Authority, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Series 2008 Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(F) Notwithstanding any provisions of this Section 6.05, if the Authority shall provide to the Trustee an Opinion of Counsel that any specified action required under this Section 6.05 or the Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2008 Bonds the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding Article IX hereof, the covenants hereunder shall be deemed to be modified to that extent.

(G) The Authority covenants that, in the event of any change in this Indenture or other relevant documents relating to the Series 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.

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

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

SECTION 6.08. Amendments to Lease Agreement. The Authority shall 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 shall give such written consent (a) if such supplement, amendment, modification or termination will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security hereby given for the payment of the Bonds (provided that such supplement amendment or modification shall not be deemed to have such adverse effect or to cause such material impairment solely by reason of substitution of real property pursuant to Section 2.03 of 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 Section 2.03 of 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 shall 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 this Section 6.08 shall not, for purposes of this Section 6.08, be deemed to materially adversely affect the interest of the Bondholders or result in any material impairment of the security given for the payments of the Bonds so long as all Bonds are insured by a Bond Insurance Policy, and each Bond Insurer shall be rated in the highest rating category by two of the Rating Agencies.

SECTION 6.09. Leasehold Estate; Enforcement of 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 this Indenture shall 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 shall promptly collect all amounts due from the City pursuant to the Lease Agreement, shall perform all duties imposed upon it pursuant to the Lease Agreement and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of, all of the rights of the Authority and all of the obligations of the City.

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

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

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

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

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the

redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor;

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

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

(D) an Event of Default occurring under Section 6.01 of the Lease Agreement; or

(E) the Trustee shall receive notice from the Credit Facility Provider that an Event of Default has occurred under the Credit Facility Reimbursement Agreement and such notice shall 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 shall 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 pursuant to subsection (D) above (a "Lease Default Event") if the City has expressly acknowledged the existence of such Lease Default Event in a writing delivered to the Trustee, the Bond Insurer, if any, and the Credit Facility Provider, if any, and the Authority. Additionally, the Trustee shall 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 hereunder and shall provide such additional information as such Bond Insurer, if any, and the Credit Facility Provider, if any, shall reasonably request.

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

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

(B) In the case of an Event of Default described in Section 7.01(C) of this Indenture, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the

performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under this Indenture; and

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 7.04. Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as Trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, this Indenture, the 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 shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under this Indenture, the Lease Agreement, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under this Indenture pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the

greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Indenture.

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

SECTION 7.06. Limitation on Bondholders' Right to Sue.

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

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

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

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

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

SECTION 7.10. No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Bonds or of any Provider to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient. 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 in Section 7.01(E) of this Indenture the Trustee has received a written rescission of the Tender Notice from the Credit Facility Provider .

SECTION 7.11. 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 this Indenture to the contrary, the Bond Insurer, if any, and the Credit Facility Provider, if any, shall 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 shall have the right to direct all remedies upon the occurrence of an Event of Default.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. Duties, Immunities and Liabilities of Trustee.

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

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

(C) The Trustee may at any time resign by giving written notice of such resignation to the Authority, the Bond Insurer, 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 shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(D) Any removal or resignation of the Trustee and appointment of a successor Trustee shall only become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of such Bondholder and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering 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, shall become vested with all the moneys,

estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money, Credit Facility, Liquidity Facility or other property subject to the trusts and conditions herein set forth. Upon the request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon the acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall mail, or cause to be mailed, a notice of the succession of such Trustee to the trusts hereunder to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

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

(F) In the event that the Trustee breaches its obligations hereunder 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 shall remove and replace the Trustee in accordance with the terms of the foregoing clause (B).

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

SECTION 8.03. Liability of Trustee.

(A) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee assumes no responsibility for the correctness of the

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

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

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

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

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

(F) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through attorneys-in-fact, agents, receivers, officers, employees or representatives, but shall be answerable for the negligence or misconduct of any

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

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

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

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

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

SECTION 8.04. Right of Trustee to Rely on Documents.

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

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

Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

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

SECTION 8.06. Compensation and Indemnification.

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

(B) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights or powers, if it has not received the agreed compensation for such services or, in cases where the Trustee has a right to reimbursement or indemnification for such performance or exercise, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; provided, however, that the Trustee shall in no event condition any payment on any Series of Bonds when due or any draw upon any applicable Credit Facility or Liquidity Facility, any request for payment under the Bond Insurance Policy or any payment to Owners from such draws under any applicable Credit Facility or Liquidity Facility or such payments under the Bond Insurance Policy upon the provision of any indemnification for such performance.

SECTION 8.07. Trustee's Relationship to the Authority.

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

(B) The Trustee agrees to provide the Authority within a reasonable time after the receipt of a Request of the Authority any financial or other information it may reasonably request

relating to the City or to the Indenture or the Lease Agreement and the Bonds which the Authority finds necessary or desirable and which is reasonably available to the Trustee.

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

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

SECTION 9.01. Amendments Permitted.

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

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

(1) to add to the covenants and agreements of the Authority contained in this Indenture other covenants and agreements thereafter to be observed, to pledge or assign

additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity inconsistency or omission, or of curing or correcting any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the Authority or the Trustee may deem necessary or desirable;

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

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

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

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

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

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

(9) to make any modification or amendment to the Indenture which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds pursuant to Section 4.09(B).

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

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

materially adversely affects the Swap Providers rights, duties, or immunities under this Indenture or otherwise.

SECTION 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

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

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

ARTICLE X

DEFEASANCE

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

(A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in Section 10.03) to pay when due or redeem all Bonds then Outstanding 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 shall have received a Rating

Confirmation Notice from each Rating Agency then rating such Bonds on any Bonds that shall remain Outstanding following such redemption, or

(C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable hereunder by the Authority and under any Related Obligations and all Swaps have been terminated and are no longer outstanding, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues and other assets made under this Indenture and all covenants, agreements and other obligations of the Authority under this Indenture (except as otherwise provided in Section 5.08) shall cease, terminate become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund shall be subject to the provisions of Section 5.08.

In connection with any defeasance of any of the Bonds pursuant to this Article, the Bond Insurer, if any, and the Credit Facility Provider, if any shall 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 shall provide that: (1) any substitution of securities shall 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 shall 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 shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Bond Insurer, if any, and the Credit Facility Provider, if any.

Notice of discharge of the Indenture under this Article X shall be provided to the Rating Agencies by the Trustee.

SECTION 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond) and pay any amounts due and payable on any Swaps then

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

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

SECTION 10.03. Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to 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 this Indenture (other than the Rebate Fund) and shall be:

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

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

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

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

ARTICLE XI

MISCELLANEOUS

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

for any of the purposes in this Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of this Indenture.

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

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

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

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

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

SECTION 11.07. Notices.

(A) Any notice or request to or demand upon the Trustee shall be in writing and may be served or presented, and such demand may be made, at the Principal Office of the Trustee or at such other address as may have been filed in writing by the Trustee with the Authority. Any notice to or demand upon the Authority and the City shall be deemed to have been sufficiently

given or served for all purposes by being delivered or sent by confirmed facsimile transmission or by being deposited, postage prepaid, in a post office letter box, addressed as follows:

- (1) to the Authority at:

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

- (2) to the City at:

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

- (3) to the Trustee at:

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

- (4) to the Swap Provider at:

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

- (5) to the Initial Credit Facility Provider:

Bank of America, N.A.
CA5-704-13-11
315 Montgomery Street, 13th Flr.
San Francisco, CA 94104
Telephone: (415) 953-9025
Facsimile No.: (415) 622-5032

- (6) to Fitch Ratings:

FitchRatings
One State Street Plaza,
38th Floor
New York, NY 10004
Telephone: (212) 908-0500
Facsimile No: (212) 480-4421
pubfin_structured@sandp.com

- (7) to Standard & Poor's:

Standard & Poor's
55 Water Street
New York, NY 10041
Telephone: (212) 438-1000 or (212) 438-2000
Facsimile No: (212) 438-2131

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

(B) The Trustee or the Authority, as appropriate, shall notify the Rating Agencies at the addresses listed in Section 11.07(A) of the occurrence of any of the following events:

- (1) Expiration or termination of the Credit Facility or Liquidity Facility;
- (2) Extension of the Expiration Date of the Credit Facility or Liquidity Facility;
- (3) Replacement of Credit Facility or Liquidity Facility with an Alternate Credit Facility or Alternative Liquidity Facility;
- (4) Redemption of any Series of Bonds;
- (5) Acceleration of any Series of Bonds;
- (6) Amendments to the Indenture, Lease Agreement, any of the Facilities Leases, any related Credit Facility Reimbursement Agreement or any related Liquidity Agreement;
- (7) Defeasing of any Series of Bonds pursuant to Section 10.03;
- (8) Any mandatory tender of any Series of Bonds; or
- (9) Any change in Mode for any Series of Bonds.

SECTION 11.08. Consent Rights of the Bond Insurer; Bond Insurer Deemed Holder of Insured Bonds in Certain Circumstances. Whenever in this Indenture the consent of the Holders of the Insured Bonds is required, the consent of the Bond Insurer insuring such Insured Bonds shall be required in lieu thereof. A Bond Insurer shall be deemed to be the Holder of all related Insured Bonds then Outstanding insured by such Bond Insurer for purposes of exercising all

remedies following the occurrence of an Event of Default, including without limitation acceleration of the principal represented by such Insured Bonds and the direction of the Trustee to exercise rights and powers conferred upon the Trustee pursuant to Article VII of this Indenture as provided in Section 7.05, so long as such Bond Insurer is itself not in default under the Bond Insurance Policy. Notwithstanding any other provision hereof any provision of this Indenture requiring the consent of, the giving of notice to, or control of proceedings by a Bond Insurer shall be in effect for so long as, and only during such time as (1) the Insured Bonds insured by such Bond Insurer are Outstanding and (2) no default shall have, occurred and be continuing by such Bond Insurer with respect to the payment provisions under the Insurance Policy issued by such Bond Insurer.

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

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

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

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

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

Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon an Opinion of Counsel shall be full protection to the Trustee.

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

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

SECTION 11.13. Waiver of Personal Liability. No member, director, officer agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or premium, if any, or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

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

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

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

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

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

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Authorized Officer

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


By: 
Authorized Officer

EXHIBIT A

(FORM OF BOND)

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

<u>NUMBER</u>	<u>AMOUNT</u>
R-1	\$65,170,000

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BOND
SERIES 2008

MATURITY DATE	INITIAL INTEREST RATE	DATED DATE	CUSIP NUMBER
September 1, 2033		August 28, 2008	

REGISTERED HOLDER:

PRINCIPAL AMOUNT: SIXTY-FIVE MILLION, ONE HUNDRED AND SEVENTY THOUSAND DOLLARS

MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "State"), particularly Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the "Authority"), for value received, hereby promises to pay from the Revenues (as defined in the Indenture) and any other amounts pledged under the Indenture, dated as of August 1, 2008, by and between the Authority and The Bank of New York Mellon Trust Company, N.A. (together with any successor thereto, the "Trustee"), to the Registered Holder identified above or registered assigns, on the Maturity Date, stated above, the Principal Amount specified above, in lawful money of the United States of America, upon presentation and surrender hereof to the Trustee for cancellation; and to pay from such sources to the Registered Holder hereof as of the applicable Record Date by check mailed to such Registered Holder at such Holder's address as it last appears on the registration books kept for that purpose at the office of the Trustee (unless otherwise specified in the Indenture), interest hereon in like lawful money from the Dated Date stated above, or thereafter from the date to which interest has already been paid, payable on each

Interest Payment Date (as defined in the Indenture), until payment of the Principal Amount hereof has been discharged as provided in the Indenture. Capitalized terms used herein have the meanings ascribed thereto in the Indenture.

The term of the Series 2008 Bonds will be divided into consecutive Interest Periods during each of which the Series 2008 Bonds shall bear interest at a Daily Rate, Weekly Rate, Flexible Rate or Term Rate. The initial Interest Period for the Series 2008 Bonds shall be a Weekly Rate Period. The Series 2008 Bonds shall initially evidence interest at the Initial Interest Rate specified above for the period commencing on and including the Dated Date and ending on and including September 2, 2008, with interest payable on each Interest Payment Date. The Interest Period on the Series 2008 Bonds thereafter may be changed from time to time to a Daily Rate Period, Weekly Rate Period, Flexible Rate Period or a Term Rate Period and thereafter again changed as described in the Indenture.

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

This Bond is one of a duly authorized issue of bonds of the Authority designated Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2008, issued in the aggregate principal amount of \$65,170,000 (the Series 2008 Bonds) and pursuant to the provisions of Sections 6540 et seq. of the Government Code of the State (the "Act) and the Indenture.

The Series 2008 Bonds are issued to provide funds to finance or refinance the cost of the acquisition and construction of certain facilities (the "Project"). The Bonds are limited obligations of the Authority and are payable, as to interest thereon and principal thereof, solely from certain proceeds of the Bonds held in certain funds and accounts pursuant to the Indenture and the Revenues (as defined in the Indenture) derived from Base Rental Payments and other payments made by the City of Modesto (the "City"), and all interest or other investment income thereon, pursuant to the Lease Agreement, dated as of August 1, 2008, as amended from time to time (collectively, the "Lease Agreement"), by and between the Authority and the City, and the Authority is not obligated to pay the interest or premium, if any, on and principal of the Bonds except from the Revenues. All Bonds are equally and ratably secured in accordance with the terms and conditions of the Indenture by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest or premium, if any, on and principal of the Bonds as provided in the Indenture. The full faith and credit of the Authority and the City are not pledged for the payment of the interest or premium, if any, on or principal of the Bonds. No tax shall ever be levied to pay the interest on or principal of the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge or lien upon any property of the Authority or any of its income or receipts except the Revenues, and neither the payment of the interest on nor principal of the Bonds is a debt, liability or general obligation of the Authority, the City or any member of the Authority for which such entity is obligated to levy or pledge any form of taxation. Additional Bonds payable from the Revenues may be issued which will rank equally as to security with the Series 2008 Bonds, but only subject to the conditions and upon compliance with the procedures set forth in the Indenture.

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

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

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

The Series 2008 Bonds are subject to extraordinary redemption, prior to their stated maturity, at the option of the Authority, as provided in the Indenture. The Series 2008 Bonds are also subject to redemption at the option of the Authority at the times and at the Redemption Price as set forth in the Indenture. The Series 2008 Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments established pursuant to the Indenture on any September 1, on or after September 1, 2009 at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium, as set forth in the Indenture.

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

The Series 2008 Bonds are subject to mandatory tender as provided in the Indenture.

If, on the date of payment, moneys for the payment of all the Bonds to be redeemed or maturing, together with interest to the date of payment shall be available with the Trustee for

such payment on said date, then from and after the date of payment, interest on such Bonds shall cease to accrue and become payable.

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

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

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

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

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

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

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Chairman

Attest:

Secretary

[FORM OF TRUSTEES CERTIFICATE OF AUTHENTICATION
AND REGISTRATION]

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

Dated:

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

By: _____
Authorized Signatory

[FORM OF ASSIGNMENT]

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

Dated: _____ By: _____

Signature Guaranteed By:

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

EXHIBIT B

FORM OF REQUISITION - PROJECT FUND

REQUISITION NO. ___ - PROJECT FUND

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

The City of Modesto (the "City") hereby requests The Bank of New York Mellon Trust Company, N.A. (the Trustee"), as trustee under that certain Indenture (the Indenture) between the Modesto Public Financing Authority (the "Authority") and the Trustee, dated as of August 1, 2008 relating to the Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2008 (the Bonds"), to pay to the following persons the following amounts for the following purposes from the Project Fund:

<u>Item No.</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
-----------------	-----------	---------------	----------------

The Authority hereby certifies that obligations in the amounts stated above have been incurred by the Authority or the City (as agent of the Authority) and are presently due and payable, and that each item is a proper charge against the indicated fund and has not been previously paid from said fund or from the proceeds of the Bonds.

Dated: _____

CITY OF MODESTO

By: _____
Authorized Representative

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Authorized Representative

EXHIBIT C

FORM OF REQUISITION - COSTS OF ISSUANCE FUND

REQUISITION NO. ____ - COSTS OF ISSUANCE FUND

TO: The Bank of New York Mellon Trust Company, N.A.

RE: Disbursement from the Cost of Issuance Fund pursuant to Section 3.03 of the Indenture, dated as of August 1, 2008 (the "Indenture"), by and between THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee (the "Trustee") and MODESTO PUBLIC FINANCING AUTHORITY (the "Authority") relating to Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2008

You are hereby instructed to pay as Costs of Issuance of the Authority's Lease Revenue Refunding and Capital Improvements Bonds, Series 2008 (the "Series 2008 Bonds") from the Cost of Issuance Fund as provided in Section 3.03 of the Indenture the amounts set forth on Exhibit C hereto, to the persons or entities designated therein as Payee. These Costs of Issuance have been properly incurred, are a proper charge against the Costs of Issuance Fund and have not been the basis of any previous disbursements.

Dated: _____, 200__.

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Authorized Representative

Schedule A

<u>Item No.</u>	<u>Payee</u>	<u>Amount</u>	<u>Purpose</u>
-----------------	--------------	---------------	----------------

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

June 13, 2019

CERTIFIED COPY OF LEASE AGREEMENT

The undersigned authorized representative of 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 is a full, true and correct copy of each of:

1) the Lease Agreement, dated as of August 1, 2008, as amended and supplemented by that certain Amendment No. 1 to Lease Agreement, dated as of August 1, 2011, each by and between the Authority and the City of Modesto (the “City”) relating to the Bonds, and does hereby further certify that such agreement has not been further amended, modified or rescinded since August 29, 2011, and as so amended, is now in full force and effect;

2) the Facilities Lease (Parking Garage) (the “Parking Garage Facilities Lease”), dated as of August 1, 2008, by and between the Authority and the Successor Agency to the Redevelopment Agency of the City of Modesto (the “Successor Agency”), as successor agency to the Redevelopment Agency of the City of Modesto (the “Redevelopment Agency”) pursuant to Part 1.85 of Division 24 of the California Health and Safety Code, and does hereby further certify that such agreement has not been amended, modified or rescinded and is now in full force and effect;

3) the Facilities Lease (Police Facilities and Miscellaneous Facilities) (the “City Facilities Lease”), dated as of August 1, 2008, by and between the City and the Authority, and does hereby further certify that such agreement has not been amended, modified or rescinded and is now in full force and effect;

4) the Facilities Lease (City-County Administration Building) (the “City-County Facilities Lease”), dated as of August 1, 2008, by and between the Financing Agency and the Authority, and does hereby further certify that such agreement has not been amended, modified or rescinded and is now in full force and effect; and

5) the Facilities Lease (Communications Dispatch Center) (the “Communications Facilities Lease”), dated as of August 1, 2008, by and between the City and the Authority, and

does hereby further certify that such agreement has not been amended, modified or rescinded and is now in full force and effect.

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

MODESTO PUBLIC FINANCING AUTHORITY

By: Stephanie Lopez
Stephanie Lopez
Secretary

31



Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2008-0094326-00

Acct 501-Chicago Title
Thursday, AUG 28, 2008 08:00:00
Ttl Pd \$0.00 Nbr-0002596342
OMK/R3/1-47

Recording requested by
and return to:

CITY OF MODESTO
c/o Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, California 94104

Attention: Ty H. Conner, Esq.

LEASE AGREEMENT

between the

MODESTO PUBLIC FINANCING AUTHORITY,
as lessor

and the

CITY OF MODESTO
as lessee

Dated as of August 1, 2008

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

4707

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LEASE AGREEMENT

THIS LEASE AGREEMENT, dated as of August 1, 2008, by and between the MODESTO PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California, as lessor (the "Authority"), and the CITY OF MODESTO, California, a charter city and a municipal corporation duly organized and existing under the laws of the State of California, as lessee (the "City");

WITNESSETH:

WHEREAS, the Authority is authorized to issue its obligation pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the "Act"), for its purposes, including providing funds under a program to finance or refinance the "Cost" of various "Public Capital Improvements" (within the respective meanings of such terms in Sections 6585(d) and (g) of the Act); and

WHEREAS, the City is a "local agency" (within the meaning of such term in Section 6585(f) of the Act, a "Local Agency") and intends to, in conjunction with the City-County Capital Improvements and Financing Agency (the "Financing Agency") and the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency"), refinance various "Public Capital Improvements" as defined under the Act; and

WHEREAS, in conjunction with the refinancing, the City has determined to refund the Authority's Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds") and Lease Revenue Refunding and Capital Improvements Bonds, Series 2007 (the "2007 Bonds" and, together with the 1998 Bonds, the "Prior Bonds"); and

WHEREAS, in furtherance of the refunding of the Prior Bonds, the Redevelopment Agency has entered into a Facilities Lease (Parking Garage) (recorded concurrently herewith), dated the date hereof, with the Authority (the "Parking Garage Facilities Lease") wherein the Redevelopment Agency will lease to the Authority certain real property and improvements (the "Parking Garage Facilities"); and

WHEREAS, in furtherance of the refunding of the Prior Bonds, the City has entered into a Facilities Lease (City Police Facilities and Miscellaneous Facilities) (recorded concurrently herewith), dated the date hereof, with the Authority (the "Police Facilities and Miscellaneous Facilities Lease") wherein the City will lease to the Authority certain real property and improvements (the "Police Facilities" and the "Miscellaneous Facilities"); and

WHEREAS, in furtherance of the refunding of the Prior Bonds, the Financing Agency has entered into a Facilities Lease (City-County Administration Building) (recorded concurrently herewith), dated the date hereof, with the Authority (the "City-County Administration Facilities Lease"), wherein the Financing Agency will lease to the Authority certain real property and improvements (the "City-County Administration Facility"); and

WHEREAS, in furtherance of the refunding of the Prior Bonds, the City has entered into a Facilities Lease (Communications Dispatch Center) (recorded concurrently herewith), dated the date hereof, with the Authority (the "City Communications Facilities Lease" and, together with the Parking Garage Facilities Lease, Police Facilities and Miscellaneous Facilities Lease and City-County Administration Facilities Lease, the "Facilities Leases") wherein the City will lease to the Authority certain real property and improvements (the "City Communications Facility," and together with the Parking Garage Facilities, Police Facilities, Miscellaneous Facilities and City-County Administration Facility, the "Facilities"); and

WHEREAS, the Authority proposes to lease the Facilities together with certain other real property and improvements, as more particularly described on Exhibit C hereto (the "Leased Property"), to the City and the City proposes to lease the Leased Property from the Authority, pursuant to and in accordance with the terms of this Lease Agreement; and

WHEREAS, in order to provide funds to finance the refunding of the Prior Bonds, the Authority has authorized the issuance of its Lease Revenue Refunding Bonds, Series 2008, in one or more series of bonds (the "Series 2008 Bonds") in an aggregate principal amount not to exceed \$75,000,000; and

WHEREAS, the Bonds will be issued and secured under a certain 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"); and

WHEREAS, the City has found and determined that the Leased Property, as of the date hereof, has fair value sufficient to make certain Base Rental Payments (as hereinafter defined) as set forth in Section 3.01 hereof;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Lease Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Lease Agreement; and

WHEREAS, the Authority has assigned all of its rights, title and interest under this Lease Agreement to the Trustee under the Indenture as security for the Bonds;

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND EXHIBITS

Section 1.01. Definitions and Rules of Construction. Unless defined herein, or the context otherwise requires, the capitalized terms used herein shall for all purposes of this Lease Agreement, have the meanings herein specified, which meanings shall be equally applicable to both the singular and plural forms of any of the terms herein defined. Capitalized terms not

otherwise defined herein shall have the meanings assigned to such terms in the Indenture. The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this Lease Agreement, refer to this Lease Agreement as a whole.

"Additional Payments" means all amounts payable to the Authority or the Trustee or any other person from the City as Additional Payments pursuant to Section 3.02 hereof.

"Authority" means (i) Modesto Public Financing Authority, acting as lessor hereunder; (ii) any surviving, resulting or transferee entity; and (iii) except where the context requires otherwise, any assignee of the Authority.

"Base Rental Payment" means any payment due from the City to the Authority under Section 3.01 hereof.

"Base Rental Payment Schedule" means the schedule of Base Rental Payments payable to the Authority from the City pursuant to Section 3.01 hereof and attached hereto as Exhibit A, as it may from time to time be supplemented, modified or amended pursuant Section 11.06 hereof.

"Bonds" means, collectively, the Series 2008 Bonds and any Additional Bonds issued, and at any time Outstanding, pursuant to the Indenture.

"City" means the City of Modesto, a charter city and a municipal corporation duly organized and existing under the laws of the State, and a Local Agency under the Act, its successors and assigns.

"City-County Administration Building" means the one-half interest in the City-County Administration Building constituting a Leased Unit of the Leased Property, as more fully described in Exhibits B and C hereto.

"Communication Dispatch Center" means the communication dispatch center constituting a Leased Unit of the Leased Property, as more fully described in Exhibits B and C hereto.

"County" means the County of Stanislaus, California, a political subdivision organized and existing by virtue of the laws of the State of California.

"Deferred Rental" shall have the meaning specified in Section 3.04 hereof.

"Event of Default" shall have the meaning specified in Section 6.01 hereof.

"Facilities Leases" means collectively the (i) Parking Garage Facilities Lease, (ii) City Communications Facilities Lease, (iii) Police Facilities and Miscellaneous Facilities Lease and (iv) City-County Administration Facilities Lease.

"Financing Agency" means 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.

“Indenture” means the bond indenture, dated as of August 1, 2008, by and among the Trustee and the Authority and acknowledged by the City, pursuant to which the Trustee will execute and deliver the Series 2008 Bonds, as originally executed or as it may from time to time be supplemented, modified or amended by a Supplemental Indenture entered into pursuant to the provisions of the Indenture.

“Insurance Consultant” means any independent, qualified person or firm reasonably believed by the City to be knowledgeable with respect to insurance carried by, required for and available to the City of Modesto, including a pooled self-insurance program in which premiums are established on the basis of the recommendation of an actuary of national reputation.

“Lease Agreement” means this Lease Agreement, including all Exhibits hereto, and any duly authorized and executed amendment or supplement hereto.

“Leased Unit(s)” means (i) the Public Parking Garage and related improvements, including the Site thereof, (ii) the City’s interest in the City-County Administration Building, including the Site upon which such facility is constructed, including the rights and interests of the City to the use of common areas located on the City-County Administration Site, (iii) the City’s undivided one-half interest in and to the Communications Dispatch Center, including the City’s undivided one-half interest in the Site thereof, (iv) the City’s interest in and to the Police Facilities, including the Site thereof, and (v) the City’s interest in and to the Miscellaneous Facilities, all as set forth in Exhibit B and C hereto, together with any additional real property added or substituted thereto by any supplement or amendment hereto, as provided in Section 2.03 hereto.

“Leased Property” means, collectively, all of the Leased Units, each situated in the City, described in Exhibits B and C attached hereto and made a part hereof, together with any additional real property added or substituted thereto by any supplement or amendment hereto, as provided in Section 2.03 hereof.

“Master Agreement” means that certain Master Agreement, dated as of July 27, 1997, by and among the County, the City, the Redevelopment Agency, and the Financing Agency.

“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 Base Rental Payment for any Rental Payment Period.

“Miscellaneous Facilities” means the miscellaneous facilities, collectively constituting a Leased Unit of the Leased Property, as more fully described in Exhibits B and C hereto.

“Permitted Encumbrances” shall have the meaning specified in the Indenture.

“Police Facilities” means the police headquarters building and police operations building constituting a Leased Unit of the Leased Property, as more fully described in Exhibits B and C hereto.

“Project” has the meaning set forth in the Indenture.

"Public Parking Garage" means the public parking garage constituting a Leased Unit of the Leased Property, as more fully described in Exhibits B and C hereto.

"Redevelopment Agency" means the Redevelopment Agency of the City.

"Reimbursement Agreement" means the Reimbursement Agreement, originally dated as of March 1, 1998, as amended through the date hereof, by and between the City and the Redevelopment Agency.

"Related Obligations" means the obligations of the Authority under any hedge agreement (including without limitation, any Swap), credit agreement, liquidity agreement or similar agreement or, State vehicle license intercept program, or tax increment reimbursement agreement, entered into in connection with or related to any Series of Bonds, including the Series 2008 Interest Rate Swap Agreement (as defined in the Indenture) and the Initial Credit Facility Reimbursement Agreement (as defined in the Indenture).

"Rental Payment Period" means the twelve month period commencing August 15 of each year and ending the following August 14, and the initial period commencing on the effective date hereof and ending the following August 14, 2009.

"State" means the State of California.

"Series 2008 Bonds" means the Bonds designated "Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008" issued by the Authority under and pursuant to Section 2.01 of the Indenture.

"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 as provided herein.

"Site" means, as applicable, (i) the Communications Building Site (Parcel No. 1 as described on Exhibit C hereto), (ii) the Police Facilities and the Miscellaneous Facilities Site (Parcels Nos. 2 and 5 through 14, inclusive and Parcel 16 as described on Exhibit C hereto), (iii) City-County Administration Building Site (Parcel No. 3 as described on Exhibit C hereto), and (iv) the Public Parking Garage Site (Parcel Nos. 4 and 15 as described on Exhibit C hereto).

"Trustee" means the Trustee appointed under the terms of the Indenture.

"Underwriter" means, collectively, Banc of America Securities LLC, as the original purchasers of the Bonds.

Section 1.02. Exhibits. The following Exhibits are attached to, and by reference made a part of, this Lease Agreement:

Exhibit A: Description of Estimated Annual Base Rental Payments to be paid by the City to the Trustee, as assignee of the Authority.

Exhibit B: General Description of the Leased Property.

Exhibit C: Legal description of the Sites.

Exhibit D: Addresses for Notices.

ARTICLE II

LEASE OF LEASED PROPERTY; TERM; REMOVAL OR SUBSTITUTION

Section 2.01. Lease of Leased Property. The Authority hereby leases to the City and the City hereby leases from the Authority the Leased Property, subject, however, to all easements, encumbrances, and restrictions that exist at the time of the commencement of the term of this Lease Agreement. The Leased Property shall consist of the real properties described in Exhibits B and C, as the same may be amended from time to time, pursuant to Section 2.03 herein.

Section 2.02. Term; Occupancy. The term of this Lease Agreement shall commence on the date of recordation of this Lease Agreement in the office of the County Recorder of Stanislaus County, State of California, or on August 28, 2008, whichever is earlier, and shall end on September 1, 2033, unless such term is extended or sooner terminated as hereinafter provided. If on such termination date, the Series of Bonds corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit, and all other amounts then due hereunder with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall not be fully paid, or if the rental payable hereunder with respect to such Leased Property or Leased Unit (as the case may be) shall have been abated at any time and for any reason, then the term of this Lease Agreement with respect to such Leased Property or Leased Unit (as the case may be) shall be extended until all Bonds and Related Obligations of such Series corresponding to the Base Rental Payments attributable to such Leased Property or Leased Unit (as the case may be) and all other amounts then due hereunder with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall be fully paid, except that the term of this Lease Agreement as to such Leased Property or Leased Unit (as the case may be) shall in no event be extended beyond ten (10) years after such date. If prior to such date, all Bonds of a Series corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit and all other amounts then due hereunder with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall be fully paid, or provision therefor made, the term of this Lease Agreement with respect to such Leased Property or Leased Unit (as the case may be) shall end ten (10) days thereafter or upon written notice by the City to the Authority, whichever is earlier.

Section 2.03. Removal or Substitution of Leased Property. Pursuant to Section 6.08 of the Indenture, the City may remove or substitute real property as part of the Leased Property for purposes of the Lease Agreement, but only after the City shall have filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

(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" shall mean 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 Section 5.05; and

(viii) Written Consent of the applicable Bond Insurer, Credit Facility Provider, or Liquidity Facility Provider.

ARTICLE III

RENTAL PAYMENTS; USE OF PROCEEDS

Section 3.01. Base Rental Payments. The City agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of each Leased Unit of the Leased Property (subject

to the provisions of Sections 3.04, 3.06 and 7.01 of this Lease Agreement) annual rental payments, in accordance with the Base Rental Payment Schedule attached hereto as Exhibit A and made a part hereof. Base Rental Payments shall be calculated on an annual basis, for the twelve-month periods commencing on August 15 and ending on August 14, except that the first Rental Payment Period shall commence on the date of recordation of this Lease Agreement or a memorandum thereof in the office of the County Recorder of the County of Stanislaus, State of California and shall end on August 14, 2009. Thereafter, Base Rental Payments shall be made in twelve (12) monthly installments, payable on the fifteenth (15th) day of each calendar month (each, together with the prior referenced semi-annual payment dates a "Base Rental Payment Date"). Base Rental Payments for each annual period shall be based upon the estimated Base Rental Payments as set forth in the Base Rental Payment Schedule in Exhibit A, provided that in the event that the amount required by the Authority to pay the principal of and interest on the Bonds and any Related Obligations varies from such Base Rental Payment Schedule, the City shall be obligated to increase the payment in any Rental Payment Period to an amount equal to the Maximum Annual Base Rental Payment, plus any Deferred Rental as described in Section 3.04 below; and provided further that to the extent the Authority has received revenues available to pay debt service on the Bonds and any amounts due with respect to the Related Obligations and the Authority has deposited such revenues with the Trustee by the business day preceding the fifteenth (15th) day of any month in which a Base Rental Payment is due, the City shall receive a credit to the extent of such revenues on the installment of the Base Rental Payment for said month.

Each annual payment of Base Rental Payments (to be payable in installments as aforesaid) shall be for the use of the Leased Property for the twelve (12) month period commencing on August 15 of the period in which such installments are payable.

For the purpose of calculating the amount of Base Rental Payments relating to additional Series of Bonds and Related Obligations bearing interest at a variable rate, the Authority shall assume an interest rate of twelve percent (12%) per annum or such lower rate as shall be agreed to by the City and Authority and evidenced in a schedule attached hereto. If a Series of Bonds are in the Fixed Rate Mode or are converted to the Fixed Rate Mode, the Base Rental Payments may be made on a semiannual basis pursuant to a schedule prepared by the Authority and agreed to by the City.

If the term of this Lease Agreement shall have been extended pursuant to Section 2.02 hereof, Base Rental Payment installments shall continue to be due on the fifteenth (15th) day of each calendar month in each year, and payable prior thereto as hereinabove described, continuing to and including the date of termination of this Lease Agreement. Upon such extension of this Lease Agreement, the City shall deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule shall establish the Base Rental Payments at Maximum Annual Base Rental Payment or such lesser amount sufficient to pay all unpaid principal and interest on any Series of Bonds and Related Obligations plus interest and to pay any Reserve Facility Costs.

The City and the Authority hereby agree that on each day on which Base Rental Payments are payable during the term of the lease of the Leased Property, there shall be applied as a credit against the Base Rental Payments payable on such date for the Leased Property the

amounts by which such Base Rental Payments for the Leased Property when added to the funds held pursuant to the Indenture (other than the Reserve Fund) and available to pay debt service on the Bonds and any Related Obligations exceeds such payment obligations due and payable on or before the fifteenth day of the immediately succeeding month.

Section 3.02. Additional Payments. The City shall also pay such amounts (herein called the "Additional Payments") as shall be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of this Lease Agreement or any pledge of Base Rental Payments payable hereunder, the Indenture, the Reserve Facility, its interest and the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Related Obligations, the Leased Property and the Project, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees 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 shall be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been paid by the Authority or by the Trustee on behalf of the Authority, for one or more of the items above described, or that such amount is then payable by the Authority or the Trustee for such items. Amounts so billed shall be paid by the City to the billing party within 30 days after receipt of the bill by the City. The City reserves the right to audit billings for Additional Payments although exercise of such right shall in no way affect the duty of the City to make full and timely payment for all Additional Payments.

The Authority has issued and may in the future issue bonds and has entered into and may in the future enter into leases to finance facilities other than the Leased Property and the Project. The administrative costs of the Authority shall be allocated among said facilities and the Leased Property, as hereinafter in this paragraph provided. The fees of the Trustee under the Indenture, and any other expenses directly attributable to the Leased Property shall be included in the Additional Payments payable hereunder. The fees of any trustee or paying agent under any indenture securing any additional Series of Bonds of the Authority, and any other expenses directly attributable to any facilities other than the Leased Property, shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Payments payable hereunder. Any expenses of the Authority not directly attributable to any particular leased property or project of the Authority shall be equitably allocated among all such leased property or projects, including the Project, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an

opinion thereon, shall be a final and conclusive determination as to such allocation. The Trustee may conclusively rely upon the Written Request of the Authority, with the approval of a duly authorized representative of the City, endorsed thereon, in making any determination that costs are payable as Additional Payments hereunder, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Section 3.03. Fair Rental Value. The payment of up to the Maximum Annual Base Rental Payment and Additional Payments for each rental period during the term of this 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 parties hereto have agreed and determined that such total rental payable for each Rental Payment Period, up to the Maximum Annual Base Rental Payment, as such amount may be adjusted for Deferred Rental, 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.

Section 3.04. 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 hereto that the amount of Base Rental Payments to be payable by the City to the Authority during each Rental Payment Period will be equal to the estimated Base Rental Payments shown in Exhibit A. In the event that the amount needed in such Rental Payment Period by the Authority to pay the principal of and interest on the Bonds and any Related Obligations is more than the estimated Base Rental Payments for such Rental Payment Period, the City will be obligated to pay up to the Maximum Annual Base Rental Payment for such Rental Payment Period. Further, the City agrees that if in any year the Maximum Annual Base Rental Payment exceeds the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period, the excess amount may be deferred by the Authority, at its sole option, on such terms and conditions as it shall determine are necessary to protect the interests of the owners of the Bonds and the Providers of any Related Obligations, and thereupon such excess amount (the "Deferred Rental") need not be paid by the City to the Authority at that time, but instead shall be deferred until such subsequent time as the Authority shall have need for such payment; provided, however, that notwithstanding anything herein to the contrary, that the Deferred Rental shall not cause the 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 as shown in Exhibit A or (ii) the Maximum Annual Base Rental Payment, as adjusted for Deferred Rental for such Rental Payment Period.

Each installment of Base Rental Payments and Additional Payments payable hereunder shall be paid in lawful money of the United States of America to or upon the order of the Authority at the corporate trust office of the Trustee, or such other place as the Authority shall

designate. Any such installment of rental accruing hereunder which shall not be paid when due and payable under the terms of this Lease Agreement shall bear interest at the rate of twelve percent (12%) per annum, or such lesser rate of interest as may be permitted by law, from the date when the same is due hereunder until the same shall be paid. Notwithstanding any dispute between the Authority and the City, the City shall make all Base Rental Payments and Additional Payments when due without deduction or offset of any kind and shall not withhold any Base Rental Payments or Additional Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Base Rental Payments or Additional Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Base Rental Payments or Additional Payments due hereunder or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this Section on any date shall be reduced to the extent of amounts on deposit in the Revenue Fund and available therefor.

All payments received shall be applied first to the Base Rental Payments due hereunder and thereafter to all Additional Payments due hereunder, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default hereunder.

Nothing contained in this Lease Agreement shall prevent the City from making from time to time contributions or advances to the Authority for any purpose now or hereafter authorized by law, including the making of repairs to, or the restoration of, the Leased Property in the event of damage to or the destruction of the Leased Property.

Section 3.05. Appropriations Covenant. The City covenants to take such action as may be necessary to include all estimated Base Rental Payments and Additional Payments due hereunder in its annual budgets, and to make necessary annual appropriations for such payments, and for such additional amounts as required below. The City will deliver to the Authority and the Trustee within ninety (90) days of adoption of the City budget copies of the portion of each annual City budget relating to the payment of estimated Base Rental Payments and Additional Payments hereunder as so calculated. If in any fiscal year, the amount initially budgeted is insufficient to pay actual Debt Service on the Bonds and payments with respect to Related Obligations, the City shall, by supplemental budget in such fiscal year, appropriate and pay such additional amounts until the total amount appropriated for Base Rental Payments equals Maximum Annual Base Rental Payments for such year. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this 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 hereunder shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor shall anything contained herein constitute a pledge of the general tax revenues, funds or moneys of the City. Base Rental Payments and Additional Payments due

hereunder shall be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments or other payments due hereunder as consideration for use of the Leased Property. This Lease Agreement shall not create an immediate indebtedness for any aggregate payments which may become due hereunder in the event that the term of this 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 hereunder.

Section 3.06. Rental Abatement. The Base Rental Payments and Additional Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation, which is hereinafter provided for, or planned demolition as part of the Project) there is substantial interference with the use and occupancy of the Leased Property by the City, in the proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease Agreement shall continue in full force and effect and the City waives the benefits of California Civil Code Section 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all other rights to terminate this Lease Agreement by virtue of any such damage or destruction.

Notwithstanding the foregoing, such abatement shall not result to the extent of moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, Principal Account and Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance as provided in Section 5.01 and 5.03 herein.

Section 3.07. Use of Bond Proceeds. The parties hereto 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.

Section 3.08. No Withholding. Notwithstanding any dispute between the Authority and the City, including a dispute as to the failure of any portion of the Leased Property in use by or possession of the City to perform the task for which it is leased, the City shall make all Base Rental Payments when due and shall not withhold any Base Rental Payments pending the final resolution of such dispute.

ARTICLE IV

MAINTENANCE; ALTERATIONS AND ADDITIONS

Section 4.01. Maintenance and Utilities. During such time as the City is in possession of the Leased Property, all maintenance and repair, both ordinary and extraordinary, of the Leased Property shall be the responsibility of the City, which shall at all times maintain or otherwise

arrange for the maintenance of the Leased Property in first class condition, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Leased Property. In exchange for the rental herein provided, the Authority agrees to provide only the Leased Property.

Section 4.02. Changes to the Leased Property. Subject to Section 8.02 hereof, the City, at its own expense, shall have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All such additions, modifications and improvements shall thereafter comprise part of the Leased Property and be subject to the provisions of this Lease Agreement. Such additions, modifications and improvements shall not damage the Leased Property or cause them to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made pursuant to this Section, shall be of a value which is at least equal to the value of the Leased Property immediately prior to the making of such additions, modifications and improvements.

Section 4.03. Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of such party, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by such party at any time provided that such party shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease Agreement shall prevent the City from purchasing items to be installed pursuant to this Section under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

ARTICLE V

INSURANCE

Section 5.01. Fire and Extended Coverage Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of this 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 shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject

to deductible clauses for any one loss of not to exceed \$500,000 or comparable amount adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Indenture), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed.

In the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by such insurance, the Authority, except as hereinafter provided, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee shall hold said proceeds separate and apart from all other funds, in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments and applied in the manner provided by Section 5.02 of the Indenture. Alternatively, the Authority, at its option, with the written consent of the City, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Base Rental Payment attributable to the portion of the Leased Property so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Leased Property bears to the cost of the Leased Property), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and, thereupon shall cause said proceeds to be used for the redemption of outstanding Bonds pursuant to Section 4.01 of the Indenture.

As an alternative to providing the insurance required by the first paragraph of this Section, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of this Lease Agreement, there shall 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 this Section and, when effective, would afford reasonable coverage for the risks required to be insured against. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the City hereunder shall be limited to the amounts in the self insurance reserve fund or funds created under such method.

Section 5.02. Liability Insurance. Except as hereinafter provided, the City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of this Lease Agreement, a standard comprehensive general liability insurance policy or policies in protection of the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee, indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Leased Property, with minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the City.

As an alternative to providing the insurance required by the first paragraph of this Section, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable protection to the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of this Lease Agreement, there shall 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 this Section and, when effective, would afford reasonable protection to the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee against loss and damage from the hazards and risks covered thereby. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan.

Section 5.03. Rental Interruption or Use and Occupancy Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Leased Property as the result of any of the hazards covered by the insurance required by Section 5.01 hereof, in an amount sufficient to pay the part of the total rent hereunder attributable to the portion of the Leased Property rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Leased Property) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed two hundred fifty thousand dollars (\$250,000) or a comparable amount adjusted for inflation. Any proceeds of such insurance shall be used by the Trustee to reimburse to the City any rental theretofore paid by the City under this Lease Agreement attributable to such structure for a period of time during which the payment of rental under this Lease Agreement is abated, and any proceeds of such insurance not so used shall be applied as provided in Section 3.01 (to the extent required for the payment of Base Rental Payments) and in Section 3.02 (to the extent required for the payment of Additional Payments) and any remainder shall be treated as Revenue under the Indenture.

Section 5.04. Worker's Compensation. The City shall also maintain worker's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its employees against liability for compensation under the Worker's Compensation Insurance and Safety Act now in force in California, or any act hereafter enacted as an amendment or supplement thereto. As an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the City. Such insurance may be maintained by the City in the form of self-insurance.

Section 5.05. Title Insurance. The City shall obtain, for the benefit of the Authority and the Trustee, upon the execution and delivery of this Lease Agreement, title insurance on the Leased Property in an amount not less than \$65,170,000, subject only to Permitted Encumbrances.

Section 5.06. Insurance Proceeds; Form of Policies. All policies of insurance required by Sections 5.01 and 5.03 hereof shall name the City, the Authority and the Trustee as insured and shall contain a lender's loss payable endorsement in favor of the Trustee. Unless otherwise consented to by the applicable Bond Insurer, Credit Facility Provider or Liquidity Facility Provider, required insurance policies, other than self-insurance, must be provided by a commercial insurer rated A or better by A.M. Best. The Trustee (i) shall, to the extent practicable, collect, adjust and receive all moneys which may become due and payable under any such policies, (ii) may compromise any and all claims thereunder and (iii) shall apply the proceeds of such insurance as provided in Sections 5.01 and 5.03 hereof. All policies of insurance required by this Lease Agreement shall provide that the Trustee shall be given thirty (30) days notice of each expiration thereof or any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City. The City shall pay when due the premiums for all insurance policies required by this Lease Agreement, and shall promptly furnish evidence of such payments to the Authority.

The City shall deliver to the Authority and the Trustee on an annual basis a written Certificate of an officer of the City stating whether such policies satisfy the requirements of this Lease Agreement, setting forth the insurance policies then in force pursuant to this Article, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby, and, if any self-insurance program is being provided, the annual report of an actuary, an Insurance Consultant or other qualified person containing the information required for such self-insurance program and described in Sections 5.01, 5.02 and 5.04 hereof. Delivery to the Trustee of the certificate, under the provisions of this Section shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the Trustee, the City shall also deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in such schedule.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

Section 6.01. Events of Default. Each of the following shall be an "event of default" under this Lease Agreement and the terms "events of default" and "default" shall mean, whenever they are used in this 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 hereunder when the same becomes due, time being expressly declared to be of the essence of this Lease Agreement;

(b) failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed herein 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 shall 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.

Section 6.02. Remedies on Default. Whenever any event of default referred to in Section 6.01 hereof shall have happened and be continuing, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to this Lease Agreement; provided, however, that notwithstanding anything herein or in the Indenture to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. Subject to the receipt of the opinions set forth in subparagraph (c) below, after the occurrence of an event of default hereunder, the 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 this Lease Agreement in the manner hereinafter provided for in subparagraph hereof, 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 hereby 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 this 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 shall 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 shall remain liable for the payment of all Base Rental Payments and the performance of all conditions contained herein and shall 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 this Lease Agreement, but said Base Rental Payments and/or deficiency shall be payable only at the same time and in the same manner as provided above for the payment of Base Rental Payments hereunder, 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 hereby 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 herein 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 hereby 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 hereby waives any and all claims for damage caused or which may be caused by the Authority in repossessing the Leased Property as provided herein and all claims for damages that may result from the destruction of or the injury to the Leased Property and all claims for damages to or loss of any property belonging to the City that may be in or upon the Leased Property.

(b) Repossession Without Effecting Surrender. The City agrees that the terms of this 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 this 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 shall constitute a surrender or termination of this 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 this Lease Agreement shall 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, hereby 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 this Lease Agreement by the Authority at its option and in the manner hereinafter provided 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 hereof), 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 herein 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 shall be delivered to the Trustee for deposit first into the Interest Payment Account, and to the extent such account is funded to the extent then required under the Indenture, in the Principal Payment Account and shall be applied in accordance with the provisions of Article V 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 shall of itself operate to terminate this Lease Agreement, and no termination of this Lease Agreement on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Authority shall 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 this Lease Agreement. The City covenants and agrees that no surrender of the Leased Property for the remainder of the Term hereof or any termination of this Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice. No such termination shall be effected either by operation of law or act of the parties hereto, except only in the manner herein expressly provided.

The Authority and City hereby agree that Section 1951.2 of the California Civil Code shall apply to this 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 this 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, shall 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 hereunder 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 shall respond in writing to the Authority, or the Trustee, as applicable, no later than thirty (30) days following the receipt of such notice. In the event the County determines not to assume City's obligations hereunder 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 herein. The parties hereto acknowledge that the provisions set forth this paragraph are intended to permit the County to protect its interests in and to the City-County Administration Building and as such the parties hereto acknowledge that the County is a third-party beneficiary of this Agreement insofar as the County would be entitled to assume the City's obligations with respect to the City-County Administration Building.

Notwithstanding the foregoing, in accordance with Section 6.7 of the Master Agreement the Financing Agency shall be entitled, upon the occurrence of an Event of Default hereunder and a decision by the Trustee to terminate this Lease Agreement in accordance with Section 6.02(b) above, 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, shall cause to be delivered to the Financing Agency notice of the occurrence of an Event of Default hereunder. The purchase price for the Parking Garage shall be the principal amount of the 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 shall within thirty (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 shall 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 herein. The parties hereto acknowledge that the provisions set forth in this paragraph are intended to permit the Financing Agency to protect its interests in and to the Parking Garage and as such the parties hereto acknowledge that the Financing Agency is a third-party beneficiary of this Agreement insofar as the Financing Agency would be entitled to exercise the "right of first refusal" with respect to the purchase of the Parking Garage from the 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 shall be immediately notified; provided however, that no action by the County or the Financing Agency to exercise any rights hereunder shall limit the rights and remedies of the applicable Bond Insurer, Credit Facility Provider or Liquidity Facility Provider under this Agreement.

In addition, the Authority, or the Trustee acting on behalf of the Authority, shall 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 this Lease Agreement as provided in subparagraph (b) above, shall be subject to the written consent of the Authority (which consent shall 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 shall not be required to obtain such opinions provided it has received the consent of a majority in aggregate principal amounts of Bonds outstanding.

Section 6.03. No Remedy Exclusive. No remedy conferred herein upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease 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 herein. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article it shall not be necessary to give any notice, other than such notice as may be required in this Article or by law.

Section 6.04. Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Lease Agreement should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party contained herein, the defaulting party agrees that it will pay on demand to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

Section 6.05. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 6.06. Application of the Proceeds from the Re-Lease of the Leased Property. All amounts received by the Authority under this Article VI shall be credited towards the Base Rental Payments in order of Lease Payment Date.

Section 6.07. Trustee and Owners to Exercise Rights. Such rights and remedies as are given to the Authority under this Article VI have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City hereby consents. Such rights and remedies shall be exercised by the Trustee and the Owners as provided in the Indenture. The Trustee's rights to immunities and protection from liability under Section 10.03 and its rights to payment of its fees and expenses hereto shall survive its resignation or removal and the final payment or the defeasance of the Bonds (or the discharge of the Bonds or the defeasance of the lien of the Indenture).

ARTICLE VII

EMINENT DOMAIN; PREPAYMENT

Section 7.01. Eminent Domain. If the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used by the City shall be taken under the power of eminent domain, the term of this Lease Agreement shall cease as of the day that possession shall be so taken. If less than the whole of the Leased Property shall be taken under the power of eminent domain and the remainder of the Leased Units is usable for the purposes for which it was used by the City at the time of such taking, then this Lease Agreement shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Base Rental Payments due hereunder in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of outstanding Bonds. So long as any of the Bonds shall be outstanding, any award made in eminent domain proceedings for taking the Leased Property or any of the Leased Units thereof shall be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in Section 7.02. Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, shall be paid to the to the City.

Section 7.02. Prepayment.

(a) The City shall prepay on any date from insurance (including proceeds of title insurance) and eminent domain proceeds, to the extent provided in Sections 5.01 and 7.01 hereof (provided, however, that in the event of partial damage to or destruction of the Leased Property caused by perils covered by insurance, if in the judgment of the Authority the insurance proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed Leased Unit of the Leased Property, such proceeds shall be held by the Trustee and used to repair, reconstruct or replace the damaged or destroyed Leased Unit of the Leased Property, pursuant to the procedure set forth in Section 5.01 for proceeds of insurance), all or any part of Base Rental Payments then unpaid so that the aggregate annual amounts of Base Rental Payments which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of Base Rental Payments unpaid prior to the prepayment date (taking into account the reduction in Base Rental Payments allocable to future interest on the Bonds that are redeemed), at a prepayment amount equal to the redemption payment of the maximum amount of Bonds, including the principal thereof and the interest thereon to the date of redemption, plus any applicable premium redeemable from such proceeds.

(b) The City may prepay, from any source of available funds, all or any portion of Base Rental Payments by depositing with the Trustee moneys or securities as provided in Article X of the Indenture sufficient to defease or redeem all or a portion of a Series of Bonds corresponding to such Base Rental Payments when due; provided that the City furnishes the Trustee with an Opinion of Counsel that such deposit will not cause interest on such Series of Bonds to be includable in gross income for federal income tax purposes. The City agrees that if following such prepayment the Leased Property are damaged or destroyed or taken by eminent domain, it is not entitled to, and by such prepayment waives the right of, abatement of such

prepaid Base Rental Payments and shall not be entitled to any reimbursement of such Base Rental Payments.

(c) Before making any prepayment pursuant to this Section, the City shall, within five (5) days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than forty-five (45) days from the date such notice is given.

(d) When (i) there shall have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments or the date when the City may exercise its option to purchase the Leased Property or any of the Leased Unit thereof, in trust for the benefit of the Owners of the Bonds and irrevocably appropriated and set aside to the payment of the Base Rental Payments or option price, sufficient moneys and Permitted Investments described in subsection (1) of the definition thereof in the Indenture, not redeemable prior to maturity, the principal of and interest on which when due will provide money sufficient to pay all principal, premium, if any, and interest on the Bonds to the due date of the Bonds or date when the City may exercise its option to purchase the Leased Property, as the case may be; (ii) all requirements of Section 10.01 of the Indenture have been satisfied; and (iii) an agreement shall have been entered into with the Trustee for the payment of its fees and expenses so long as any of the Bonds shall remain unpaid, then and in that event the right, title and interest of the Authority herein and the obligations of the City hereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Authority and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of the Base Rental Payments or option price) and the Authority's interest in and title to the Project or applicable portion or item thereof shall be transferred and conveyed to the City. In such event, the Authority shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the Authority and evidence such discharge and satisfaction, and the Authority shall pay over to the City as an overpayment of Base Rental Payments all such moneys or Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Base Rental Payments or the option price and the fees and expenses of the Trustee, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of Base Rental Payments or the option price and the fees and expenses of the Trustee, and shall be applied by the Authority to the payment of the Base Rental Payments or the option price and the fees and expenses of the Trustee.

ARTICLE VIII

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 8.01. Right of Entry. The Authority and its assignees shall have the right to enter upon and to examine and inspect the Leased Property during reasonable business hours (and in emergencies at all times) (a) to inspect the same, (b) for any purpose connected with the Authority's or the City's rights or obligations under this Lease Agreement, and (c) for all other lawful purposes.

Section 8.02. Liens. In the event the City shall at any time during the term of this Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Leased Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Leased Property and shall keep the Leased Property free of any and all mechanics' or materialmen's liens or other liens against the Leased Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment. The City agrees to and shall, to the maximum extent permitted by law, indemnify and hold the Authority and the Trustee and their respective members, directors, agents, successors and assigns, harmless from and against, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorney's fees) as a result of any such lien or claim of lien against the Leased Property or the Authority's interest therein.

Section 8.03. Quiet Enjoyment. The parties hereto mutually covenant that the City, by keeping and performing the covenants and agreements herein contained and not in default hereunder, shall at all times during the term of this Lease Agreement peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

Section 8.04. Authority Not Liable. The Authority and its members, directors, officers, agents and employees shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Leased Property. The City, to the extent permitted by law, shall indemnify and hold the Authority and its members, directors, officers, agents and employees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Leased Property, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Leased Property regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

Section 8.05. [Reserved.]

Section 8.06. Title to Leased Property; No Merger of Interests. During the term of this Lease Agreement, the Authority shall hold a leasehold estate to the Leased Property and any and all additions which comprise fixtures, repairs, replacement or modifications thereof, except for those fixtures, repairs, replacements or modifications which are added thereto by the City and which may be removed without damaging the Leased Property, and except for any items added to the Leased Property by the City pursuant to Section 4.02 hereof. This provision shall not operate to the benefit of any insurance company if there is a rental interruption covered by insurance pursuant to Section 5.03 hereof.

The leasing by the Authority to the City of the Leased Property pursuant hereto or the leasing by the City to the Authority of a portion of the Leased Property pursuant to the City Communications Facilities Lease or the Police Facilities and Miscellaneous Facilities Lease shall not effect or result in a merger of the City's leasehold estate pursuant to this Lease Agreement, and the Authority shall continue to have and hold a leasehold estate in the Leased Property pursuant to the Facilities Leases throughout the term thereof. As to the Leased Property, this Lease Agreement shall be deemed and constitute a sublease.

Section 8.07. Tax Covenants. The City and the Authority will not make any use of the proceeds of the obligations provided herein or any other funds of the City or the Authority which will cause such obligations to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code. The City and the Authority will not make any use of the proceeds of the obligations provided herein or any other funds of the City or the Authority which will cause such obligations to be "federally guaranteed" and subject to inclusion in gross income for federal income tax purposes by reason of Section 149(b) of the Code. To that end, so long as any rental payments are unpaid, the City and the Authority, with respect to such proceeds and such other funds, will comply with all requirements of such Sections 148 and 149(b) and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

The City further covenants that it will not use or permit the use of the facilities financed or refinanced by the proceeds of the Bonds by any person not an "exempt person" within the meaning of Section 141(a) of the Code or by an "exempt person" (including the City) in an "unrelated trade or business," in such manner or to such extent as would result in the inclusion of interest received hereunder in gross income for federal income tax purposes under Section 103 of the Code.

If at any time the City is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee or the City or the Authority under this Lease Agreement or the Indenture, the City shall so instruct the Trustee or the appropriate officials of the City in writing, and the Trustee or the appropriate officials of the City, as the case may be, shall take such actions as may be necessary in accordance with such instructions.

In furtherance of the covenants of the City set forth above, the City will comply with the Tax Certificate and will instruct the Trustee in writing as necessary to comply with the Tax Certificate. The Trustee and the Authority may conclusively rely on any such written instructions, and the City hereby agrees to hold harmless the Trustee and the Authority for any loss, claim, damage, liability or expense incurred by the Authority for any actions taken by the Authority in accordance with such instructions.

The City and the Authority shall at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest on the Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes.

Section 8.08. Continuing Disclosure. Any Series of Bonds is exempt from the requirements of Rule 15c2-12 (the "Rule") 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 this Lease Agreement, failure of the City to comply with the Rule shall not be considered an event of default hereunder; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the 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, shall) or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to compel the City to comply with its obligations under this Section 8.08.

Section 8.09. Taxes. The City shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of this Lease Agreement as and when the same become due.

The City shall also pay directly such amounts, if any, in each year as shall be required by the Authority for the payment of all license and registration fees and all taxes (including, without limitation, income, excise, license, franchise, capital stock, recording, sales, use, value-added, property, occupational, excess profits and stamp taxes), levies, imposts, duties, charges, withholdings, assessments and governmental charges of any nature whatsoever, together with any additions to tax, penalties, fines or interest thereon, including, without limitation, penalties, fines or interest arising out of any delay or failure by the City to pay any of the foregoing or failure to file or furnish to the Authority or the Trustee for filing in a timely manner any returns, hereinafter levied or imposed against the Authority or the Leased Property, the rentals and other payments required hereunder or any parts thereof or interests of the City or the Authority or the Trustee therein by any governmental authority.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee shall notify the City that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Leased Property will be materially endangered or the Leased Property, or any part thereof, will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

Section 8.10. Authority's Purpose. The Authority covenants that, prior to the discharge of this Lease Agreement, it will not engage in any activities inconsistent with the purposes for which the Authority is organized.

Section 8.11. Purpose of this Lease Agreement. The City covenants that during the term of this Lease Agreement, except as hereinafter provided, (a) it will use, or cause the use of, the Leased Property for public purposes and for the purposes for which the Leased Property are customarily used, (b) it will not vacate or abandon the Leased Property or any part thereof, and (c) it will not make any use of the Leased Property which would jeopardize in any way the insurance coverage required to be maintained pursuant to Article V hereof.

Section 8.12. Additional Representations, Covenants and Warranties of the City. The City represents, covenants and warrants to the Authority as follows:

(a) Due Organization and Existence. The City is a charter city and municipal corporation, duly organized and existing under the Constitution and laws of the State, and is a Local Agency with the meaning of Section 6585(f) of the Act.

(b) Authorization; Enforceability. The Constitution and laws of the State, including the Charter of the City, authorize the City to enter into this Lease Agreement and to enter into the transactions contemplated by and to carry out its obligations hereunder, and the City has duly authorized and executed this Lease Agreement. This Lease Agreement constitutes the legal, valid and binding obligations of the City enforceable in accordance with its terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the rights of creditors generally.

(c) No Conflicts or Default; No Liens or Encumbrances. Neither the execution and delivery of this Lease Agreement nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the City is now a party or by which the City is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the City, or upon the Leased Property except for the pledges contained in the Indenture and except for Permitted Encumbrances.

(d) Essential Governmental Function. The City hereby certifies that the lease by the City of the Leased Property pursuant to this Agreement serves an essential governmental function of the City, and shall be used for the benefit of the general public.

(e) Execution and Delivery. The City has duly authorized and executed this Lease Agreement in accordance with its Charter and the Constitution and laws of the State.

(f) No Default. The City is not in default under any provisions of the laws of the State which would adversely affect its existence or its powers referred to in this Section 8.12.

(g) No Litigation. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best of its knowledge, threatened against the City in any way contesting or affecting the validity or enforceability of this Lease Agreement or contesting the powers of the City to execute and deliver this Lease Agreement or to consummate the transactions contemplated hereby or thereby.

Section 8.13. Additional Representations, Covenants and Warranties of the Authority.
The Authority represents, covenants and warrants to the City as follows:

(a) Due Organization and Existence; Enforceability. The Authority is a joint powers agency duly organized, existing and in good standing under and by virtue of the laws of the State, including, particularly, without limitation, Chapter 5, Division 7, Title 1 (commencing with Section 6500) of the California Government Code, as amended, has the power to enter into this Lease Agreement and the Facilities Leases, is possessed of full power to own and hold real and personal property, and to lease and sell the same; and has duly authorized the execution and delivery of this Lease Agreement and the Facilities Leases. This Lease Agreement and the Facilities Leases constitute legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the rights of creditors generally.

(b) No Conflicts or Defaults; No Liens or Encumbrances. Neither the execution and delivery of this Lease Agreement and the Facilities Leases, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of the agreement pursuant to which the Authority was formed or any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Authority, or upon the Leased Property except by the pledge contained in the Indenture and except for Permitted Encumbrances.

(c) No Litigation. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best of its knowledge, threatened against the Authority in any way contesting or affecting the validity or enforceability of this Lease Agreement or the Facilities Leases or contesting the powers of the Authority to execute and deliver this Lease Agreement or the Facilities Leases or to consummate the transactions contemplated hereby or thereby.

(d) Permitted Encumbrances. The Authority covenants that the Permitted Encumbrances do not and will not interfere with the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property during each such period for which said Leased Property is to be leased by the City.

(e) Execution and Delivery. The Authority has duly authorized and executed this Lease Agreement and the Facilities Leases in accordance with the Constitution and laws of the State.

ARTICLE IX

DISCLAIMER OF WARRANTIES; VENDOR'S WARRANTIES; USE OF THE FACILITIES

Section 9.01. Disclaimer of Warranties. THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE FACILITIES OR THE PROJECT, OR WARRANTY WITH RESPECT THERETO. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF THE FACILITIES OR THE PROJECT OR A DEALER THEREIN, THAT THE CITY LEASES THE FACILITIES AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. In no event shall the Authority be liable for any incidental, indirect, special or consequential damage in connection with or arising out of this Lease Agreement or the existence, furnishing, functioning or the City's use of any item or products or services provided for in this Lease Agreement.

Section 9.02. Vendor's Warranties. The Authority hereby irrevocably appoints the City its agent and attorney-in-fact during the term of this Lease Agreement, so long as the City shall not be in default hereunder, to assert from time to time whatever claims and rights, including warranties of the Leased Property or the Project, which the Authority may have against the manufacturers, vendors and contractors of the Leased Property or the Project. The City's sole remedy for the breach of such warranty, indemnification or representation shall be against the manufacturer or vendor or contractor of the Leased Property or of the Project, and not against the Authority, nor shall such matter have any effect whatsoever on the rights and obligations of the Authority with respect to this Lease Agreement, including the right to receive full and timely payments hereunder. The City expressly acknowledges that the Authority makes, and has made, no representation or warranties whatsoever as to the existence or availability of such warranties of the manufacturer, vendor or contractor.

Section 9.03. Use of the Leased Property. The City will not install, use, operate or maintain the Leased Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by this Lease Agreement. The City shall provide all permits and licenses, if any, necessary for the installation and operation of the Leased Property. In addition, the City agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Leased Property) with all laws of the jurisdictions in

which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to the Leased Property or its interest or rights under this Lease Agreement.

ARTICLE X

ASSIGNMENT, SUBLEASING AND INDEMNIFICATION

Section 10.01. Assignment by Authority. The City and the Authority acknowledge that this Lease Agreement, including the rights to receive the Base Rental Payments hereunder, and the rights of the City to receive payments from the Agency under the Reimbursement Agreement and the rights to enforce the covenants, agreements, representations and warranties of the City hereunder and all other rights and remedies of the Authority hereunder (except the rights to expenses, fees and indemnification of the Authority provided herein), have been pledged and assigned by the Authority to the Trustee under the Indenture as security for the repayment of the Bonds. Base Rental Payments, including payments made by the Redevelopment Agency to the City under the Reimbursement Agreement, shall be paid directly to the Trustee. The Trustee may exercise any of the rights and remedies assigned to it hereunder directly against the City. It is expressly agreed that, notwithstanding such pledge and assignment, the Authority shall retain all duties and obligations of the Authority hereunder.

Section 10.02. Assignment and Subleasing by the City. This Lease Agreement may be assigned or the Leased Property or any Leased Unit or portion thereof may be subleased by the City, provided, that any such assignment or sublease shall be subject to all of the following conditions:

- (a) This Lease Agreement and the obligation of the City to make Base Rental Payments under this Lease Agreement shall remain obligations of the City; and
- (b) The sublessee or assignee shall become primarily liable on the obligations of the City under this Lease Agreement to the extent of the interest subleased or assigned; and
- (c) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease or assignment; and
- (d) No such sublease or assignment by the City shall cause the Leased Property to be used for a purpose other than a governmental function authorized under the provisions of the Constitution and laws of the State; and
- (e) The City shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such sublease or assignment shall not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes.

Section 10.03. Release and Indemnification Covenants. The City shall and hereby agrees to the extent permitted by law to indemnify and save the Authority, the members of the Authority, and the Trustee and the members, officers and employees of each of the foregoing harmless from and against all claims, losses and damages, including legal fees and expenses; arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the City or at its direction or request, (b) any breach or default on the part of the City in the performance of any of its obligations under this Lease Agreement, (c) any act or negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property, (d) any act or negligence of any assignee or sublessee of the City, or of any agents, contractors, servants, employees or licensees of any assignee or sublessee of the City with respect to the Leased Property, (e) the authorization of payment of costs of repairs to the Leased Property, (f) the Trustee's acceptance or administration of the trust, or performance of its duties under the Indenture, (g) the sale of any Bonds and the carrying out of any of the transactions contemplated by the Bonds, or (h) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Bonds. No indemnification to the Authority or the Trustee is required to be made by the City under this Section 10.03 or elsewhere in this Lease Agreement for willful misconduct or negligence under this Lease Agreement by the Authority, the Trustee, their officers, agents, employees, successors or assigns.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Law Governing. This Lease Agreement shall be governed exclusively by the provisions hereof and by the laws of the State of California as the same from time to time exist.

Section 11.02. Notices. All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests, agreements or promises or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered mail, return receipt requested, postage prepaid when sent to the addresses shown on Exhibit D hereto or to such other addresses as the respective parties may from time to time designate by notice in writing. A copy of any such notice or other document herein referred to shall also be delivered to the Trustee.

Section 11.03. Validity and Severability. If for any reason this Lease Agreement shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City hereunder, including the covenant to pay rentals hereunder, is unenforceable for the full term hereof, then and in such event this Lease Agreement is and shall be deemed to be a lease under which the rentals are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Leased Property, and all of the rental and other terms, provisions and conditions of this Lease Agreement, except to the

extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

Section 11.04. Net-Net-Net Lease. This Lease Agreement shall be deemed and construed to be a "net-net-net lease," and the City hereby agrees that the payments provided for herein shall be an absolute net return to the Authority or its successors or assigns, free and clear of any expenses, charges or set offs whatsoever.

Section 11.05. Section Headings. All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Lease Agreement.

Section 11.06. Amendment or Termination. The Authority and the City may at any time amend, modify or terminate this Lease Agreement in accordance with the terms hereof and of the Indenture, or provide for the amendment of this Lease Agreement to remove or substitute the Leased Property pursuant to Section 2.03 hereof, or to provide for the issuance of Additional Bonds pursuant to Section 3.07 of the Indenture.

Section 11.07. Execution in Counterparts. This Lease Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.08. Binding Effect. This Lease Agreement shall inure to the benefit of and shall be binding upon the Authority and the City and their respective successors and assigns, and the Trustee shall be deemed a third party beneficiary of this Lease Agreement.

Section 11.09. Further Assurances and Corrective Instruments. The Authority and the City agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property (or any portion thereof) hereby leased or intended so to be or for carrying out the expressed intention of this Lease Agreement.

Section 11.10. Authority and City Representatives. Whenever under the provisions of this Lease Agreement the approval of the Authority or the City is required, or the Authority or the City is required to take some action at the request of the other, such approval or such request shall be given by an Authorized Officer or Authorized Representative, as each is defined in the Indenture, of the applicable party, and any party hereto shall be authorized to rely upon any such approval or request.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Authority has caused this Lease Agreement to be executed in its name by its duly authorized representative; and the City has caused this Lease Agreement to be executed in its name by its duly authorized officer, all as of August 1, 2008.

MODESTO PUBLIC FINANCING AUTHORITY,
as lessor

By: 
Authorized Officer
-JIM RIDER-

CITY OF MODESTO,
as lessee

By: 
Authorized Officer
GREG NYHOFF

ACKNOWLEDGMENT

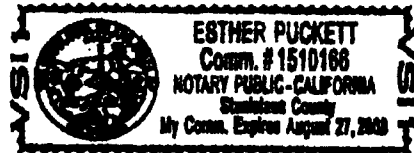
State of California)
County of Stanislaus)

On **AUGUST 20, 2008** before me, ESTHER PUCKETT, Notary Public, personally appeared **GREG NYHOFF**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her/ signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature *Esther Puckett*



(Seal)

Government Code 27361.7: I certify under penalty of perjury that the notary Seal on the document to which this statement is attached reads as follows:

Name of Notary *Esther Puckett*
County / State STANISLAUS / CALIFORNIA
Commission No. 1510166 Expiration Date 8/27/08
Date: 8/27/08 Signature *[Signature]*
Print Name: M. Kumler

ACKNOWLEDGMENT

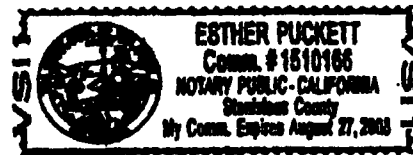
State of California)
County of Stanislaus)

On **AUGUST 20, 2008** before me, ESTHER PUCKETT, Notary Public, personally appeared **JIM RIDENOUR**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her/ signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature *Esther Puckett*



(Seal)

Exhibit A

Rental Payment Period Ending August 14	Estimated Annual Base Rental Payments		Total Estimated Annual Base Rental Payments
	All the Facilities, excluding the Parking Garage and 1 st Floor Retail of Admin Building	Parking Garage and 1 st Floor Retail of Admin Building	
2009	\$ 2,400,496.02	\$ 869,374.85	\$ 3,269,870.87
2010	2,457,529.59	885,368.97	3,342,898.56
2011	2,502,483.76	908,552.00	3,411,035.76
2012	2,574,462.28	930,915.92	3,505,378.20
2013	2,634,018.88	960,822.92	3,594,841.80
2014	2,672,874.52	981,552.04	3,654,426.56
2015	2,752,521.21	1,007,514.63	3,760,035.84
2016	2,834,840.06	1,035,022.62	3,869,862.68
2017	2,592,631.30	1,070,914.46	3,663,545.76
2018	2,663,640.81	1,103,647.71	3,767,288.52
2019	2,713,198.09	1,126,870.03	3,840,068.12
2020	2,780,054.82	1,157,733.34	3,937,788.16
2021	2,886,122.94	1,193,241.38	4,079,364.32
2022	2,960,341.88	1,227,647.88	4,187,989.76
2023	3,033,142.08	1,261,425.76	4,294,567.84
2024	3,104,399.49	1,294,518.47	4,398,917.96
2025	3,210,569.30	1,330,289.98	4,540,859.28
2026	3,287,584.08	1,366,181.60	4,653,765.68
2027	3,379,230.02	1,409,129.90	4,788,359.92
2028	3,283,015.81	1,455,541.87	4,738,557.68
2029	3,294,881.14	1,460,802.42	4,755,683.56
2030	3,323,650.41	1,473,557.43	4,797,207.84
2031	3,347,787.40	1,484,258.68	4,832,046.08
2032	3,370,756.41	1,494,442.11	4,865,198.52
2033	3,406,288.76	1,510,195.56	4,916,484.32
Total	\$ 73,466,521.04	\$ 29,999,522.55	\$ 103,466,043.59

Exhibit B

GENERAL DESCRIPTION OF THE LEASED PROPERTY

1. The City's one-half undivided interest in and to portions of the City-County Administrative Building, including the City's one-half undivided interest in the Site upon which such facility will be constructed, together with the City's rights and interests in the use of common areas, but excluding that certain airspace subdivision on the first floor of the City-County Administrative building.
2. The Public Parking Garage containing approximately 700 spaces to be used by the general public, including the Site upon which such facility is located.
3. The City's undivided fifty percent (50%) interest in and to the use of facilities constituting the Communications Dispatch Center, including its undivided fifty percent (50%) interest in and to the Site, and interests in the use of common areas.
4. The Police Facilities, including the Site upon which such facilities are located.
5. The Miscellaneous Facilities, such properties being located within the City and more commonly referred to as Fire Stations #3, #5, #6, #7, #9 and #11; the Senior Citizen Center; McHenry Mansion, Parking Lot No. 25 and the Corporation Yard, all inclusive of the Sites upon which such facilities are located.

Exhibit C

LEGAL DESCRIPTION OF THE SITES

THE LAND REFERRED TO HEREIN BELOW IS SITUATED THE CITY OF MODESTO, COUNTY OF STANISLAUS, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

Parcel No. One: Communication Facility

Parcel Two as per Parcel Map filed September 24, 1979, in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. Two: Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the City of Modesto, as per Map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Recorder.

Together With:

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20 foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

Parcel No. Three: a portion of 10th Street Admin.

Lot A:

Parcel One of Parcel Map filed June 15, 2000 in Book 50 of Parcel Maps, Page 25, Stanislaus County Records.

Excepting therefrom that portion thereof conveyed to Civic Partners Modesto, Inc. by Corporation Grant Deed recorded June 29, 2001, Instrument No. 2001-0072135, Stanislaus County Records.

Lot B:

That portion of Parcel Three of Parcel Map filed June 15, 2000, in Book 50 of Parcel Maps, Page 25, Stanislaus County Records, being more particularly described as follows:

Beginning at the most Easterly corner of the above mentioned Parcel 3; thence South 46° 50' 12" West along the line common to said Parcels 1 and 3, a distance of 15.83 feet; thence leaving last said line and proceeding North 43° 09' 48" West, a distance of 16.00 feet to a point on the above mentioned line common to said Parcels 1 and 3; thence along last said line, the following two (2) courses: 1) North 46° 50' 12" East, a distance of 15.83 feet; 2) South 43° 09' 48" East, a distance of 16.00 feet to the point of beginning.

Parcel No. Four: A portion of 10th Street Admin.

Parcel B of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.

Parcel No. Five: Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. Six: Parking Structure

Lots 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. Seven: Parking Lot #25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. Eight: Fire Station #3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 in Volume 21 of Maps, Page 55, Stanislaus County Records.

Parcel No. Nine: Fire Station #6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. Ten: Fire Station #7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. Eleven: Fire Station #5

Parcel 11-1

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Beginning at a point on the East line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the Southeast corner of said Lot 2; thence from said point of beginning parallel to the South line of said Lot 2, North 88° 30' West 660 feet to a point on the West line of said Lot 2; thence North 0° 30' West along said West line of said Lot 2 a distance of 153.73 feet; thence East parallel with the South line of said Lot 2, a distance of 660 feet to a point on the East line of said Lot 2, located on the center line of said Oakdale Road; thence along the East line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

Excepting therefrom all that portion thereof lying Northerly of the North line of Burchell Court (formerly Northern Boulevard) extending Westerly to the West line of Lot 2.

Also excepting therefrom all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

Also excepting therefrom all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

Parcel 11-2

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Commencing at a point on the Southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the Northeastern corner of Parcel "E" on the Western line of Timothy Avenue as shown on the Map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, Page 53, Stanislaus County Records; thence along a line at right angles to the Western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the Northerly extension of the centerline of Timothy Avenue; thence along said Northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the Northern line of said Chambers property, which is also the Southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the Southern line of Parcel "A" as per Map of Record of Survey filed July 6, 1962 in Volume 9 of Surveys, Page 25, Stanislaus County Records; thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the Southeastern corner of said Parcel "A", said corner being the Northeast corner of said Chambers property which is also a point on the Western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at page 695, as Instrument No. 29947,

Stanislaus County Records; thence along said Western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

Parcel 11-3

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records.

Beginning at the Northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the North line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said North line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the Southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, page 643, as Instrument No. 9843, Stanislaus County Records; thence along the West line of the City of Modesto property as conveyed by Deed above referred to and the Northerly extension of said Westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

Parcel 11-4

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Beginning at the Northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the North line of said Parcel D and its Westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the Northerly extension of said centerline of Timothy Avenue to the Southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the South line of the City of Modesto property, as conveyed by Deed above referred to, to the Southeast corner thereof, said point being on the West line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence South along the West line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

Parcel 11-5

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Commencing at the 3/4 inch iron pipe set for the Northeastern corner of Parcel "A", as per Map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the Northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the Northeastern corner of the property conveyed to Chester D. Chambers by Deed

recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the Eastern line of the Chambers property and the Western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the Southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the Southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said Southern line of the property conveyed to Chambers by Deed last above referred to and the North line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the Western line of Timothy Avenue, as shown on said Record of Surveys; thence along said Western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the Southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the East, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the Southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

Parcel No. Twelve: Corporation Yard

All that portion of Section 29 Township 3 South Range 9 East MDB&M described as All of Block 434 and all of Lots 11 to 21 inclusive of Block 433 of City of Modesto. Except that portion of Lots 19, 20 and 21 in Block 433 described as beginning at the Southwest corner of Lot 21; then along the West line of Lots 21 and 20, North 20° 19' 36" E., 68.5 feet to a point on a non tangent curve; thence along said curve concave to the Northeast with the long chord bearing South 31° 08' 27" East from said point, having a radius of 787 feet, a central angle of 5° 34' 11", an arc length of 76.5 feet, to the South line of Block 433; then along the South line of Block 433, North 88° 53' 48" West, 63.35 feet to point of origin.

Parcel No. Thirteen: Fire Station No. 11

All that portion of the Southwest quarter of Section 6, Township 3 South, Range 9 East, M.D.B.&M., described as follows:

Parcel 1B, as per Parcel Map filed July 25, 1967 in Book 3 of Parcel Maps, Page 120, Stanislaus County Records.

Parcel No. Fourteen: Fire Station No. 9

Lots 14 and 15 in Block 1850 of Fara Estates, as per Map filed October 17, 1979 in Volume 28 of Maps, Page 68, Stanislaus County Records

Parcel No. Fifteen: a portion of 10th Street Admin.

1. Parcel A-1 of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.
2. Parcel A-2 of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.

Parcel No. Sixteen: McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Exhibit D

ADDRESSES FOR NOTICES

If to the City: City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Director of Finance

If to the Authority: Modesto Public Financing Authority
c/o City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Chairman

If to the Financing Agency: City-County Capital Improvements and Financing Agency
(c/o Stanislaus County)
1010 Tenth Street, Sixth Floor
Modesto, California 95353
Attention: Chief Executive Officer

If to the County: County of Stanislaus
1010 Tenth Street, Sixth Floor
Modesto, California 96354
Attention: Chief Executive Officer

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



Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office

DOC- 2011-0067561-00

Tuesday, AUG 16, 2011 09:13:14

Ttl Pd \$0.00

Nbr-0003094787

OVP/R2/1-6

RECORDING REQUESTED BY:
City of Modesto, California

WHEN RECORDED MAIL TO:
Sidley Austin LLP
555 California Street
20th Floor
San Francisco, California 94104
Attention: Eric D. Tashman, Esq.

This document is recorded for the benefit of the City of Modesto and recording is fee-exempt under Section 27383 of the Government Code.

AMENDMENT NO. 1 TO LEASE AGREEMENT

Dated as of August 1, 2011

by and between the

MODESTO PUBLIC FINANCING AUTHORITY,
as lessor

and the

CITY OF MODESTO,
as lessee

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AMENDMENT NO. 1 TO LEASE AGREEMENT

THIS AMENDMENT NO. 1 TO LEASE AGREEMENT (this "Amendment No. 1"), is made and entered into as of August 1, 2011, between MODESTO PUBLIC FINANCING AUTHORITY (the "Authority") and CITY OF MODESTO (the "City").

WITNESSETH:

WHEREAS, the Authority previously issued its \$65,170,00 Lease Revenue Refunding Bonds, Series 2008 (the "Bonds") pursuant to a certain 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");

WHEREAS, the Authority and the City entered into a Lease Agreement, dated as of August 1, 2008 (the "Lease"), to provide for payment of the Bonds from Base Rental Payments to be made by the City under the Lease and certain funds held by the Trustee under the Indenture;

WHEREAS, the Bonds are supported by a irrevocable direct-pay letter of credit (the "Letter of Credit"), dated August 28, 2008, issued by Bank of America, N.A. (the "Bank") pursuant to a Reimbursement Agreement, dated as of August 1, 2008;

WHEREAS, the current Stated Expiration Date of the Letter of Credit is September 30, 2011 and the City has requested the Bank to extend the Stated Expiration Date of the Letter of Credit. The Bank has agreed to extend the Stated Expiration Date of the Letter of Credit to September 30, 2012 pursuant to the Letter of Credit Amendment subject to amendment of certain provisions of the First Amended Reimbursement Agreement as reflected in the Amended and Restated Reimbursement Agreement, dated as of August 16, 2011, by and among the City, the Authority and the Bank (the "Amended and Restated Reimbursement Agreement"). * Recording Reference 8/28/2008 -

WHEREAS, the Authority and the City desire to amend the Lease to accommodate the terms of the Amended and Restated Reimbursement Agreement; and

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94321

WHEREAS, Section 11.06 of the Lease provides for the amendment of the Lease under certain conditions described therein;

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. Definitions. Unless changed by this Amendment No. 1, all terms used herein which are defined in the Lease, Amended and Restated Reimbursement Agreement or the Indenture shall have the meanings assigned to them therein.

2. Amendment. Section 6.01 of the Lease is hereby amended by adding new subparagraph (d) to the end of Section 6.01 as follows:

The Trustee shall receive notice from the Credit Facility Provider that an Event of Default has occurred under the Credit Facility Reimbursement Agreement.

3. Consent Required by Section 6.08 of the Indenture. Pursuant to Section 6.08 of the Indenture, by its execution of the Amended and Restated Reimbursement Agreement, the Bank consents to this Amendment No. 1.

4. Full Force and Effect. All other provisions of the Lease shall remain in full force and effect.

5. Effective Date. This Amendment No. 1 shall become effective on August 16, 2011.

6. Governing Law. The laws of the State of California shall govern this Amendment No. 1.

7. Severability. In case any one or more of the provisions contained in this Amendment No. 1 should be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any of the provisions contained in this Amendment No. 1 and, to the extent and only to the extent that any such provision is invalid, illegal or unenforceable, this Amendment No. 1 shall be construed as if such provision had never been contained herein.

8. Execution of Several Counterparts. This Amendment No. 1 may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and any and all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Authority and the City have each caused this Amendment No. 1 to be executed in their respective names by their respective duly authorized officers, as of the date first above written.

MODESTO PUBLIC FINANCING
AUTHORITY

By: *Gloriette Beck*
Authorized Officer
Gloriette Beck

CITY OF MODESTO

By: *Gloriette Beck*
Authorized officer
Gloriette Beck

State of California)
) SS
County of Stanislaus)

On August 8, 2011 before me, Diane C. Rambo,
Notary Public, personally appeared Gloriette Beck

_____, who proved to me on the basis of
satisfactory evidence to be the person(s) whose name(s) is/~~are~~ subscribed to the within
instrument and acknowledged to me that ~~he/she/they~~ executed the same in ~~his/her/their~~
authorized capacity(ies), an that by ~~his/her/their~~ signature(s) on the instrument the person(s), or
the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the
foregoing paragraph is true and correct.

WITNESS my hand and official seal.



Diane C. Rambo
Signature

[Seal]

④
h



Recording requested by
and return to:

CITY OF MODESTO
c/o Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, California 94104

Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2008-0094324-00
Acct 501-Chicago Title
Thursday, AUG 28, 2008 08:00:00
Ttl Pd \$0.00 Nbr-0002596338
OMK/R3/1-12

Attention: Ty H. Conner, Esq.

FACILITIES LEASE
(Parking Garage)

by and between the

REDEVELOPMENT AGENCY OF THE CITY OF MODESTO

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of August 1, 2008

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

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FACILITIES LEASE

THIS FACILITIES LEASE, dated as of August 1, 2008 (this "Facilities Lease"), by and between the REDEVELOPMENT AGENCY OF THE CITY OF MODESTO, a redevelopment agency, public body, corporate and politic, duly organized and existing under the laws of the State of California (the "Redevelopment Agency"), as lessor, and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise powers authority, duly organized and existing under and by virtue of the laws of the State of California (the "Authority"), as lessee;

WITNESSETH:

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds"), pursuant to a certain Trust Indenture, dated as of March 1, 1998 (the "1998 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, as successor trustee (the "1998 Trustee") for the purpose of (i) providing funds for the 10th Street Place Project and the police headquarters building and communications dispatch center (collectively, the "1998 Project"), (ii) providing funds to refund its outstanding Certificates of Participation (Capital Improvements Project), (iii) paying capitalized interest on the 1998 Bonds, (iv) providing a debt service reserve fund for the 1998 Bonds and (v) paying the costs of issuance therefore;

WHEREAS, the Authority previously issued its Lease Revenue Refunding and Capital Improvements Bonds, Series 2007 (the "2007 Bonds"), pursuant to a certain Bond Indenture, dated as of April 1, 2007 (the "2007 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, as successor trustee (the "2007 Trustee") for the purpose of (i) providing funds to finance certain additional improvements to John Thurman field (the "2007 Project"), (ii) providing funds to refund all of its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and (iii) providing funds to refund a portion of its 1998 Bonds;

WHEREAS, the City of Modesto (the "City") has determined to refund all of the 1998 Bonds and all of the 2007 Bonds;

WHEREAS, the Authority desires to issue its Lease Revenue Refunding Bonds, Series 2008, in one or more series of bonds (the "2008 Bonds"), pursuant to a certain 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"), for the purposes of (i) providing funds to refund all of the 1998 Bonds and all of the 2007 Bonds, and (ii) paying the costs of issuance therefor;

WHEREAS, in furtherance of the issuance of the 2008 Bonds or any subsequent bonds or obligations issued to refund such bonds (the "Refunding Bonds" and, together with the 2008 Bonds, the "Bonds"), the Redevelopment Agency desires to lease certain real property and improvements to the Authority, as described in Exhibit A hereto (the "Facilities");

WHEREAS, the Authority will lease-back the Facilities, together with certain other properties (collectively, the "Leased Property") to the City pursuant to the Lease Agreement, dated as of August 1, 2008 (the "Lease Agreement"), between the Authority and the City

(capitalized terms used herein and not otherwise defined herein have the meanings assigned thereto in the Lease Agreement);

WHEREAS, under the Lease Agreement, the City will be obligated to make Lease Payments to the Authority for the lease of the Leased Property and the Authority will pledge such Lease Payments to the Trustee for payment of the Bonds; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Facilities Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Facilities Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE FACILITIES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO AGREE AS FOLLOWS:

Section 1. Leased Premises.

The Redevelopment Agency hereby leases to the Authority (without the option to purchase) and the Authority hereby leases from the Redevelopment Agency, on the terms and conditions hereinafter set forth, the Facilities, as described on Exhibit A hereto.

Section 2. Authority's Covenant to Issue the 2008 Bonds.

In consideration of the lease of the Facilities by the Redevelopment Agency to the Authority as provided in Section 1 hereof, the Authority hereby covenants to issue its 2008 Bonds and to apply or cause the proceeds thereof to be applied in accordance with the terms of the Indenture and related agreements thereto.

Section 3. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the Lease Agreement expires as provided by Section 2.02 thereof, provided, however, that if Lease Payments (as defined therein) due under the Lease Agreement remain unpaid at the expiration of the Lease Agreement term, then this Facilities Lease shall not terminate until the later of (i) September 1, 2043, (ii) the date on which all Bonds have been paid in full or (iii) the expiration of the term of any lease executed and delivered pursuant to Section 6.02 of the Lease Agreement, unless such term is sooner terminated as hereinafter provided.

Section 4. Rental.

The Authority shall pay to the Redevelopment Agency as and for the rental hereunder the sum of One Dollar (\$1.00) on the date of the initial issuance of the 2008 Bonds.

Section 5. Purpose.

The Authority shall use the Facilities solely for the purpose of subletting the Facilities to the City pursuant to the Lease Agreement, provided, that in the event of default by the City under the Lease Agreement the Authority may exercise the remedies provided in the Lease Agreement.

Section 6. Owner in Fee.

The Redevelopment Agency covenants that it is the owner in fee of the Facilities (as described in Exhibit A hereto), except as to easements and encumbrances which will not adversely affect the Authority's use and occupancy of the Facilities.

Section 7. Assignments and Subleases.

Unless the City shall be in default under the Lease Agreement, the Authority may not, without the written consent of the City, assign its rights hereunder or sublet the Facilities, except as otherwise contemplated by Section 5 above.

Section 8. Right of Entry; Easements.

The Redevelopment Agency reserves the right for any of its duly authorized representatives to enter upon the Facilities at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the Redevelopment Agency is not in default under the Lease Agreement.

Section 9. Termination.

The Authority agrees, upon the termination of this Facilities Lease, to quit and surrender the Facilities in the same good order and condition as the same was in at the time of commencement of the terms hereunder (with such modifications and improvements as are contemplated by the Lease Agreement), reasonable wear and tear excepted, and further agrees that any permanent improvements and structures existing upon the Facilities at the time of the termination of this Facilities Lease shall remain thereon and title thereto shall vest in the Redevelopment Agency.

Section 10. Default.

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Facilities Lease, which default continues for thirty (30) days following written notice to and demand for correction thereof by the Redevelopment Agency, the Redevelopment Agency may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the Redevelopment Agency may not terminate this Facilities Lease and shall exercise only remedies providing for specific performance hereunder.

Section 11. Quiet Enjoyment.

The Authority, at all times during the term hereof, shall peaceably and quietly have, hold and enjoy all of the Facilities leased hereunder.

Section 12. Waiver of Personal Liability.

All liabilities hereunder on the part of the Authority shall be solely liabilities of the Authority, as a separate legal entity and agency, and the Redevelopment Agency hereby releases each and every member, director, officer, agent or employee of the Authority of and from any personal or individual liability hereunder. No member, director, officer, agent or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder to the Redevelopment Agency or to any other party whomsoever for anything done or omitted to be done by the Authority hereunder.

Section 13. Taxes.

The Redevelopment Agency covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Facilities.

Section 14. Eminent Domain.

In the event the whole (or so much thereof as to render the remainder unusable for the purposes for which it was intended by the City) or any part of the Facilities is taken by eminent domain proceedings, the proceeds of such proceedings allocable to the Facilities, as determined by the Redevelopment Agency, shall be paid to the Trustee for application in accordance with Section 5.06 of the Indenture.

Section 15. Title Insurance.

In the event that any proceeds are paid under the title policy delivered to the Redevelopment Agency, such proceeds attributable to the Facilities, as determined by the Redevelopment Agency, shall be paid to the Trustee for application in accordance with Section 5.06 of the Indenture.

Section 16. Liability, Casualty, Fire and Extended Insurance.

The Redevelopment Agency hereby covenants to obtain and cause to be maintained throughout the term of this Facilities Lease, a standard comprehensive general liability insurance policy or policies, and insurance against loss or damage to any part of the Facilities by reason of fire and lightning, with extended coverage and vandalism and malicious mischief, in protection of the Authority, the City, the Trustee for the Bonds, the County and their respective members, directors, officers, agents and employees (the "Insured Parties"), indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Facilities. The standard comprehensive general liability insurance policy or policies required by this Section shall have minimum liability limits of minimum liability limits of one million dollars (\$1,000,000) for personal injury

or death of each person and three million dollars (\$3,000,000) for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of five hundred thousand dollars (\$500,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of three million dollars (\$3,000,000) covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the Redevelopment Agency, the City or the County.

Casualty insurance and fire and extended coverage required by this Section shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Project (less the cost of the land), excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$100,000 for any one loss, or in the case of flood or earthquake, ten percent of such amount or a comparable deductible adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient, in the event of total or partial loss, to enable the payment of all Bonds then outstanding. Such casualty insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the Redevelopment Agency. The proceeds of the liability insurance shall be applied to the payment of any claim covered by such policy. The proceeds of any casualty insurance and for any extended coverage shall be used for the repair, reconstruction or replacement of the damaged or destroyed portion of the Project, and the Redevelopment Agency shall hold any such proceeds separate and apart from all other funds held by the Redevelopment Agency in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Project to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds; provided, however, if the Redevelopment Agency determines that the repair, reconstruction or replacement is not feasible within 24 months from the date of loss, then any proceeds received as a result of damage to the Facilities shall be paid to the Trustee.

Section 17. Third Party Insureds.

The insurance policies required by Section 15 and 16 hereof shall name the Authority as a third-party insured and shall include endorsements making amounts payable under such policies payable to the Authority in accordance with its interests described hereunder.

Section 18. Partial Invalidity.

If any one or more of the terms, provisions, covenants or conditions of this Facilities Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Facilities Lease shall be affected thereby, and each provision of this Facilities Lease shall be valid and enforceable to the fullest extent permitted by law.

Section 19. Notices.

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and addressed as provided in Exhibit B hereof, and in all cases with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

Section 20. No Mergers of Interest.

The Leasehold estates under this Facilities Lease and the Lease Agreement shall not merge, whether by the exercise of any right or remedy hereunder or thereunder, by operation of law, or otherwise.

Section 21. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

Section 22. Amendment.

The Authority and the Redevelopment Agency may at any time agree to the amendment of this Facilities Lease; provided, however, that the Authority and the Redevelopment Agency agree and recognize that this Facilities Lease is entered into as contemplated by the terms of the Indenture, and accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Indenture.

Section 23. Execution.

This Facilities Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Facilities Lease. It is also agreed that separate counterparts of this Facilities Lease may separately be executed by the Redevelopment Agency and the Authority, all with the same force and effect as though the same counterpart had been executed by both the Redevelopment Agency and the Authority.

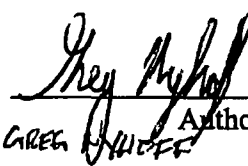
Section 24. Governing Law

This Facilities Lease shall be governed by and construed in accordance with the laws of the State of California.

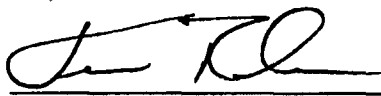
[Signature Page to Follow]

IN WITNESS WHEREOF, the Redevelopment Agency and the Authority have caused this Facilities Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.


REDEVELOPMENT AGENCY OF THE CITY OF
MODESTO,
as Lessor

By: 
GREG HUFFER Authorized Officer

MODESTO PUBLIC FINANCING AUTHORITY,
Lessee

By: 
Authorized Officer
JIM RIDEMOUR

Approved as to Form:

By: 
City Attorney
SUSANA WOOD

ACKNOWLEDGMENT

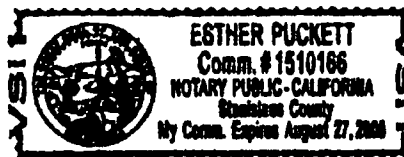
State of California)
County of Stanislaus)

On **AUGUST 20, 2008** before me, ESTHER PUCKETT, Notary Public, personally appeared **GREG NYHOFF**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her/ signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.


I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature 



(Seal)

Government Code 27361.7: I certify under penalty of perjury that the notary Seal on the document to which this statement is attached reads as follows:
Name of Notary Esther Puckett
County / State STANISLAUS / CALIFORNIA
Commission No. 1510166 Expiration Date 8/27/08
Date: 8/27/08 Signature 
Print Name: M. Kumler

ACKNOWLEDGMENT

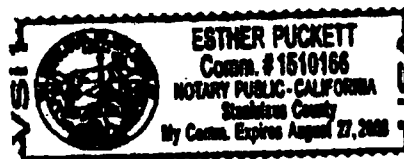
State of California)
County of Stanislaus)

On **AUGUST 20, 2008** before me, ESTHER PUCKETT, Notary Public, personally appeared **JIM RIDENOUR**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her/ signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature 



(Seal)

EXHIBIT A

LEGAL DESCRIPTION OF THE FACILITIES

The Facilities shall consist of the real property and improvements located in the City of Modesto, County of Stanislaus, described as follows:

Parking Garage

THE LAND REFERRED TO HEREIN BELOW IS SITUATED THE CITY OF MODESTO, COUNTY OF STANISLAUS, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

A portion of 10th Street Admin.

Parcel B of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.

a portion of 10th Street Admin.

1. Parcel A-1 of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.
2. Parcel A-2 of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.

EXHIBIT B

NOTICES

If to the Lessee:

**Modesto Public Financing Authority
c/o City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Chairman**

If to the Lessor:

**Redevelopment Agency of the City of Modesto
c/o City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: President**

5
30



Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2008-0094325-00

Acct 501-Chicago Title
Thursday, AUG 28, 2008 08:00:00
Ttl Pd \$0.00 Nbr-0002596339
OMK/R3/1-16

Recording requested by
and return to:

CITY OF MODESTO
c/o Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, California 94104

Attention: Ty H. Conner, Esq.

FACILITIES LEASE
(Police Facilities and Miscellaneous Facilities)

by and between the

CITY OF MODESTO

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of August 1, 2008

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

1607
K

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FACILITIES LEASE

THIS FACILITIES LEASE, dated as of August 1, 2008 (this "Facilities Lease"), by and between the CITY OF MODESTO, a charter city and a municipal corporation duly organized and existing under the laws of the State of California (the "City"), as lessor, and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise powers authority, duly organized and existing under and by virtue of the laws of the State of California (the "Authority"), as lessee;

WITNESSETH:

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds"), pursuant to a certain Trust Indenture, dated as of March 1, 1998 (the "1998 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, as successor trustee (the "1998 Trustee") for the purpose of (i) providing funds for the 10th Street Place Project and the police headquarters building and communications dispatch center (collectively, the "1998 Project"), (ii) providing funds to refund its outstanding Certificates of Participation (Capital Improvements Project), (iii) paying capitalized interest on the 1998 Bonds, (iv) providing a debt service reserve fund for the 1998 Bonds and (v) paying the costs of issuance therefore;

WHEREAS, the Authority previously issued its Lease Revenue Refunding and Capital Improvements Bonds, Series 2007 (the "2007 Bonds"), pursuant to a certain Bond Indenture, dated as of April 1, 2007 (the "2007 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, as successor trustee (the "2007 Trustee") for the purpose of (i) providing funds to finance certain additional improvements to John Thurman field (the "2007 Project"), (ii) providing funds to refund all of its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and (iii) providing funds to refund a portion of its 1998 Bonds;

WHEREAS, the City has determined to refund all of the 1998 Bonds and all of the 2007 Bonds;

WHEREAS, the Authority desires to issue its Lease Revenue Refunding Bonds, Series 2008, in one or more series of bonds (the "2008 Bonds"), pursuant to a certain 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"), for the purposes of (i) providing funds to refund all of the 1998 Bonds and all of the 2007 Bonds, and (ii) paying the costs of issuance therefor;

WHEREAS, in furtherance of the issuance of the 2008 Bonds or any subsequent bonds or obligations issued to refund such bonds (the "Refunding Bonds" and, together with the 2008 Bonds, the "Bonds"), the City desires to lease certain real property and improvements to the Authority, as more particularly described in Exhibit A hereto (the "Facilities");

WHEREAS, the Authority will lease-back the Facilities, together with certain other properties (collectively, the "Leased Property") to the City pursuant to the Lease Agreement,

dated as of August 1, 2008 (the "Lease Agreement"), between the Authority and the City (capitalized terms used herein and not otherwise defined herein have the meanings assigned thereto in the Lease Agreement);

WHEREAS, under the Lease Agreement, the City will be obligated to make Lease Payments to the Authority for the lease of the Leased Property and the Authority will pledge such Lease Payments to the Trustee for payment of the Bonds; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Facilities Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Facilities Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE FACILITIES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO AGREE AS FOLLOWS:

Section 1. Leased Premises.

The City hereby leases to the Authority (without the option to purchase) and the Authority hereby leases from the City, on the terms and conditions hereinafter set forth, the Facilities, as described on Exhibit A hereto.

Section 2. Authority's Covenant to Issue the 2008 Bonds.

In consideration of the lease of the Facilities by the City to the Authority as provided in Section 1 hereof, the Authority hereby covenants to issue its 2008 Bonds and to apply or cause the proceeds thereof to be applied in accordance with the terms of the Indenture and related agreements thereto.

Section 3. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the Lease Agreement expires as provided by Section 2.02 thereof, provided, however, that if Lease Payments (as defined therein) due under the Lease Agreement remain unpaid at the expiration of the Lease Agreement term, then this Facilities Lease shall not terminate until the later of (i) September 1, 2043, (ii) the date on which all 2008 Bonds have been paid in full or (iii) the expiration of the term of any lease executed and delivered pursuant to Section 6.02 of the Lease Agreement, unless such term is sooner terminated as hereinafter provided.

Section 4. Rental.

The Authority shall pay to the City as and for the rental hereunder the sum of One Dollar (\$1.00) on the date of the initial issuance of the 2008 Bonds.

Section 5. Purpose.

The Authority shall use the Facilities solely for the purpose of subletting the Facilities to the City pursuant to the Lease Agreement, provided, that in the event of default by the City under the Lease Agreement the Authority may exercise the remedies provided in the Lease Agreement.

Section 6. Owner in Fee.

The City covenants that it is the owner in fee of the real property and improvements, as more particularly described in Exhibit A hereto, except as to easements and encumbrances which will not adversely affect the Authority's use and occupancy of the Facilities.

Section 7. Assignments and Subleases.

Unless the City shall be in default under the Lease Agreement, the Authority may not, without the written consent of the City, assign its rights hereunder or sublet the Facilities, except as otherwise contemplated by Section 5 above.

Section 8. Right of Entry; Easements.

The City reserves the right for any of its duly authorized representatives to enter upon the Facilities at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the City is not in default under the Lease Agreement.

Section 9. Termination.

The Authority agrees, upon the termination of this Facilities Lease, to quit and surrender the Facilities in the same good order and condition as the same was in at the time of commencement of the terms hereunder (with such modifications and improvements as are contemplated by the Lease Agreement), reasonable wear and tear excepted, and further agrees that any permanent improvements and structures existing upon the Facilities at the time of the termination of this Facilities Lease shall remain thereon and title thereto shall vest in the City.

Section 10. Default.

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Facilities Lease, which default continues for thirty (30) days following written notice to and demand for correction thereof by the City, the City may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the City may not terminate this Facilities Lease and shall exercise only remedies providing for specific performance hereunder.

Section 11. Quiet Enjoyment.

The Authority, at all times during the term hereof, shall peaceably and quietly have, hold and enjoy all of the Facilities leased hereunder.

Section 12. Waiver of Personal Liability.

All liabilities hereunder on the part of the Authority shall be solely liabilities of the Authority, as a separate legal entity and agency, and the City hereby releases each and every member, director, officer, agent or employee of the Authority of and from any personal or individual liability hereunder. No member, director, officer, agent or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder to the City or to any other party whomsoever for anything done or omitted to be done by the Authority hereunder.

Section 13. Taxes.

The City covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Facilities.

Section 14. Eminent Domain.

In the event the whole (or so much thereof as to render the remainder unusable for the purposes for which it was intended by the City) or any part of the Facilities is taken by eminent domain proceedings, the proceeds of such proceedings allocable to the Facilities, as determined by the City, shall be paid to the Trustee for application in accordance with Section 5.06 of the Indenture.

Section 15. Title Insurance.

In the event that any proceeds are paid under the title policy delivered to the City, such proceeds attributable to the Facilities, as determined by the City, shall be paid to the Trustee for application in accordance with Section 5.06 of the Indenture.

Section 16. Liability, Casualty, Fire and Extended Insurance.

The City hereby covenants to obtain and cause to be maintained throughout the term of this Facilities Lease, a standard comprehensive general liability insurance policy or policies, and insurance against loss or damage to any part of the Facilities by reason of fire and lightning, with extended coverage and vandalism and malicious mischief, in protection of the Authority, the City, the Trustee for the Bonds, the County and their respective members, directors, officers, agents and employees (the "Insured Parties"), indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Facilities. The standard comprehensive general liability insurance policy or policies required by this Section shall have minimum liability limits of minimum liability limits of one million dollars (\$1,000,000) for personal injury or death of each person and three million dollars (\$3,000,000) for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of five hundred thousand dollars (\$500,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of three million dollars (\$3,000,000) covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the City or the County.

Casualty insurance and fire and extended coverage required by this Section shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Project (less the cost of the land), excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$100,000 for any one loss, or in the case of flood or earthquake, ten percent of such amount or a comparable deductible adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient, in the event of total or partial loss, to enable the payment of all Bonds then outstanding. Such casualty insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the City. The proceeds of the liability insurance shall be applied to the payment of any claim covered by such policy. The proceeds of any casualty insurance and for any extended coverage shall be used for the repair, reconstruction or replacement of the damaged or destroyed portion of the Project, and the City shall hold any such proceeds separate and apart from all other funds held by the City in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Project to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds; provided, however, if the City determines that the repair, reconstruction or replacement is not feasible within 24 months from the date of loss, then any proceeds received as a result of damage to the Facilities shall be paid to the Trustee.

Section 17. Third Party Insureds.

The insurance policies required by Section 15 and 16 hereof shall name the Authority as a third-party insured and shall include endorsements making amounts payable under such policies payable to the Authority in accordance with its interests described hereunder.

Section 18. Partial Invalidity.

If any one or more of the terms, provisions, covenants or conditions of this Facilities Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Facilities Lease shall be affected thereby, and each provision of this Facilities Lease shall be valid and enforceable to the fullest extent permitted by law.

Section 19. Notices.

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and addressed as provided in Exhibit B hereof, and in all cases with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

Section 20. No Mergers of Interest.

The Leasehold estates under this Facilities Lease and the Lease Agreement shall not merge, whether by the exercise of any right or remedy hereunder or thereunder, by operation of law, or otherwise.

Section 21. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

Section 22. Amendment.

The Authority and the City may at any time agree to the amendment of this Facilities Lease; provided, however, that the Authority and the City agree and recognize that this Facilities Lease Agreement is entered into as contemplated by the terms of the Indenture, and accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Indenture.

Section 23. Execution.

This Facilities Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Facilities Lease. It is also agreed that separate counterparts of this Facilities Lease may separately be executed by the City and the Authority, all with the same force and effect as though the same counterpart had been executed by both the City and the Authority.

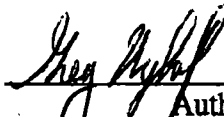
Section 24. Governing Law

This Facilities Lease shall be governed by and construed in accordance with the laws of the State of California.


[Signature Page to Follow]

IN WITNESS WHEREOF, the City and the Authority have caused this Facilities Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.


CITY OF MODESTO,
as Lessor

By: 
Authorized Officer
GREG NYHOFF

MODESTO PUBLIC FINANCING AUTHORITY,
Lessee

By: 
Authorized Officer
JIM RIDENCOUR

Approved as to Form:

By: 
City Attorney
SUSANA WOOD

ACKNOWLEDGMENT

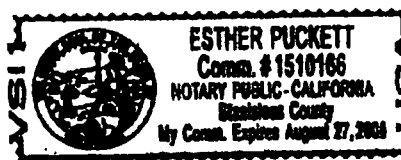
State of California)
County of Stanislaus)

On **AUGUST 20, 2008** before me, ESTHER PUCKETT, Notary Public, personally appeared **GREG NYHOFF**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her/ signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature *Esther Puckett*



(Seal)

Government Code 27361.7: I certify under penalty of perjury that the notary Seal on the document to which this statement is attached reads as follows:
Name of Notary Esther Puckett
County / State STANISLAUS / CALIFORNIA
Commission No. 1510166 Expiration Date 8/27/08
Date: 8/27/08 Signature *MP*
Print Name: M. Kumler

ACKNOWLEDGMENT

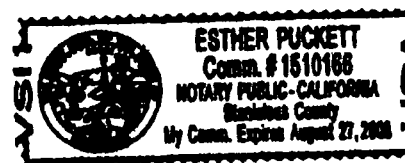
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County of Stanislaus)

On **AUGUST 20, 2008** before me, ESTHER PUCKETT, Notary Public, personally appeared **JIM RIDENOUR**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her/ signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature *Esther Puckett*



(Seal)

EXHIBIT A

LEGAL DESCRIPTION OF THE FACILITIES

The Facilities shall consist of the real property and improvements located in the City of Modesto, County of Stanislaus, described as follows:

Police Facilities and Miscellaneous Facilities

THE LAND REFERRED TO HEREIN BELOW IS SITUATED THE CITY OF MODESTO, COUNTY OF STANISLAUS, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the City of Modesto, as per Map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Recorder.

Together With:

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20 foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parking Structure

Lots 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parking Lot #25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Fire Station #3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 in Volume 21 of Maps, Page 55, Stanislaus County Records.

Fire Station #6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Fire Station #7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Fire Station #5

Parcel 11-1

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Beginning at a point on the East line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the Southeast corner of said Lot 2; thence from said point of beginning parallel to the South line of said Lot 2, North 88° 30' West 660 feet to a point on the West line of said Lot 2; thence North 0° 30' West along said West line of said Lot 2 a distance of 153.73 feet; thence East parallel with the South line of said Lot 2, a distance of 660 feet to a point on the East line of said Lot 2, located on the center line of said Oakdale Road; thence along the East line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

Excepting therefrom all that portion thereof lying Northerly of the North line of Burchell Court (formerly Northern Boulevard) extending Westerly to the West line of Lot 2.

Also excepting therefrom all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

Also excepting therefrom all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

Parcel 11-2

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Commencing at a point on the Southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the Northeastern corner of Parcel "E" on the Western line of Timothy Avenue as shown on the Map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, Page 53, Stanislaus County Records; thence along a line at right angles to the Western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the Northerly extension of the centerline of Timothy Avenue; thence along said Northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the Northern line of said Chambers property, which is also the Southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the Southern line of Parcel "A" as per Map of Record of Survey filed July 6, 1962 in Volume 9 of Surveys, Page 25, Stanislaus County Records; thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the Southeastern corner of said Parcel "A", said corner being the Northeast corner of said Chambers property which is also a point on the Western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at page 695, as Instrument No. 29947, Stanislaus County Records; thence along said Western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

Parcel 11-3

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records.

Beginning at the Northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the North line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said North line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the Southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, page 643, as Instrument No. 9843, Stanislaus County Records; thence along the West line of the City of Modesto property as conveyed by Deed above referred to and the Northerly extension of said Westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

Parcel 11-4

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Beginning at the Northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53,

Stanislaus County Records; thence North $83^{\circ} 31' 30''$ West along the North line of said Parcel D and its Westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North $0^{\circ} 30'$ West, along the Northerly extension of said centerline of Timothy Avenue to the Southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North $82^{\circ} 47' 55''$ East along the South line of the City of Modesto property, as conveyed by Deed above referred to, to the Southeast corner thereof, said point being on the West line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence South along the West line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

Parcel 11-5

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Commencing at the $\frac{3}{4}$ inch iron pipe set for the Northeastern corner of Parcel "A", as per Map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the Northern line of said Parcel "A", South $89^{\circ} 46' 50''$ West, 135.63 feet to the Northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the Eastern line of the Chambers property and the Western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South $07^{\circ} 52' 29''$ West, 132.90 feet to the Southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South $00^{\circ} 30' 00''$ East, 48.44 feet, more or less, to a point on the Southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said Southern line of the property conveyed to Chambers by Deed last above referred to and the North line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, page 53, Stanislaus County Records, North $88^{\circ} 30'$ West, 30.02 feet to a point on the Western line of Timothy Avenue, as shown on said Record of Surveys; thence along said Western line, North $00^{\circ} 30' 00''$ West, 0.52 feet; thence along a tangent curve concave to the Southwest having a radius of 15.00 feet, a central angle of $46^{\circ} 11' 13''$ and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North $43^{\circ} 18' 47''$ East; thence along said reverse curve concave to the East, having a radius of 50.00 feet, a central angle of $98^{\circ} 43' 30''$ and an arc length of 86.15 feet; thence along a radial line, South $37^{\circ} 57' 43''$ East, 50.00 feet to the Southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

Corporation Yard

All that portion of Section 29 Township 3 South Range 9 East MDB&M described as All of Block 434 and all of Lots 11 to 21 inclusive of Block 433 of City of Modesto. Except that portion of Lots 19, 20 and 21 in Block 433 described as beginning at the Southwest corner of Lot 21; then along the West line of Lots 21 and 20, North $20^{\circ} 19' 36''$ E., 68.5 feet to a point on a non tangent curve; thence along said curve concave to the Northeast with the long chord bearing South $31^{\circ} 08' 27''$ East from said point, having a radius of 787 feet, a central angle of $5^{\circ} 34' 11''$, an arc length of 76.5 feet, to the South line of Block 433; then along the South line of Block 433, North $88^{\circ} 53' 48''$ West, 63.35 feet to point of origin.

Fire Station No. 11

All that portion of the Southwest quarter of Section 6, Township 3 South, Range 9 East, M.D.B.&M., described as follows:

Parcel 1B, as per Parcel Map filed July 25, 1967 in Book 3 of Parcel Maps, Page 120, Stanislaus County Records.

Fire Station No. 9

Lots 14 and 15 in Block 1850 of Fara Estates, as per Map filed October 17, 1979 in Volume 28 of Maps, Page 68, Stanislaus County Records

McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

EXHIBIT B

NOTICES

If to the Lessee:

**Modesto Public Financing Authority
c/o City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Chairman**

If to the Lessor:

**City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention Finance Director**

29



Recording requested by
and return to:

Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2008-0094323-00

CITY OF MODESTO
c/o Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, California 94104

Acct 501-Chicago Title
Thursday, AUG 28, 2008 08:00:00
Ttl Pd \$0.00 Nbr-0002596337
OMK/R3/1-20

Attention: Ty H. Conner, Esq.

FACILITIES LEASE
(City-County Administration Building)

by and between the

CITY-COUNTY CAPITAL IMPROVEMENTS AND FINANCING AGENCY

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of August 1, 2008

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

2008
#

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FACILITIES LEASE

THIS FACILITIES LEASE, dated as of August 1, 2008 (this "Facilities Lease"), by and between the CITY-COUNTY CAPITAL IMPROVEMENTS AND FINANCING AGENCY, a joint exercise of powers agency duly organized and existing under the laws of the State of California (the "Financing Agency"), as lessor, and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise powers authority, duly organized and existing under and by virtue of the laws of the State of California (the "Authority"), as lessee;

WITNESSETH:

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds"), pursuant to a certain Trust Indenture, dated as of March 1, 1998 (the "1998 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, as successor trustee (the "1998 Trustee") for the purpose of (i) providing funds for the 10th Street Place Project and the police headquarters building and communications dispatch center (collectively, the "1998 Project"), (ii) providing funds to refund its outstanding Certificates of Participation (Capital Improvements Project), (iii) paying capitalized interest on the 1998 Bonds, (iv) providing a debt service reserve fund for the 1998 Bonds and (v) paying the costs of issuance therefore;

WHEREAS, the Authority previously issued its Lease Revenue Refunding and Capital Improvements Bonds, Series 2007 (the "2007 Bonds"), pursuant to a certain Bond Indenture, dated as of April 1, 2007 (the "2007 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, as successor trustee (the "2007 Trustee") for the purpose of (i) providing funds to finance certain additional improvements to John Thurman field (the "2007 Project"), (ii) providing funds to refund all of its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and (iii) providing funds to refund a portion of its 1998 Bonds;

WHEREAS, the City of Modesto (the "City") has determined to refund all of the 1998 Bonds and all of the 2007 Bonds;

WHEREAS, the Authority desires to issue its Lease Revenue Refunding Bonds, Series 2008, in one or more series of bonds (the "2008 Bonds"), pursuant to a certain 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"), for the purposes of (i) providing funds to refund all of the 1998 Bonds and all of the 2007 Bonds, and (ii) paying the costs of issuance therefor;

WHEREAS, in furtherance of the issuance of the 2008 Bonds or any subsequent bonds or obligations issued to refund such bonds (the "Refunding Bonds" and, together with the 2008 Bonds, the "Bonds"), the Financing Agency desires to lease certain real property and improvements to the Authority, as described in Exhibit A hereto and as more particularly shown on Exhibit B hereto (the "Facilities");

WHEREAS, the Authority will lease-back the Facilities, together with certain other properties (collectively, the "Leased Property") to the City pursuant to the Lease Agreement, dated as of August 1, 2008 (the "Lease Agreement"), between the Authority and the City (capitalized terms used herein and not otherwise defined herein have the meanings assigned thereto in the Lease Agreement);

WHEREAS, under the Lease Agreement, the City will be obligated to make Lease Payments to the Authority for the lease of the Leased Property and the Authority will pledge such Lease Payments to the Trustee for payment of the Bonds ; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Facilities Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Facilities Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE FACILITIES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO AGREE AS FOLLOWS:

Section 1. Leased Premises.

The Financing Agency hereby leases to the Authority (without the option to purchase) and the Authority hereby leases from the Financing Agency, on the terms and conditions hereinafter set forth, the Facilities, as described on Exhibit A hereto.

Section 2. Authority's Covenant to Issue the 2008 Bonds.

In consideration of the lease of the Facilities by the Financing Agency to the Authority as provided in Section 1 hereof, the Authority hereby covenants to issue its 2008 Bonds and to apply or cause the proceeds thereof to be applied in accordance with the terms of the Indenture and related agreements thereto.

Section 3. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the Lease Agreement expires as provided by Section 2.02 thereof, including any right of the extension of the term pursuant to such section, provided, however, that if following an event of default under the Lease Agreement, the Facilities are relet in accordance with Section 6.02 of the Lease Agreement, then this Facilities Lease shall not terminate until the expiration of the term of any lease executed and delivered pursuant to Section 6.02 of the Lease Agreement.

Section 4. Rental.

The Authority shall pay to the Financing Agency as and for the rental hereunder the sum of One Dollar (\$1.00) on the date of the initial issuance of the 2008 Bonds.

Section 5. Purpose.

The Authority shall use the Facilities solely for the purpose of subletting the Facilities to the City pursuant to the Lease Agreement, provided, that in the event of default by the City under the Lease Agreement the Authority may exercise the remedies provided in the Lease Agreement.

Section 6. Owner in Fee.

The Financing Agency covenants that it is the owner in fee of the Facilities (as described in Exhibit A hereto and as more particularly shown on Exhibit B hereto), except as to easements and encumbrances which will not adversely affect the Authority's use and occupancy of the Facilities.

Section 7. Assignments and Subleases.

Unless the City shall be in default under the Lease Agreement, the Authority may not, without the written consent of the City, assign its rights hereunder or sublet the Facilities, except as otherwise contemplated by Section 5 above.

Section 8. Right of Entry; Easements.

The Financing Agency reserves the right for any of its duly authorized representatives to enter upon the Facilities at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the Financing Agency is not in default under the Lease Agreement.

Section 9. Termination.

The Authority agrees, upon the termination of this Facilities Lease, to quit and surrender the Facilities in the same good order and condition as the same was in at the time of commencement of the terms hereunder (with such modifications and improvements as are contemplated by the Lease Agreement), reasonable wear and tear excepted, and further agrees that any permanent improvements and structures existing upon the Facilities at the time of the termination of this Facilities Lease shall remain thereon and title thereto shall vest in the Financing Agency.

Section 10. Default.

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Facilities Lease, which default continues for thirty (30) days following written notice to and demand for correction thereof by the Financing Agency, the Financing Agency may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the Financing Agency may not terminate this Facilities Lease and shall exercise only remedies providing for specific performance hereunder.

Section 11. Quiet Enjoyment.

The Authority, at all times during the term hereof, shall peaceably and quietly have, hold and enjoy all of the Facilities leased hereunder.

Section 12. Waiver of Personal Liability.

All liabilities hereunder on the part of the Authority shall be solely liabilities of the Authority, as a separate legal entity and agency, and the Financing Agency hereby releases each and every member, director, officer, agent or employee of the Authority of and from any personal or individual liability hereunder. No member, director, officer, agent or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder to the Financing Agency or to any other party whomsoever for anything done or omitted to be done by the Authority hereunder.

Section 13. Taxes.

The Financing Agency covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Facilities.

Section 14. Eminent Domain.

In the event the whole (or so much thereof as to render the remainder unusable for the purposes for which it was intended by the City) or any part of the City-County Administration Building is taken by eminent domain proceedings, the proceeds of such proceedings allocable to the Facilities, as determined by the Financing Agency, shall be paid to the Trustee for application in accordance with Section 5.06 of the Indenture.

Section 15. Title Insurance.

In the event that any proceeds are paid under the title policy delivered to the Financing Agency, such proceeds attributable to the Facilities, as determined by the Financing Agency, shall be paid to the Trustee for application in accordance with Section 5.06 of the Indenture.

Section 16. Liability, Casualty, Fire and Extended Insurance.

The Financing Agency hereby covenants to obtain and cause to be maintained throughout the term of this Facilities Lease, a standard comprehensive general liability insurance policy or policies, and insurance against loss or damage to any part of the City-County Administration Building by reason of fire and lightning, with extended coverage and vandalism and malicious mischief, in protection of the Authority, the City, the Trustee for the Bonds, the County and their respective members, directors, officers, agents and employees (the "Insured Parties"), indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the City-County Administration Building, including the Facilities. The standard comprehensive general liability insurance policy or policies required by this Section shall have minimum liability limits of minimum liability limits of one million dollars (\$1,000,000) for personal injury or death of

each person and three million dollars (\$3,000,000) for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of five hundred thousand dollars (\$500,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of three million dollars (\$3,000,000) covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the Financing Agency, the City or the County.

Casualty insurance and fire and extended coverage required by this Section shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Project (less the cost of the land), excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$100,000 for any one loss, or in the case of flood or earthquake, ten percent of such amount or a comparable deductible adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient, in the event of total or partial loss, to enable the payment of all Bonds then outstanding. Such casualty insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the Financing Agency. The proceeds of the liability insurance shall be applied to the payment of any claim covered by such policy. The proceeds of any casualty insurance and for any extended coverage shall be used for the repair, reconstruction or replacement of the damaged or destroyed portion of the Project, and the Financing Agency shall hold any such proceeds separate and apart from all other funds held by the Financing Agency in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Project to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds; provided, however, if the Financing Agency determines that the repair, reconstruction or replacement is not feasible within 24 months from the date of loss, then any proceeds received as a result of damage to the Facilities shall be paid to the Trustee.

Section 17. Third Party Insureds.

The insurance policies required by Section 15 and 16 hereof shall name the Authority as a third-party insured and shall include endorsements making amounts payable under such policies payable to the Authority in accordance with its interests described hereunder.

Section 18. Partial Invalidity.

If any one or more of the terms, provisions, covenants or conditions of this Facilities Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Facilities Lease shall be affected thereby, and each provision of this Facilities Lease shall be valid and enforceable to the fullest extent permitted by law.

Section 19. Notices.

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and addressed as provided in Exhibit C hereof, and in all cases with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

Section 20. No Mergers of Interest.

The Leasehold estates under this Facilities Lease and the Lease Agreement shall not merge, whether by the exercise of any right or remedy hereunder or thereunder, by operation of law, or otherwise.

Section 21. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

Section 22. Amendment.

The Authority and the Financing Agency may at any time agree to the amendment of this Facilities Lease; provided, however, that the Authority and the Financing Agency agree and recognize that this Facilities Lease is entered into as contemplated by the terms of the Indenture, and accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Indenture.

Section 23. Execution.

This Facilities Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Facilities Lease. It is also agreed that separate counterparts of this Facilities Lease may separately be executed by the Financing Agency and the Authority, all with the same force and effect as though the same counterpart had been executed by both the Financing Agency and the Authority.


Section 24. Governing Law

This Facilities Lease shall be governed by and construed in accordance with the laws of the State of California.


[Signature Page to Follow]

IN WITNESS WHEREOF, the Financing Agency and the Authority have caused this Facilities Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

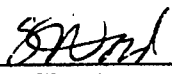
CITY-COUNTY CAPITAL IMPROVEMENTS
AND FINANCING AGENCY,
as Lessor

By: 
Authorized Officer
JIM RIDENOUR

MODESTO PUBLIC FINANCING AUTHORITY,
Lessee

By: 
Authorized Officer
JIM RIDENOUR

Approved as to Form:

By: 
City Attorney
SYLVANA WOOD

ACKNOWLEDGMENT

State of California
County of Stanislaus

On August 20, 2008 before me, Esther Puckett, Notary Public
(insert name and title of the officer)

personally appeared Jim Ridenour
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are
subscribed to the within instrument and acknowledged to me that he/she/they executed the same in
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the
person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing
paragraph is true and correct.

WITNESS my hand and official seal.

Signature *Esther Puckett* (Seal)



Government Code 27361.7: I certify under penalty of perjury that the notary
Seal on the document to which this statement is attached reads as follows:

Name of Notary Esther Puckett
County / State STANISLAUS / CALIFORNIA
Commission No. 1510166 Expiration Date 8/27/08
Date: 8/27/08 Signature *[Signature]*
Print Name: M. Kumler

EXHIBIT A

LEGAL DESCRIPTION OF THE FACILITIES

The Facilities shall consist of an undivided one-half interest in the real property (as described below) and approximately 79,246 square feet of the City-County Administration Building, such area to be exclusively occupied by the City, together with the City's interest in certain common areas in the City-County Administration Building, such joint-use area consisting of approximately 80,032 square feet.

The real property and improvements are located in the City of Modesto, County of Stanislaus, described as follows:

City-County Administration Building

THE LAND REFERRED TO HEREIN BELOW IS SITUATED THE CITY OF MODESTO, COUNTY OF STANISLAUS, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

a portion of 10th Street Admin.

Lot A:

Parcel One of Parcel Map filed June 15, 2000 in Book 50 of Parcel Maps, Page 25, Stanislaus County Records.

Excepting therefrom that portion thereof conveyed to Civic Partners Modesto, Inc. by Corporation Grant Deed recorded June 29, 2001, Instrument No. 2001-0072135, Stanislaus County Records.

Lot B:

That portion of Parcel Three of Parcel Map filed June 15, 2000, in Book 50 of Parcel Maps, Page 25, Stanislaus County Records, being more particularly described as follows:

Beginning at the most Easterly corner of the above mentioned Parcel 3; thence South 46° 50' 12" West along the line common to said Parcels 1 and 3, a distance of 15.83 feet; thence leaving last said line and proceeding North 43° 09' 48" West, a distance of 16.00 feet to a point on the above mentioned line common to said Parcels 1 and 3; thence along last said line, the following two (2) courses: 1) North 46° 50' 12" East, a distance of 15.83 feet; 2) South 43° 09' 48" East, a distance of 16.00 feet to the point of beginning.

EXHIBIT B

Diagram of the Facilities

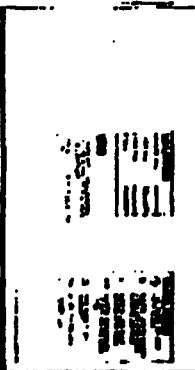
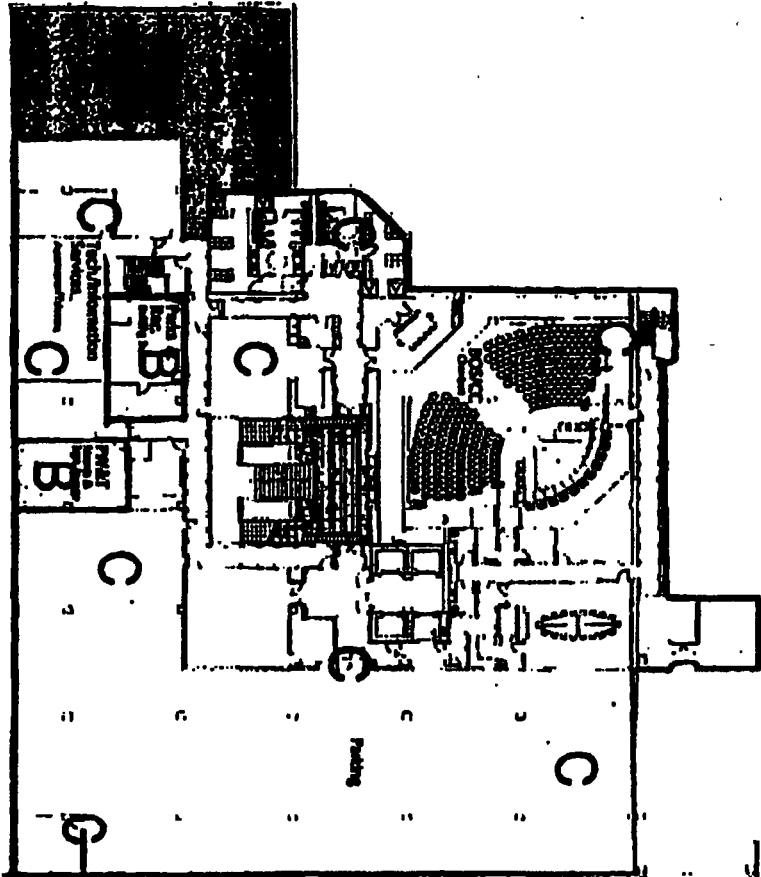
ATTACHMENT 1

LEGEND

A = County (3,130 sf)
 B = City (1,288 sf)
 C = JPA (31,002 sf)
 D = RDA (0 sf)

SUMMARY TOTALS

A = County (79,279 sf)
 B = City (79,246 sf)
 C = JPA (80,032 sf)
 D = RDA (28,100 sf)

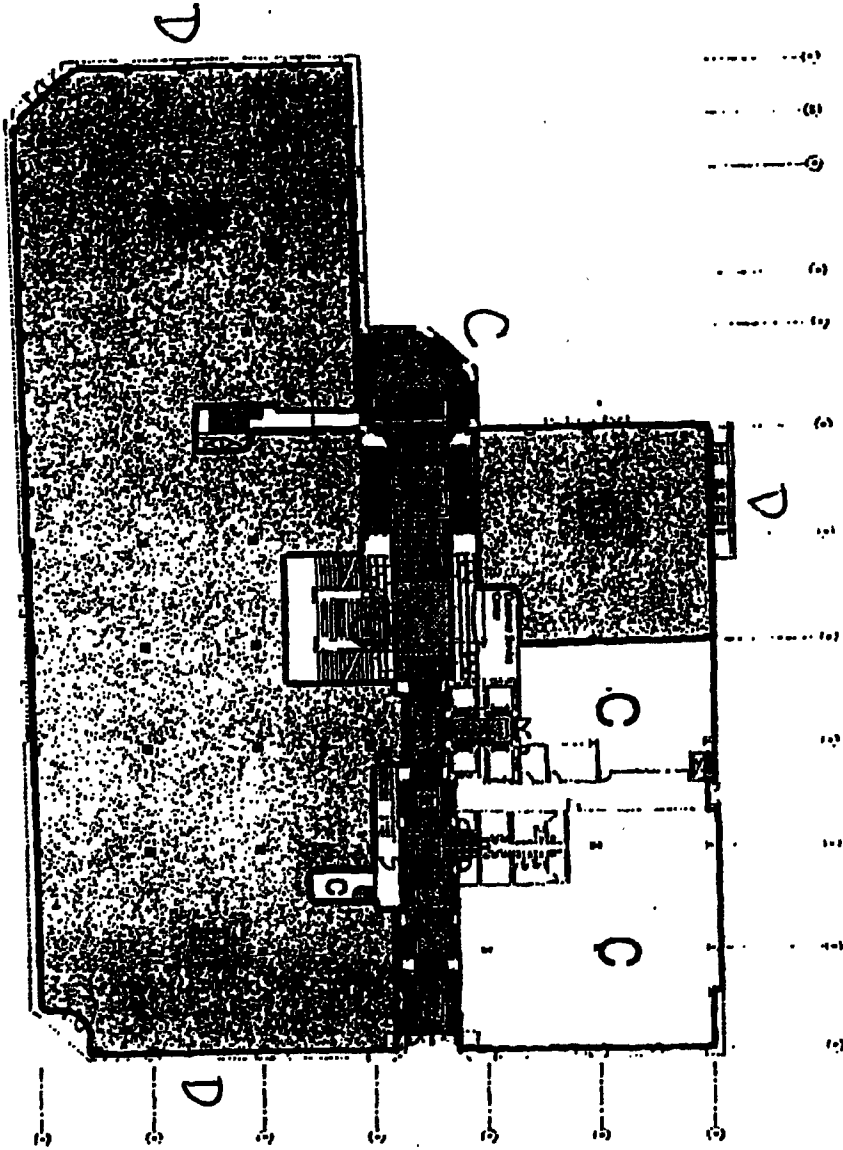


TENTH STREET PLACE
 CITY OF HOUSTON
 COUNTY OF STARR
 DIST. TOWNS AGENCY

P
 ARCHITECT
 11111 HOUSTON

ATTACHMENT 1

LEGEND
 A = County (0 sf)
 B = City (0 sf)
 C = JPA (14,430 sf)
 D = RDA (28,110 sf)



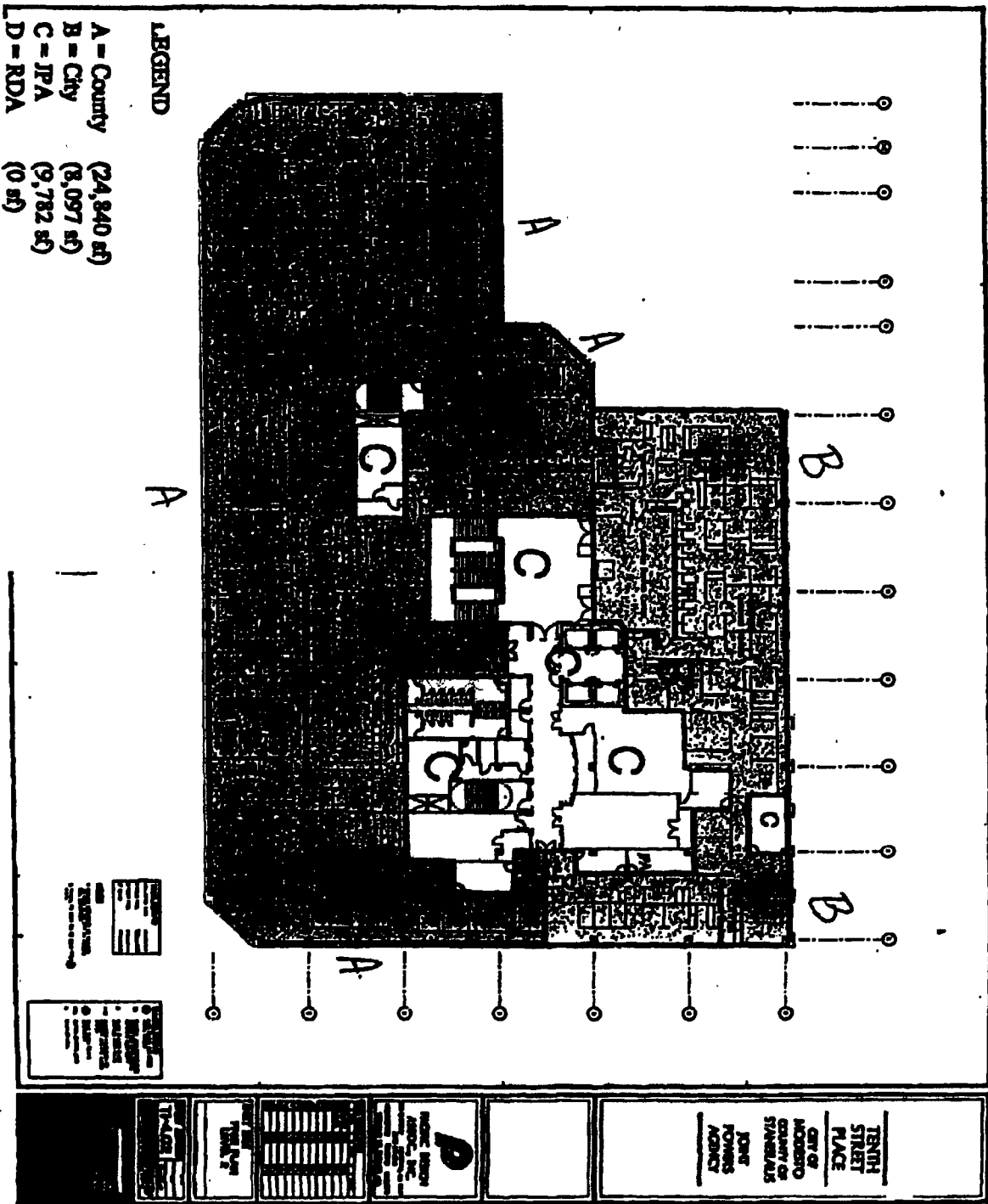
NOTES:
 1. ALL DIMENSIONS ARE TO FACE UNLESS NOTED OTHERWISE.
 2. SEE SEPARATE SHEETS FOR DETAILS.
 3. SEE SEPARATE SHEETS FOR NOTES.

TENTH STREET PLACE
 DEPT OF ARCHITECTURE
 COUNTY OF STANISLAUS
 DEPT OF PUBLIC WORKS
 COUNTY OF STANISLAUS

P
 PUBLIC WORKS
 ARCHITECTURE
 COUNTY OF STANISLAUS
 DEPT OF PUBLIC WORKS
 COUNTY OF STANISLAUS

DATE: 11-11-11
 TIME: 11:11 AM

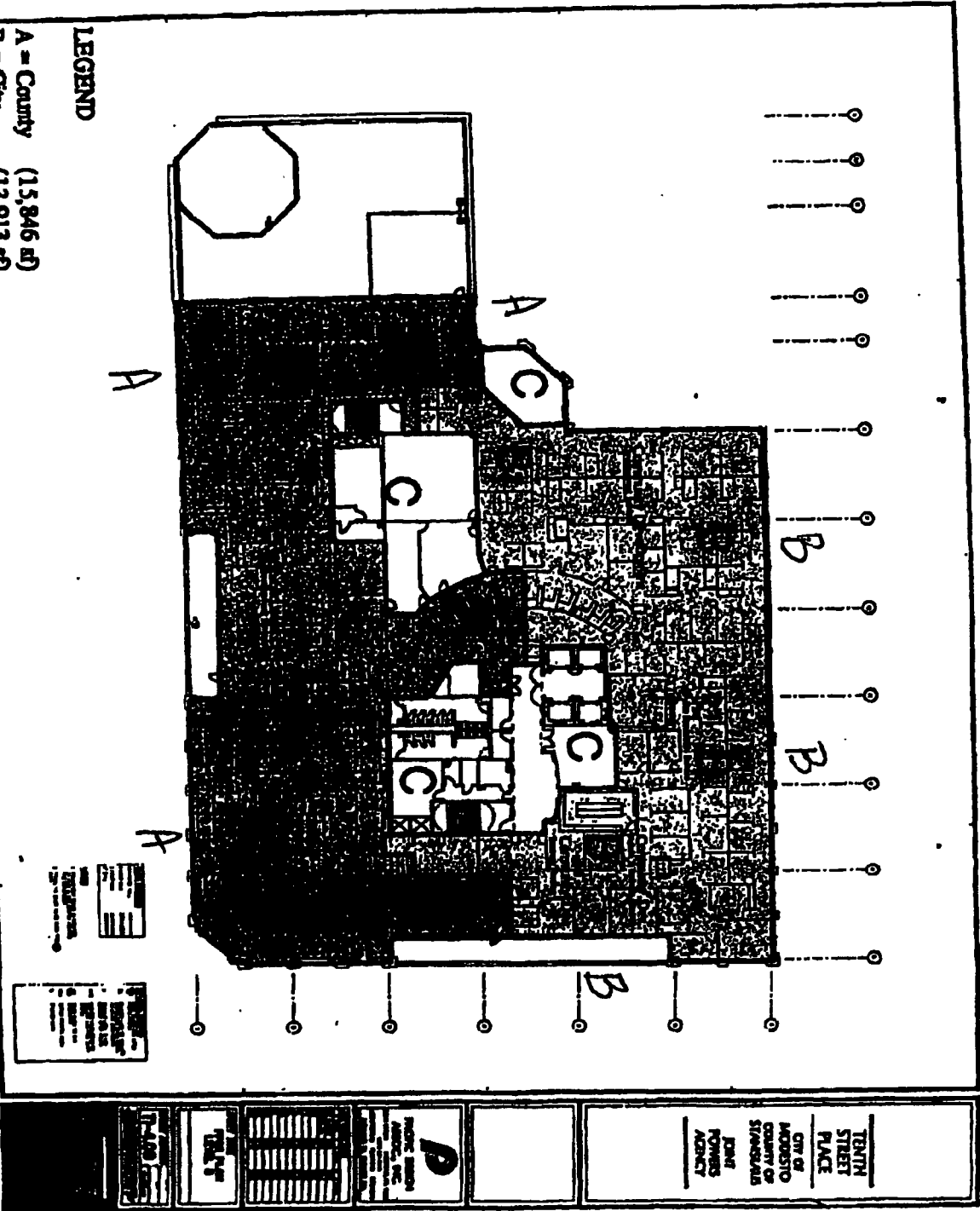
ATTACHMENT 1



ATTACHMENT 1

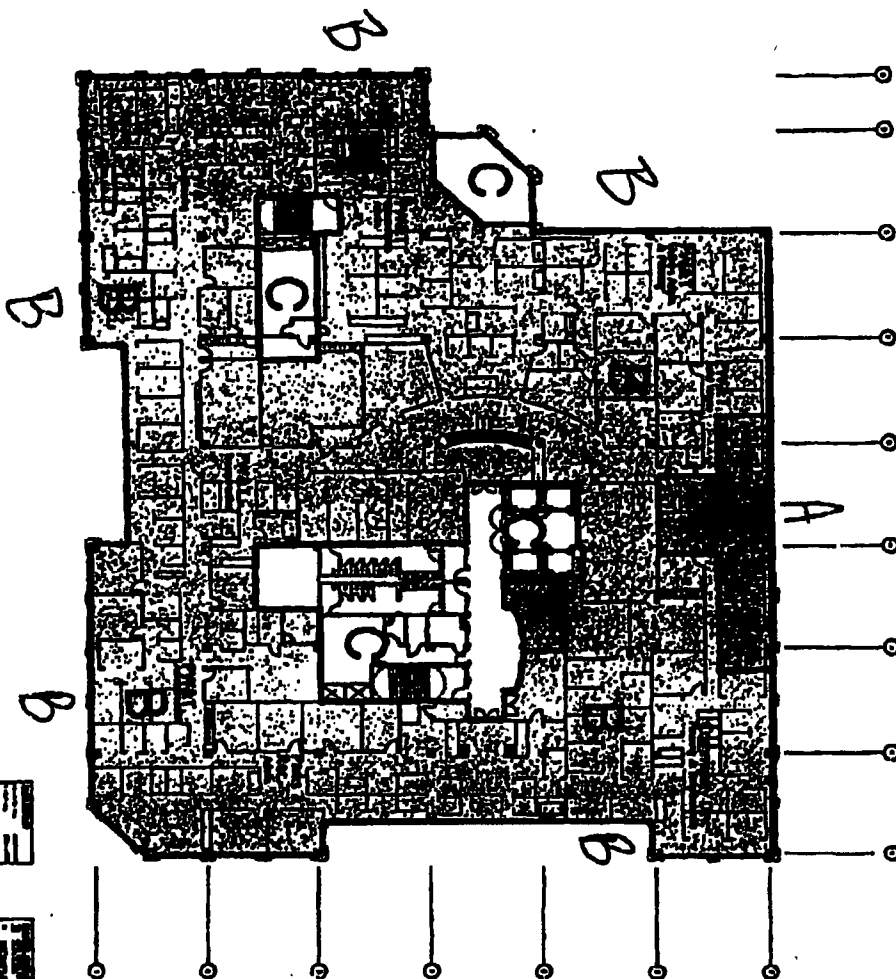
LEGEND

A = County (15,846 sf)
 B = City (13,913 sf)
 C = JPA (6,806 sf)
 D = RDA (0 sf)



ATTACHMENT 1

LEGEND
 A - County (1,689 sf)
 B - City (29,908 sf)
 C - JPA (4,969 sf)
 D - RDA (0 sf)



NOTES
 1. ALL UTILITIES SHOWN ARE BASED ON RECORD PLANS AND FIELD SURVEY.
 2. THE SHOWN UTILITIES ARE NOT TO BE CONSIDERED AS A GUARANTEE OF ACCURACY.
 3. THE SHOWN UTILITIES ARE NOT TO BE CONSIDERED AS A GUARANTEE OF ACCURACY.
 4. THE SHOWN UTILITIES ARE NOT TO BE CONSIDERED AS A GUARANTEE OF ACCURACY.

TENTH STREET PLACE
 CITY OF HOUSTON
 COUNTY OF STARR
 JOINT POWERS AGENCY

P
 PUBLIC ENGINEER
 REGISTERED PROFESSIONAL ENGINEER
 LICENSE NO. 12345

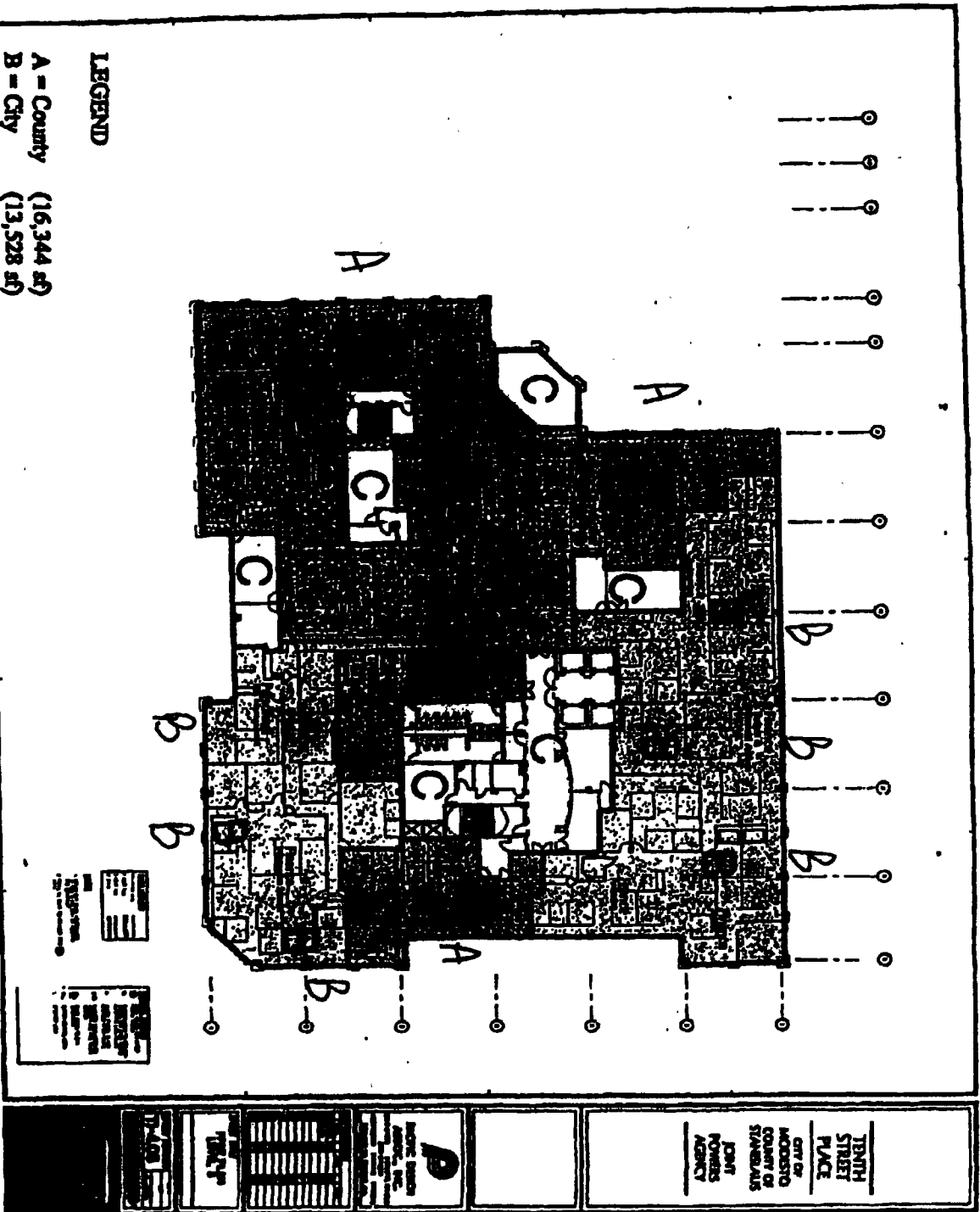
TITLE
 TENTH STREET PLACE

DATE
 12/15/2023

ATTACHMENT 1

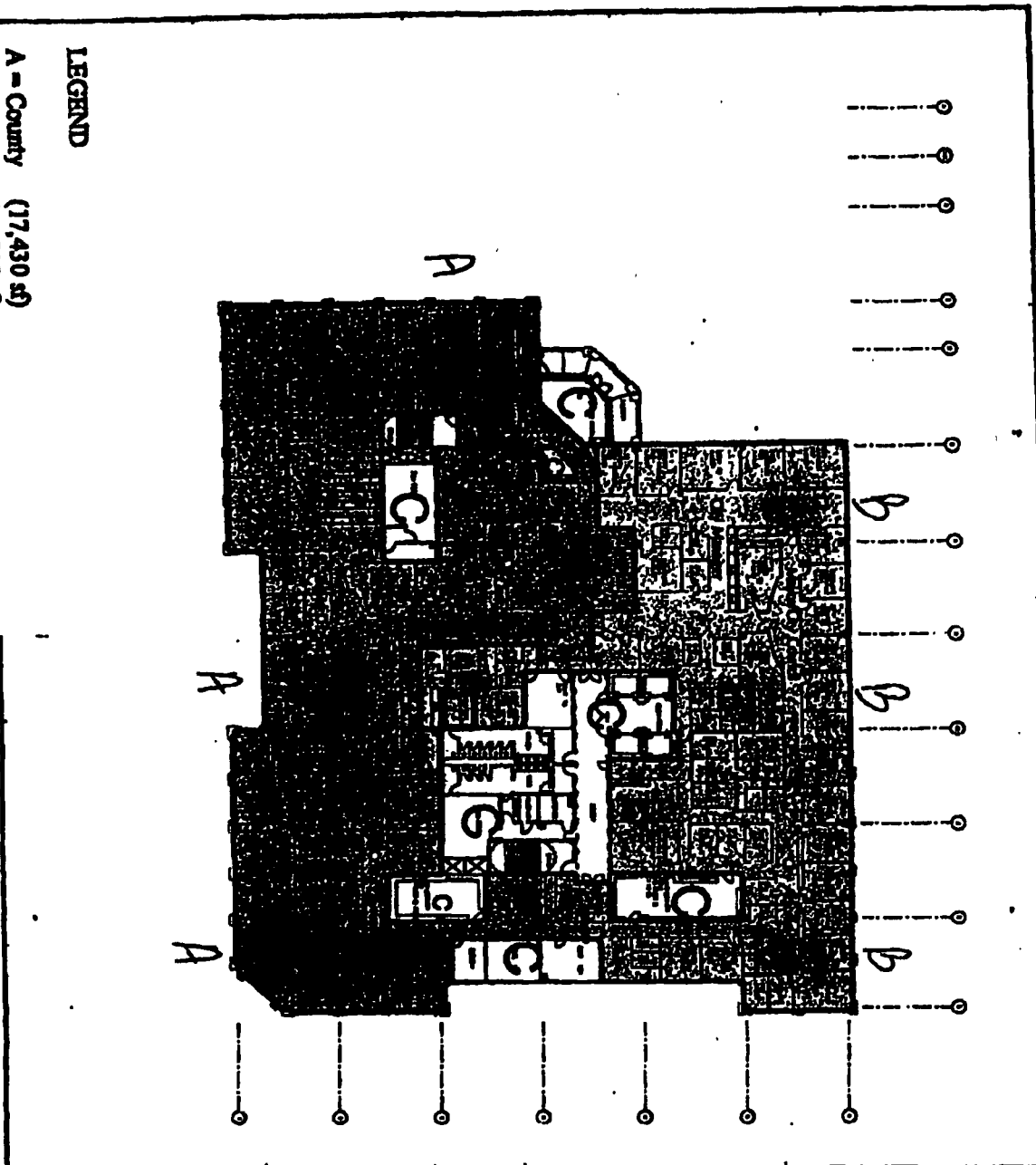
LEGEND

A - County (16,344 sq ft)
 B - City (13,528 sq ft)
 C - JPA (6,683 sq ft)
 D - RDA (0 sq ft)



ATTACHMENT 1

LEGEND
A - County (17,430 sf)
B - City (12,512 sf)
C - JPA (6,360 sf)
D - RDA (0 sf)



<p>TENTH STREET PLACE CITY OF HOUSTON COUNTY OF STAMPAUL DART POWER AGENCY</p>		<p>HOUSTON WATER AGENCY, INC.</p>		<p>7-14-08</p>
--	--	---------------------------------------	--	----------------

EXHIBIT C

NOTICES

If to the Lessee:

**Modesto Public Financing Authority
c/o City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Chairman**

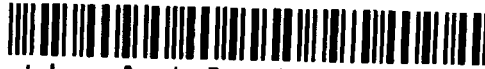
If to the Lessor:

**City-County Capital Improvement and Financing Agency
c/o County of Stanislaus County
1010 Tenth Street, Sixth Floor
Modesto, California 96354
Attention: Chief Executive Officer**

27
Recording requested by
and return to:

CITY OF MODESTO
c/o Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, California 94104

Attention: Ty H. Conner, Esq.



Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2008-0094322-00

Acct 501-Chicago Title

Thursday, AUG 28, 2008 08:00:00

Ttl Pd \$0.00

Nbr-0002596336

OMK/R3/1-12

FACILITIES LEASE
(Communications Dispatch Center)

by and between the

CITY OF MODESTO

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of August 1, 2008

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

1207
#

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FACILITIES LEASE

THIS FACILITIES LEASE, dated as of August 1, 2008 (this "Facilities Lease"), by and between the CITY OF MODESTO, a charter city and a municipal corporation duly organized and existing under the laws of the State of California (the "City"), as lessor, and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise powers authority, duly organized and existing under and by virtue of the laws of the State of California (the "Authority"), as lessee;

W I T N E S S E T H:

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds"), pursuant to a certain Trust Indenture, dated as of March 1, 1998 (the "1998 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, as successor trustee (the "1998 Trustee") for the purpose of (i) providing funds for the 10th Street Place Project and the police headquarters building and communications dispatch center (collectively, the "1998 Project"), (ii) providing funds to refund its outstanding Certificates of Participation (Capital Improvements Project), (iii) paying capitalized interest on the 1998 Bonds, (iv) providing a debt service reserve fund for the 1998 Bonds and (v) paying the costs of issuance therefore;

WHEREAS, the Authority previously issued its Lease Revenue Refunding and Capital Improvements Bonds, Series 2007 (the "2007 Bonds"), pursuant to a certain Bond Indenture, dated as of April 1, 2007 (the "2007 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, as successor trustee (the "2007 Trustee") for the purpose of (i) providing funds to finance certain additional improvements to John Thurman field (the "2007 Project"), (ii) providing funds to refund all of its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and (iii) providing funds to refund a portion of its 1998 Bonds;

WHEREAS, the City has determined to refund all of the 1998 Bonds and all of the 2007 Bonds;

WHEREAS, the Authority desires to issue the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008, in one or more series of bonds (the "2008 Bonds"), pursuant to a certain 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"), for the purposes of (i) providing funds to refund all of the 1998 Bonds and all of the 2007 Bonds, and (ii) paying the costs of issuance therefor;

WHEREAS, in furtherance of the issuance of the 2008 Bonds or any subsequent bonds or obligations issued to refund such bonds (the "Refunding Bonds" and, together with the 2008 Bonds, the "Bonds"), the City desires to lease certain real property and improvements to the Authority, as more particularly described in Exhibit A hereto (the "Facilities");

WHEREAS, the Authority will lease-back the Facilities, together with certain other properties (collectively, the "Leased Property") to the City pursuant to the Lease Agreement, dated as of August 1, 2008 (the "Lease Agreement"), between the Authority and the City (capitalized terms used herein and not otherwise defined herein have the meanings assigned thereto in the Lease Agreement);

WHEREAS, under the Lease Agreement, the City will be obligated to make Lease Payments to the Authority for the lease of the Leased Property and the Authority will pledge such Lease Payments to the Trustee for payment of the Bonds; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Facilities Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Facilities Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE FACILITIES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO AGREE AS FOLLOWS:

Section 1. Leased Premises.

The City hereby leases to the Authority (without the option to purchase) and the Authority hereby leases from the City, on the terms and conditions hereinafter set forth, the Facilities, as described on Exhibit A hereto.

Section 2. Authority's Covenant to Issue the 2008 Bonds.

In consideration of the lease of the Facilities by the City to the Authority as provided in Section 1 hereof, the Authority hereby covenants to issue its 2008 Bonds and to apply or cause the proceeds thereof to be applied in accordance with the terms of the Indenture and related agreements thereto.

Section 3. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the Lease Agreement expires as provided by Section 2.02 thereof, provided, however, that if Lease Payments (as defined therein) due under the Lease Agreement remain unpaid at the expiration of the Lease Agreement term, then this Facilities Lease shall not terminate until the later of (i) September 1, 2043, (ii) the date on which all the Bonds have been paid in full or (iii) the expiration of the term of any lease executed and delivered pursuant to Section 6.02 of the Lease Agreement, unless such term is sooner terminated as hereinafter provided.

Section 4. Rental.

The Authority shall pay to the City as and for the rental hereunder the sum of One Dollar (\$1.00) on the date of the initial issuance of the 2008 Bonds.

Section 5. Purpose.

The Authority shall use the Facilities solely for the purpose of subletting the Facilities to the City pursuant to the Lease Agreement, provided, that in the event of default by the City under the Lease Agreement the Authority may exercise the remedies provided in the Lease Agreement.

Section 6. Owner in Fee.

The City covenants that it is the joint owner in fee as tenants in common (with a fifty percent ownership interest) of the real property and improvements, as more particularly described in Exhibit A hereto, except as to easements and encumbrances which will not adversely affect the Authority's use and occupancy of the Facilities.

Section 7. Assignments and Subleases.

Unless the City shall be in default under the Lease Agreement, the Authority may not, without the written consent of the City, assign its rights hereunder or sublet the Facilities, except as otherwise contemplated by Section 5 above.

Section 8. Right of Entry; Easements.

The City reserves the right for any of its duly authorized representatives to enter upon the Facilities at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the City is not in default under the Lease Agreement.

Section 9. Termination.

The Authority agrees, upon the termination of this Facilities Lease, to quit and surrender the Facilities in the same good order and condition as the same was in at the time of commencement of the terms hereunder (with such modifications and improvements as are contemplated by the Lease Agreement), reasonable wear and tear excepted, and further agrees that any permanent improvements and structures existing upon the Facilities at the time of the termination of this Facilities Lease shall remain thereon and title thereto shall vest in the City.

Section 10. Default.

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Facilities Lease, which default continues for thirty (30) days following written notice to and demand for correction thereof by the City, the City may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the City may not terminate this Facilities Lease and shall exercise only remedies providing for specific performance hereunder; and provided further that under no circumstances shall the Authority have the right to repossess and relet the Facilities in the event of a default by the City under the Lease Agreement.

Section 11. Quiet Enjoyment.

The Authority, at all times during the term hereof, shall peaceably and quietly have, hold and enjoy all of the Facilities leased hereunder.

Section 12. Waiver of Personal Liability.

All liabilities hereunder on the part of the Authority shall be solely liabilities of the Authority, as a separate legal entity and agency, and the City hereby releases each and every member, director, officer, agent or employee of the Authority of and from any personal or individual liability hereunder. No member, director, officer, agent or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder to the City or to any other party whomsoever for anything done or omitted to be done by the Authority hereunder.

Section 13. Taxes.

The City covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Facilities.

Section 14. Eminent Domain.

In the event the whole (or so much thereof as to render the remainder unusable for the purposes for which it was intended by the City) or any part of the Facilities is taken by eminent domain proceedings, the proceeds of such proceedings allocable to the Facilities, as determined by the City, shall be paid to the Trustee for application in accordance with Section 5.06 of the Indenture.

Section 15. Title Insurance.

In the event that any proceeds are paid under the title policy delivered to the City, such proceeds attributable to the Facilities, as determined by the City, shall be paid to the Trustee for application in accordance with Section 5.06 of the Indenture.

Section 16. Liability, Casualty, Fire and Extended Insurance.

The City hereby covenants to obtain and cause to be maintained throughout the term of this Facilities Lease, a standard comprehensive general liability insurance policy or policies, and insurance against loss or damage to any part of the Facilities by reason of fire and lightning, with extended coverage and vandalism and malicious mischief, in protection of the Authority, the City, the Trustee for the Bonds, and their respective members, directors, officers, agents and employees (the "Insured Parties"), indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Facilities. The standard comprehensive general liability insurance policy or policies required by this Section shall have minimum liability limits of minimum liability limits of one million dollars (\$1,000,000) for personal injury or death of each person and three million dollars (\$3,000,000) for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of five hundred thousand dollars (\$500,000) for damage to

property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of three million dollars (\$3,000,000) covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the City.

Casualty insurance and fire and extended coverage required by this Section shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facilities (less the cost of the land), excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$100,000 for any one loss, or in the case of flood or earthquake, ten percent of such amount or a comparable deductible adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient, in the event of total or partial loss, to enable the payment of all Bonds then outstanding. Such casualty insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the City. The proceeds of the liability insurance shall be applied to the payment of any claim covered by such policy. The proceeds of any casualty insurance and for any extended coverage shall be used for the repair, reconstruction or replacement of the damaged or destroyed portion of the Project, and the City shall hold any such proceeds separate and apart from all other funds held by the City in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Project to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds; provided, however, if the City determines that the repair, reconstruction or replacement is not feasible within 24 months from the date of loss, then any proceeds received as a result of damage to the Facilities shall be paid to the Trustee.

Section 17. Third Party Insureds.

The insurance policies required by Section 15 and 16 hereof shall name the Authority as a third-party insured and shall include endorsements making amounts payable under such policies payable to the Authority in accordance with its interests described hereunder.

Section 18. Partial Invalidity.

If any one or more of the terms, provisions, covenants or conditions of this Facilities Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Facilities Lease shall be affected thereby, and each provision of this Facilities Lease shall be valid and enforceable to the fullest extent permitted by law.

Section 19. Notices.

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid,

and addressed as provided in Exhibit B hereof, and in all cases with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

Section 20. No Mergers of Interest.

The Leasehold estates under this Facilities Lease and the Lease Agreement shall not merge, whether by the exercise of any right or remedy hereunder or thereunder, by operation of law, or otherwise.

Section 21. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

Section 22. Amendment.

The Authority and the City may at any time agree to the amendment of this Facilities Lease; provided, however, that the Authority and the City agree and recognize that this Facilities Lease is entered into as contemplated by the terms of the Indenture, and accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Indenture.

Section 23. Execution.

This Facilities Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Facilities Lease. It is also agreed that separate counterparts of this Facilities Lease may separately be executed by the City and the Authority, all with the same force and effect as though the same counterpart had been executed by both the City and the Authority.

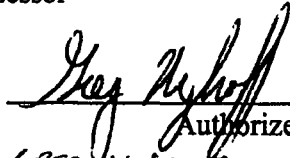
Section 24. Governing Law

This Facilities Lease shall be governed by and construed in accordance with the laws of the State of California.

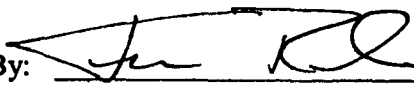
[Signature Page to Follow]

IN WITNESS WHEREOF, the City and the Authority have caused this Facilities Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.


CITY OF MODESTO,
as Lessor

By: 
Authorized Officer
GREG NYHOFF

MODESTO PUBLIC FINANCING AUTHORITY,
Lessee

By: 
Authorized Officer
JIM RIDENOUR

Approved as to Form:

By: 
City Attorney
SUSAN B. WOOD

ACKNOWLEDGMENT

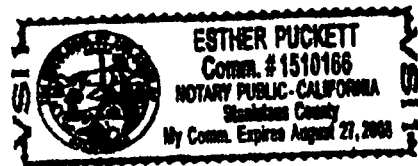
State of California)
County of Stanislaus)

On **AUGUST 20, 2008** before me, ESTHER PUCKETT, Notary Public, personally appeared **GREG NYHOFF**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her/ signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature *Esther Puckett*



(Seal)

ACKNOWLEDGMENT

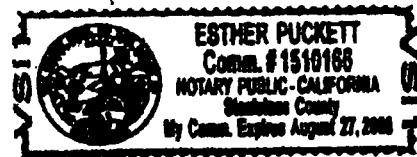
State of California)
County of Stanislaus)

On **AUGUST 20, 2008** before me, ESTHER PUCKETT, Notary Public, personally appeared **JIM RIDENOUR**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her/ signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature *Esther Puckett*



(Seal)

Government Code 27361.7: I certify under penalty of perjury that the notary Seal on the document to which this statement is attached reads as follows:
Name of Notary *Esther Puckett*
County / State STANISLAUS / CALIFORNIA
Commission No. 1510166 Expiration Date 8/27/08
Date: 8/20/08 Signature *M*
Print Name: M. Kumler

EXHIBIT A

LEGAL DESCRIPTION OF THE FACILITIES

Description of the Facilities

The Facilities shall consist of the City's undivided one-half interest in a building commonly referred to as the Communications Dispatch Center, together with the City's undivided one-half interest in the real property upon which said facility is located, and including the City's interest in the use of the common areas. The Communications Dispatch Center is located on a 2.9 acre site at the corner of Oakdale Road and Bridgewood Way in the City of Modesto. interest in certain common areas in the Facilities.

Legal description of the real property where the Facilities are located:

Communications Dispatch Center

THE LAND REFERRED TO HEREIN BELOW IS SITUATED THE CITY OF MODESTO, COUNTY OF STANISLAUS, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

½ interest in and to the following:

Parcel Two as per Parcel Map filed September 24, 1979, in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

EXHIBIT B

NOTICES

If to the Lessee:

Modesto Public Financing Authority
c/o City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Chairman

If to the Lessor:

City of Modesto
P.O. Box 642
1010 Tenth Street, Suite 5200
Modesto, California 95354
Attention: Finance Director

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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Exhibit A Form of Letter of Credit..... A-1

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.

(1) 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: *Joseph Lopez*
Typed Name: Joseph Lopez
Title: City Manager

ATTEST:

By: *Cathi Erbe*
Typed Name: Cathi Erbe
City Clerk - Assistant

APPROVED AS TO FORM:

By: *Adam Lindgren*
Typed Name: Adam Lindgren
Title: of Counsel

MODESTO PUBLIC FINANCING
AUTHORITY

By: *DeAnne Christman*
Typed Name: DeAnne Christman
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

By: _____
Name: _____
Title: _____

(Authorized Signature)

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

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 Ney
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

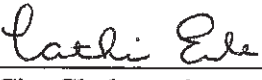
By _____
Its _____

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



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

SPECIMEN

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 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: *[Signature]*

Name: *Marisa Suen*

Title: Vice President

By: *[Signature]*

Name: *Botivar Carrillo*

Title: Assistant Vice President

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: _____

SPECIMEN

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: _____

SPECIMEN

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: _____

SPECIMEN

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: _____

SPECIMEN

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: _____

SPECIMEN

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 _____, ____.

SPECIMEN

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.

SPECIMEN

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).

SPECIMEN

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

By: _____
Name: _____
Title: _____

(Authorized Signature)

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]

By: _____

Name: _____

Title: _____

(Authorized Signature)

SPECIMEN

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

SPECIMEN

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]

SPECIMEN
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: _____

CERTIFICATE OF BANK OF AMERICA, N.A.

I, Charles Herron, am an authorized officer of Bank of America, N.A. (the "Bank"), which has issued its irrevocable, transferable letter of credit no. 3095777 for the account of the Modesto Public Financing Authority (the "Authority") pursuant to an AMENDED AND RESTATED REIMBURSEMENT AGREEMENT, dated as of August 16, 2011, by and among the Authority, the City of Modesto and Bank of America, N.A., as amended (the "Reimbursement Agreement"). We hereby certify that all amounts due and payable to the Bank as of the date hereof pursuant to the Reimbursement Agreement have been paid in full and the letter of credit has been surrendered and cancelled.


BANK OF AMERICA, N.A.

By: Charles Herron
Authorized Signatory

Dated: June 13, 2019


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

**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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POTENTIAL PURCHASERS OF THE 2008 BONDS SHOULD MAKE ANY DECISION WITH RESPECT TO THE PURCHASE, HOLDING OR TENDER OF SUCH 2008 BONDS BASED 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 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 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 fort 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 to 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	<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>
 <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	<u>\$ 8,255,262</u>	<u>\$ 5,880,702</u>	<u>\$ 7,798,714</u>	<u>\$ 7,470,997</u>	<u>\$ 7,941,419</u>
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>Direct and Overlapping Assessment Debt:</u>	<u>Net Debt Outstanding⁽¹⁾</u>	<u>Percentage Applicable to the City⁽²⁾</u>	<u>Amount Applicable to the City</u>
City of Modesto	\$ 0	100.0%	\$ 0
Total Direct And Overlapping Tax And Assessment Debt			\$ 0
<u>Overlapping General Fund Debt – School Districts:</u>			
Ceres Unified School District	\$ 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	<u>\$313,665,967</u>	<u>\$293,583,546</u>	<u>\$360,235,262</u>	<u>\$210,394,032</u>	<u>\$271,469,975</u>
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". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

M. Wayne Padilla, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto
California

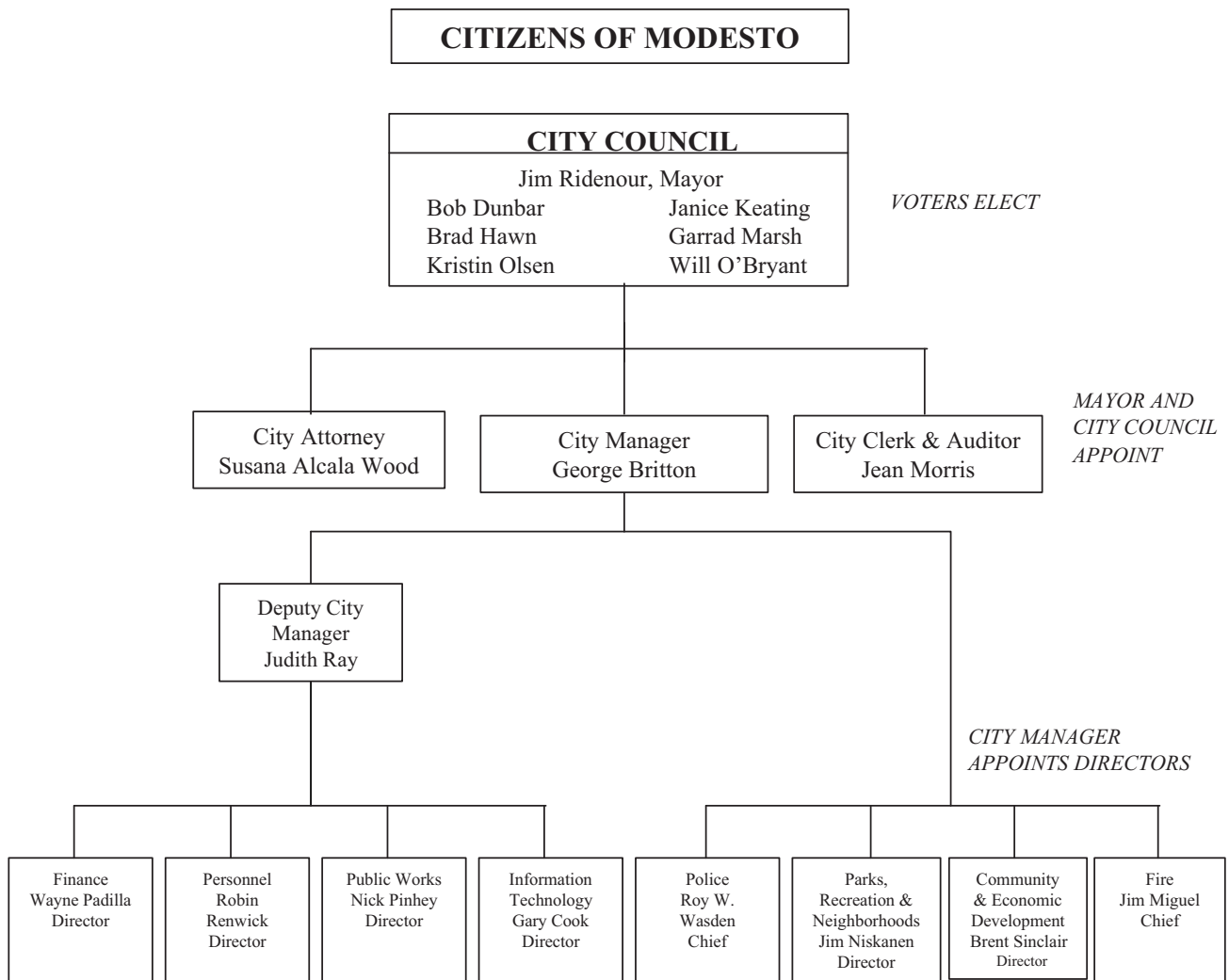
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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	<u>612,400,379</u>	<u>598,143,987</u>	<u>446,315,638</u>	<u>359,879,774</u>	<u>1,058,716,017</u>	<u>958,023,761</u>
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	<u>198,388,480</u>	<u>183,107,791</u>	<u>135,911,243</u>	<u>72,447,807</u>	<u>334,299,723</u>	<u>255,555,598</u>
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	<u>(12,566,297)</u>	<u>(2,303,306)</u>	<u>139,613,374</u>	<u>66,550,276</u>	<u>127,047,077</u>	<u>64,246,970</u>
Total net assets	<u>\$414,011,899</u>	<u>\$415,036,196</u>	<u>\$310,404,395</u>	<u>\$287,431,967</u>	<u>\$724,416,294</u>	<u>\$702,468,163</u>

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 \$127,047,078 (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)	\$1,762,501	(\$2,536,758)	\$4,299,259	-169.5%

- Transfers - The City uses interfund transfers to: (1) move revenues from the funds that collect them in accordance with statutory and/or budgetary requirements, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

The net transfers *from* governmental funds for 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			Total
	General	Capital Facility Fees	Community Facilities	Special Revenue	Capital Projects	Debt Service	
	Fund	Fund	Districts	Funds	Funds	Funds	
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)	\$ change
	2007	2006	2007	2006	2007	2006	Percent Change	
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

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<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	<u>322,193,482</u>	<u>224,159,297</u>	<u>546,352,779</u>
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	<u>166,590,086</u>	<u>122,647,332</u>	<u>289,237,418</u>
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	<u>(12,566,297)</u>	<u>139,613,374</u>	<u>127,047,077</u>
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

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS:				
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	173,704,378	39,977,342	12,701,177	4,207,389
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	90,143,609	87,816,684	11,059,129	7,962,675
Total	\$ 263,847,987	\$ 127,794,026	\$ 23,760,306	\$ 12,170,064

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)
	(1,990,243)	(1,990,243)
	<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	
	(505,498)	(505,498)
<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

	General	Capital Facility Fees	Community Facilities Districts	Other Governmental	Total Governmental
<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	\$ 22,390,302	\$ 45,209,000	\$ 38,229,156	\$ 63,333,514	\$ 169,161,972
<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	7,941,419	1,906,010	4,722,078	15,829,288	30,398,795
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	14,448,883	43,302,990	33,507,078	47,504,226	138,763,177
Total liabilities and fund balances	\$ 22,390,302	\$ 45,209,000	\$ 38,229,156	\$ 63,333,514	\$ 169,161,972

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	(8,860,632)	1,195,877	(8,628,289)	5,394,104	(10,898,940)
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 \$ (1,024,297)

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					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
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	<u>49,062,885</u>	<u>29,674,897</u>	<u>6,007,826</u>	<u>7,872,846</u>	<u>92,618,454</u>	<u>56,930,487</u>
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	<u>123,567,175</u>	<u>155,567,852</u>	<u>19,142,813</u>	<u>57,173,748</u>	<u>355,451,588</u>	<u>20,330,756</u>
Total assets	<u>172,630,060</u>	<u>185,242,749</u>	<u>25,150,639</u>	<u>65,046,594</u>	<u>448,070,042</u>	<u>77,261,243</u>
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	<u>1,973,344</u>	<u>4,935,148</u>	<u>3,669,564</u>	<u>1,604,482</u>	<u>12,182,538</u>	<u>9,436,084</u>
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	<u>67,943,177</u>	<u>50,273,043</u>	<u>49,848,192</u>	<u>6,391,189</u>	<u>124,607,409</u>	<u>76,924,948</u>
Total liabilities	<u>69,916,521</u>	<u>55,208,191</u>	<u>3,669,564</u>	<u>7,995,671</u>	<u>136,789,947</u>	<u>86,361,032</u>
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	<u>\$ 102,713,539</u>	<u>\$ 130,034,558</u>	<u>\$ 21,481,075</u>	<u>\$ 57,050,923</u>	311,280,095	<u>\$ (9,099,789)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(875,700)</u>	
Net assets of business-type activities					<u>\$ 310,404,395</u>	
The notes to basic financial statements are an integral part of this statement.						

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 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.					<u>(1,712,901)</u>	
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				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other 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					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 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	<u>901,726</u>	<u>7,162,300</u>	<u>2,215,181</u>	<u>3,785,674</u>	<u>14,064,881</u>	<u>9,422,070</u>
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>
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

	Agency Funds
<u>ASSETS</u>	
Cash and cash equivalents	\$ 5,314,399
Cash and cash equivalents held with fiscal agent	3,841,746
	\$ 9,156,145
<u>LIABILITIES</u>	
Due to special district bondholders	\$ 6,445,706
Deposits held as agent for others	2,710,439
	\$ 9,156,145

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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
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:

<u>Fund/Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
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	<u>35,079,024</u>	<u>19,273,415</u>	<u>122,929</u>	<u>54,229,510</u>
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	<u>581,084,107</u>	<u>15,572,444</u>	<u>4,088,581</u>	<u>592,567,970</u>
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	<u>(253,191,957)</u>	<u>(20,429,520)</u>	<u>3,246,989</u>	<u>(270,374,488)</u>
Total capital assets, being depreciated, net	<u>327,892,150</u>	<u>(4,857,076)</u>	<u>841,592</u>	<u>322,193,482</u>
Governmental activities capital assets, net	<u>\$362,971,174</u>	<u>\$14,416,339</u>	<u>\$964,521</u>	<u>\$376,422,992</u>

	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	<u>55,181,646</u>	<u>15,125,168</u>		<u>70,306,814</u>
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	<u>373,718,316</u>	<u>7,340,830</u>	<u>926,271</u>	<u>380,132,875</u>
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	<u>(144,177,545)</u>	<u>(12,046,521)</u>	<u>250,488</u>	<u>(155,973,578)</u>
Total capital assets, being depreciated, net	<u>229,540,771</u>	<u>(4,705,691)</u>	<u>675,783</u>	<u>224,159,297</u>
Business-type activities capital assets, net	<u>\$284,722,417</u>	<u>\$10,419,477</u>	<u>\$675,783</u>	<u>\$294,466,111</u>

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	80,971
Total minimum lease payments	<u>161,943</u>
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	<u>223,962</u>
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		<u>\$39,414,699</u>	<u>\$31,166,210</u>	<u>\$17,583,380</u>
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:									Total
	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			\$2,437,022
Capital Facility Fees			926,120	186,777						1,112,897
Community Facilities Districts		196,035								196,035
Other Governmental	\$10,083,447	341,833		9,814,629						20,239,909
Water	264,000									264,000
Sewer	226,389									226,389
Bus	1,500									1,500
Other Enterprise	766,887			180,000					\$38,550	985,437
Internal Service	997,710	101,347		23,584			47,694	\$128,000		1,298,335
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:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$31,085,000
Fairview Village Community Facilities District	4,960,000

C. CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, health care, and multiple-family housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from developer payments on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are considered conduit debt obligations and are not reported as liabilities in the accompanying financial statements.

As of June 30, 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 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	<u>50,608,523</u>	<u>52,010,368</u>	<u>50,376,565</u>	<u>(1,633,803)</u>
<u>LICENSES AND PERMITS</u>	<u>101,174</u>	<u>101,174</u>	<u>100,682</u>	<u>(492)</u>
<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	<u>48,491,939</u>	<u>49,505,153</u>	<u>48,014,025</u>	<u>(1,491,128)</u>
<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	<u>16,241,225</u>	<u>16,182,666</u>	<u>15,503,085</u>	<u>(679,581)</u>
<u>SPECIAL ASSESSMENT</u>	<u>158,500</u>	<u>158,500</u>	<u>51,634</u>	<u>(106,866)</u>
<u>INTEREST AND RENT</u>	<u>490,680</u>	<u>490,680</u>	<u>406,462</u>	<u>(84,218)</u>
<u>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</u>			<u>146,546</u>	<u>146,546</u>
<u>FINES AND FORFEITURES</u>	<u>546,835</u>	<u>705,000</u>	<u>1,158,163</u>	<u>453,163</u>
<u>MISCELLANEOUS:</u>				
Mandated cost recovery		963,508	938,730	(24,778)
Other	786,091	980,918	1,236,789	255,871
Total miscellaneous	<u>786,091</u>	<u>1,944,426</u>	<u>2,175,519</u>	<u>231,093</u>
Total revenues	<u>\$ 117,424,967</u>	<u>\$ 121,097,967</u>	<u>\$ 117,932,681</u>	<u>\$ (3,165,286)</u>

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	\$ 2,727,136	\$ 3,813,568	\$ 374,251	\$ 7,864,451	\$ 61,239
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	1,792,256	3,715,445	30,607	321,138	38
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	285,383	96,596			
Total fund balances	934,880	98,123	343,644	7,543,313	61,201
Total liabilities and fund balances	\$ 2,727,136	\$ 3,813,568	\$ 374,251	\$ 7,864,451	\$ 61,239

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		Total
	Redevelopment Agency	Public Financing Authority	
<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

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	
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>

		Capital Projects					
Housing and Community Development	Strategic Planning and Development	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							
229,400							
<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>
							<u>635,695</u>
503,247	(516,367)	(4,400,219)	(883,474)	117	1,643,009	1,982,835	(633,557)
	625,000	4,694,513	2,848,632		890,107		
(2,781,795)	44,138	(543,738)	(97,222)			(25,807)	(2,582,013)
							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		Total
	Redevelopment Agency	Public Financing Authority	
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	3,274,592	294,162	33,426,790
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	2,637,590	4,426,155	40,497,501
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	637,002	(4,131,993)	(7,070,711)
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)	(892,414)	3,522,384	12,464,815
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	\$ 2,701,148	\$ 4,689,277	\$ 47,504,226

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	(5,343,790)	(5,459,623)	(249,583)	5,210,040
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	(4,129,552)	(4,129,552)	(1,265,085)	2,864,467
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>	<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	(5,502,829)	(5,502,829)	(2,781,795)	2,721,034
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	(6,912,276)	(5,828,927)	(2,278,548)	3,550,379
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			39,724	39,724
Interest and rent - interest			17,810	17,810
Net increase in fair value of investments			10,000	
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>
ASSETS			
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	<u>630,000</u>		
Total current assets	<u>2,009,131</u>	<u>1,516,973</u>	<u>626,064</u>
Capital assets:			
Land and construction in progress	3,142,479	1,942,719	
Other capital assets, net of accumulated depreciation	<u>7,615,660</u>	<u>15,890,160</u>	<u>614,605</u>
Total assets	<u>12,767,270</u>	<u>19,349,852</u>	<u>1,240,669</u>
LIABILITIES			
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		<u>878,704</u>	
Total liabilities	<u>41,924</u>	<u>1,011,392</u>	<u>183,024</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,758,139	17,832,879	540,457
Unrestricted	<u>1,967,207</u>	<u>505,581</u>	<u>517,188</u>
Total net assets	<u>\$ 12,725,346</u>	<u>\$ 18,338,460</u>	<u>\$ 1,057,645</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,508,354	\$ 230,740 610,647	\$ 486,405	\$ 5,032,664 610,647
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>
			77,485
	5,435,000		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

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
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	<u>(275,172)</u>	<u>(1,362,467)</u>	<u>102,676</u>
Capital contributions		844,912	
Transfers in	180,000		29,000
Transfers out			(128,000)
CHANGE IN NET ASSETS	<u>(95,172)</u>	<u>(517,555)</u>	<u>3,676</u>
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>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 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

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
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	<u>(278,655)</u>	<u>(2,351,387)</u>	<u>(243,018)</u>
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		<u>878,704</u>	
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		<u>826,367</u>	
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	<u>14,659</u>	<u>7,362</u>	<u>19,040</u>
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>
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
<u>17,802</u>	<u>1,400</u>	<u>1,460</u>	<u>61,723</u>
<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

	Parking	Storm Drain	Compost
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
<u>(13,425)</u>	<u>11,761</u>		<u>(1,664)</u>
<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	16,856,577	66,670	2,409,428
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	15,629,036	1,049,238	3,331,082
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>
12,042,593	64,628,743		64,628,743
			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)
814,304	(45,402,585)	191,083	(8,440,424)
<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>\$ (1,324,818)</u>	<u>\$ 1,649,312</u>	<u>\$ (14,326)</u>	<u>\$ 5,500,386</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
<hr/> <u>Special Districts</u> <hr/>				
<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	\$ 5,763,312	\$ 3,269,744	\$ 2,587,350	\$ 6,445,706
<hr/> <u>Tuolumne River Regional Park</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 33,926	\$ 2,242,121	\$ 1,429,353	\$ 846,694
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 33,926	\$ 2,242,121	\$ 1,429,353	\$ 846,694
<hr/> <u>City/County Joint Powers Financing Authority</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 94,720	\$ 1,505,783	\$ 1,348,992	\$ 251,511
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 94,720	\$ 1,505,783	\$ 1,348,992	\$ 251,511
<hr/> <u>Stanislaus Drug Enforcement Agency</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,167,635	\$ 2,808,748	\$ 2,364,149	\$ 1,612,234
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 1,167,635	\$ 2,808,748	\$ 2,364,149	\$ 1,612,234
<hr/> <u>Totals - All Agency Funds</u> <hr/>				
<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

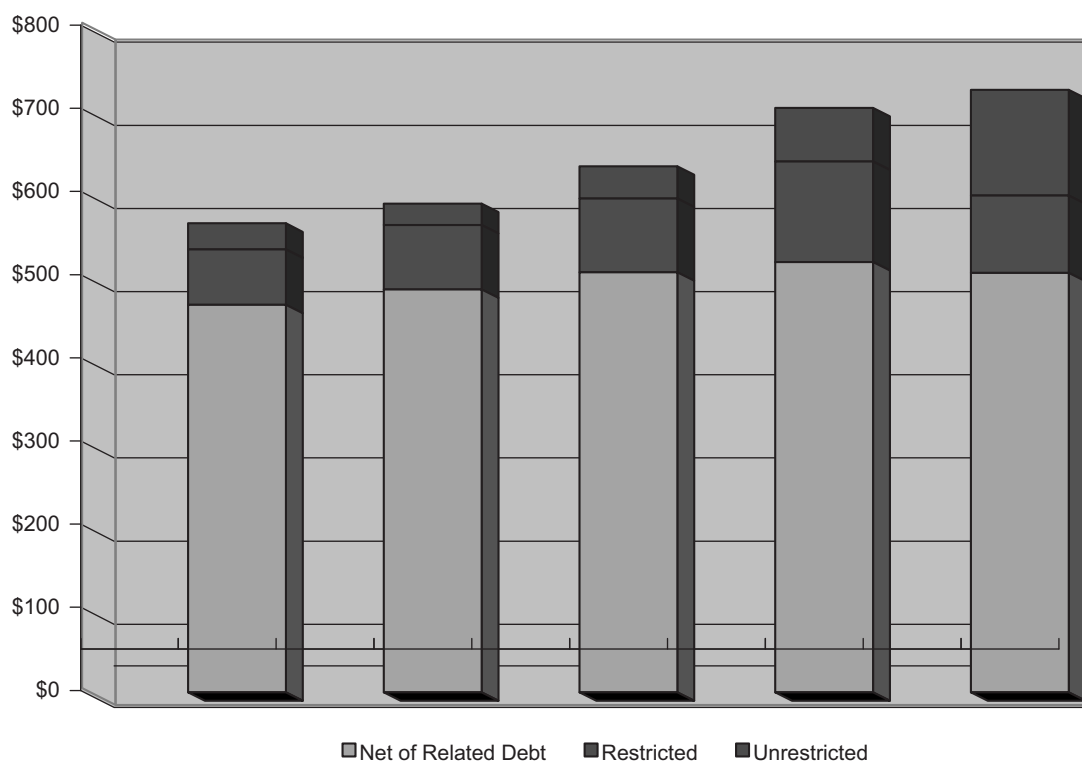
Operating Information

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)



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
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><u>\$327,453,927</u></u>	<u><u>\$340,366,221</u></u>	<u><u>\$370,401,634</u></u>	<u><u>\$415,036,196</u></u>	<u><u>414,011,899</u></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><u>\$236,335,145</u></u>	<u><u>\$247,260,020</u></u>	<u><u>\$262,106,963</u></u>	<u><u>\$287,431,967</u></u>	<u><u>\$310,404,395</u></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><u>\$563,789,072</u></u>	<u><u>\$587,626,241</u></u>	<u><u>\$632,508,597</u></u>	<u><u>\$702,468,163</u></u>	<u><u>724,416,294</u></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	\$215,445,917	\$209,694,826	\$225,197,745	\$230,819,252	\$263,847,987
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 Governmental 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	\$149,758,967	\$153,740,570	\$163,296,587	\$188,434,438	\$163,724,396
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	(\$65,686,950)	(\$55,954,256)	(\$61,901,158)	(\$42,384,814)	(\$100,123,591)

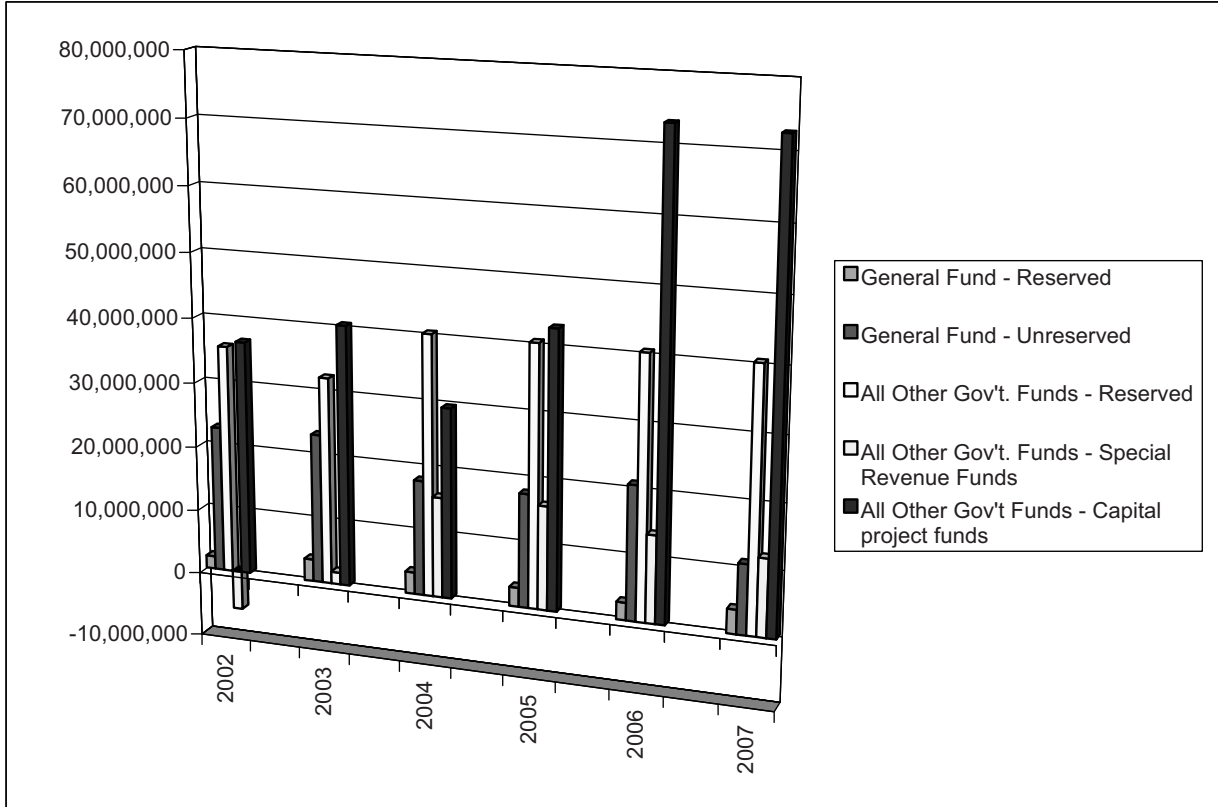
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CITY OF MODESTO
CHANGES IN NET ASSETS
 (continued)
 Last Five Fiscal Years
 (Accrual Basis of Accounting)

	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	\$83,262,745	\$79,791,425	\$106,783,514	\$112,344,380	\$122,071,722
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	\$17,575,795	\$23,837,169	\$44,882,356	\$69,959,566	\$21,948,131

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	<u>17,006,634</u>
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.

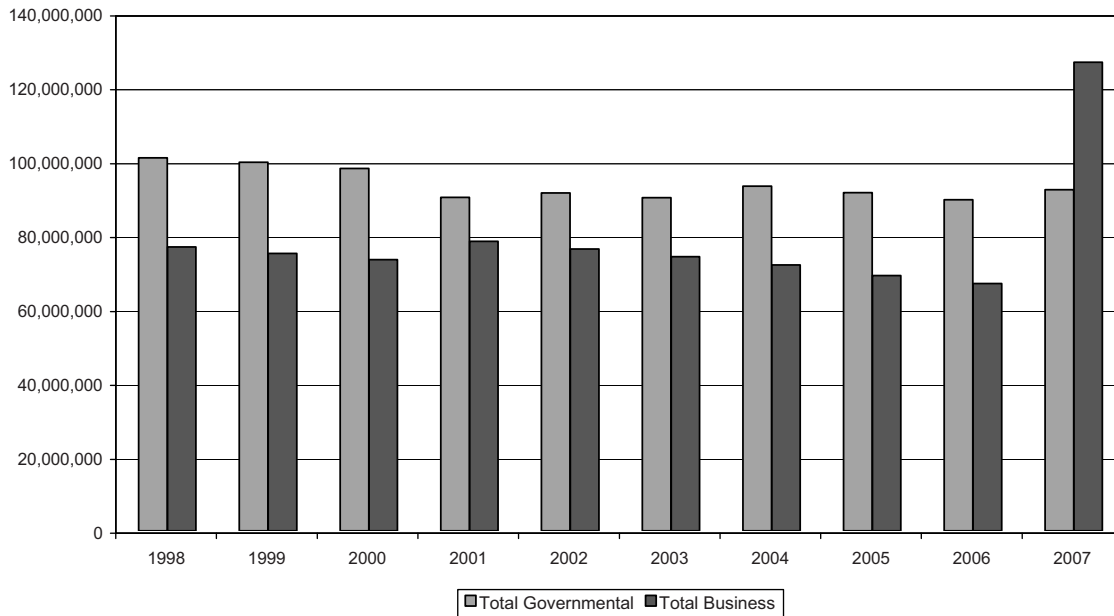
Water rates for both metered and flat rate services were increased on July 1, 2006.

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

Fiscal Year	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
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>\$ 219,416,338</u>		<u>\$ 101,053,669</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

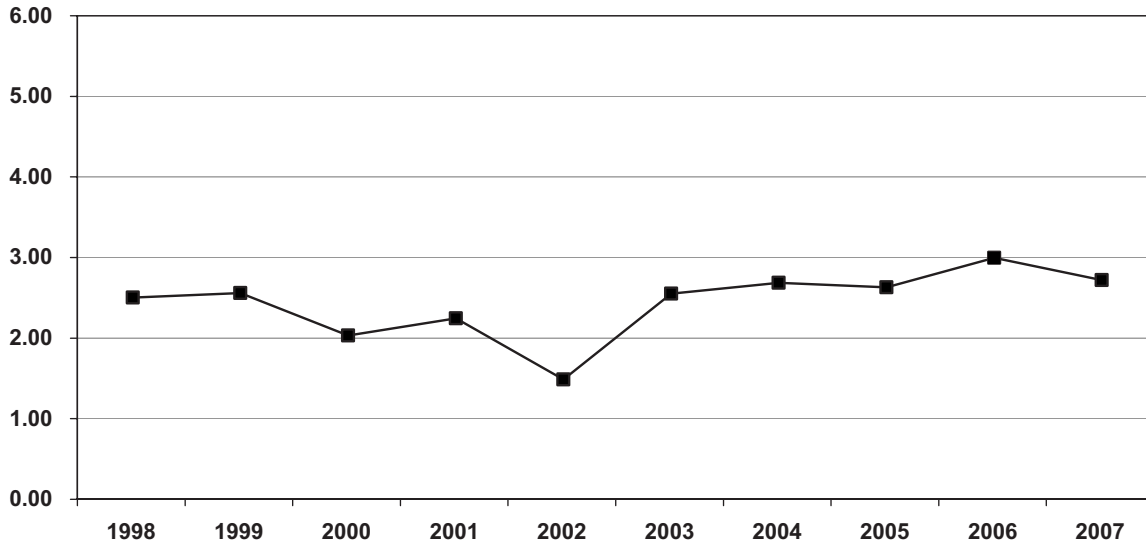
Net assessed value (1)		\$ 14,169,192,745
Plus homeowners' exemption (1)		<u>235,367,095</u>
Gross assessed value (1)		\$ 14,404,559,840
Debt limit - 15% of gross assessed value (2)		\$ 2,160,683,976
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	<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><u>\$ 2,160,683,976</u></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



<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements(3)</u>	<u>Coverage</u>
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>Category</u>	<u>Customer Base by Type of Account</u>		
	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	56,411	95.44%	50.0%
Commercial	2,647	4.48%	15.5%
Industrial	46	0.08%	34.5%
Total	59,104	100.00%	100.00%

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)	\$ 7,535,948	32.31%
Total (All Customers)	\$ 23,323,409	

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	<u>17,006,634</u>
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

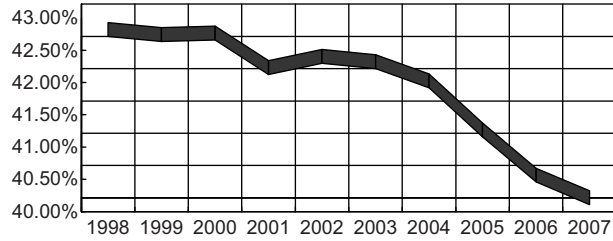
Gross Operating Revenues:	
Charges for services	\$49,289,417
Connection charges	2,023,224
Interest and rental income	2,279,905
Miscellaneous operating revenue	<u>15,616</u>
Total Gross Operating Revenues	<u>53,608,162</u>
Operating Expenses:	
Total operating expenses	32,466,468
Less: Depreciation	(2,396,440)
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><u>\$30,075,091</u></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><u>\$9,828,715</u></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:

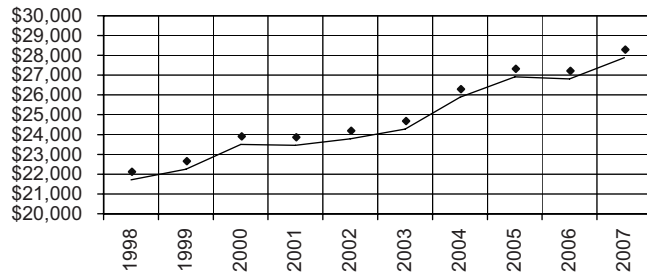
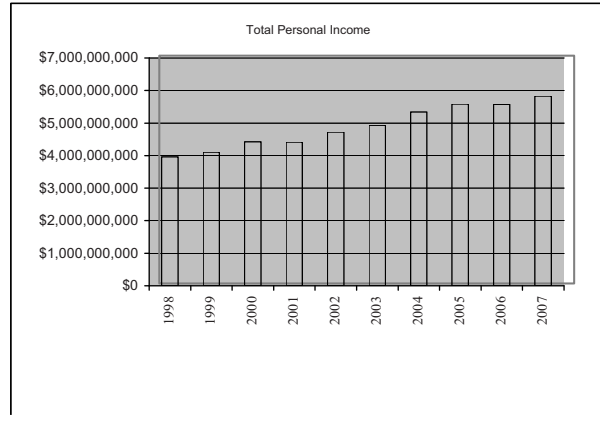
Water Utility System Statement of Net Assets	Page 24	
Water Utility System Revenues and Expenses	Page 25	
Principal Amount of Certificates Outstanding	Page 40	(Note III-C)

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.

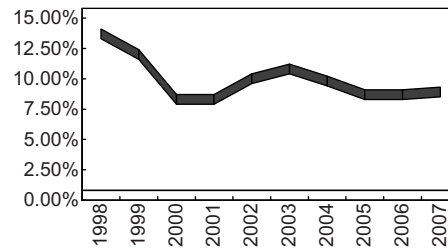
CITY OF MODESTO
DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last ten fiscal years



■ City Population as a % of County Population



◆ Per Capita Personal Income



■ Unemployment Rate (%)

Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
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)

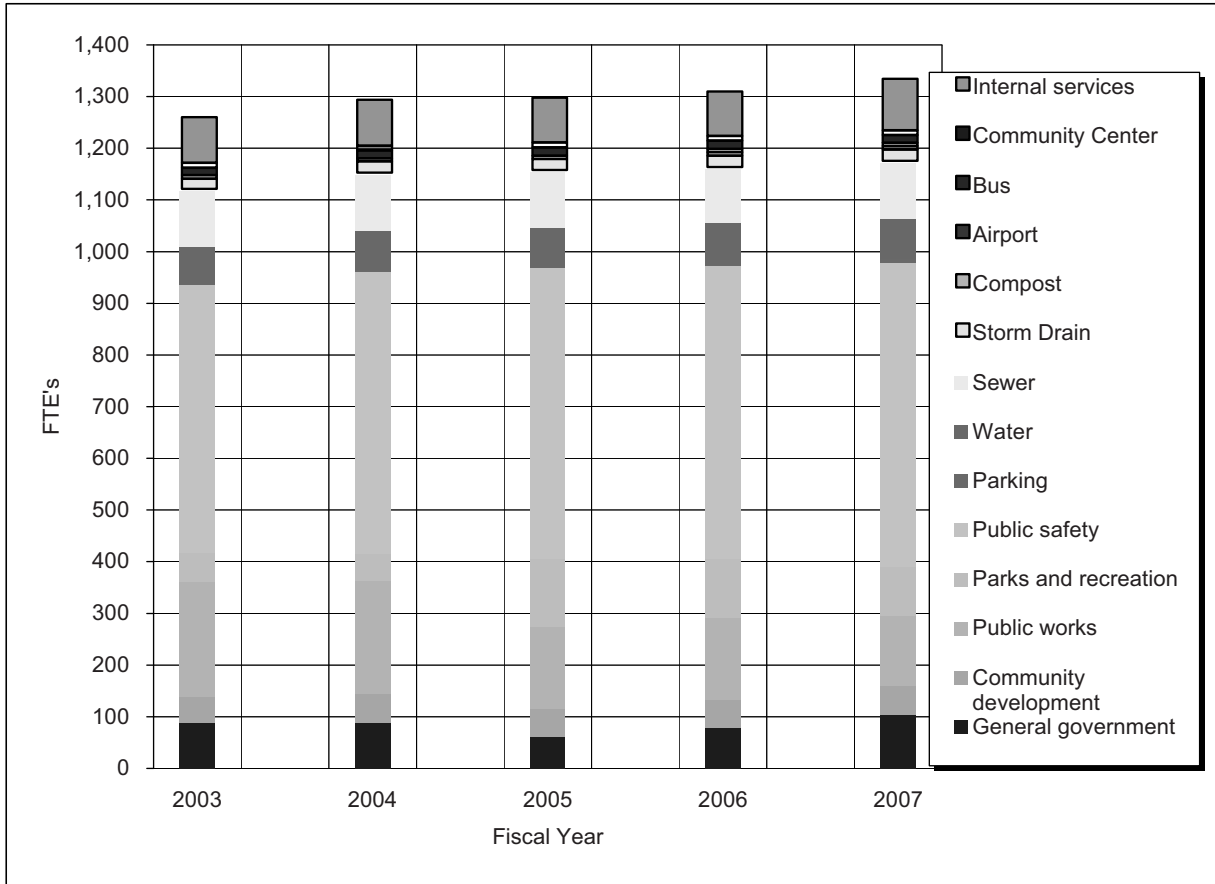
**CITY OF MODESTO
Principal Employers**

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



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
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	<u>1,255.80</u>	<u>1,289.00</u>	<u>1,206.25</u>	<u>1,305.25</u>	<u>1,329.70</u>

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 20055-2006	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

Function/Program	2006	2007
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: *Gloriette Genereux*
Gloriette Genereux
Finance Director/Treasurer

MODESTO PUBLIC FINANCING AUTHORITY

By: *Gloriette Genereux*
Gloriette Genereux
Auditor and Treasurer

REMARKETING AND INTEREST SERVICES AGREEMENT

This REMARKETING AND INTEREST SERVICES AGREEMENT, dated as of May 20, 2019 (the “Remarketing Agreement”), by and between MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California (the “Issuer”), and RAYMOND JAMES & ASSOCIATES, INC., a Florida Corporation, as remarketing agent (the “Remarketing Agent”);

W I T N E S S E T H:

WHEREAS, the Issuer has authorized the issuance of the Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 in the aggregate principal amount of \$65,170,000 (the “Bonds”), pursuant to the provisions of an Indenture, dated as of August 1, 2008 (the “Indenture”), by and between the Issuer and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”); and

WHEREAS, the Bonds are secured by an irrevocable direct-pay letter of credit (the “Initial Credit Facility”) issued by Bank of America, N.A. (the “Initial Credit Facility Provider”); and

WHEREAS, the Bonds are subject to mandatory tender for purchase by the holders thereof and to remarketing, all as provided in the Indenture, upon the delivery of an Alternate Credit Facility (as defined in the Indenture); and

WHEREAS, the City intends to replace the Initial Credit Facility with an irrevocable transferable letter of credit (the “BotW Credit Facility”) issued by Bank of the West (“BotW”), as the Alternate Credit Facility provider on or about June 19, 2019 (the “2019 Mandatory Purchase Date”), which will be provided pursuant to the terms of a Reimbursement Agreement, dated as of June 1, 2019, by and among the Issuer, the City and BotW (the “BotW Reimbursement Agreement”);

WHEREAS, the Bonds are and will be more fully described in the Official Statement, dated August 26, 2008, as supplemented and amended and as further supplemented on or about June 10, 2019 (the “Official Statement”) in connection with the mandatory purchase of the Bonds on the 2019 Mandatory Purchase Date; and

WHEREAS, the Issuer has requested that the Remarketing Agent act as its successor remarketing agent under the Indenture to perform certain services as provided herein and in accordance with the Indenture, including, without limitation, the remarketing of Bonds tendered for purchase and the setting of the interest rate on the Bonds, and the Remarketing Agent is willing to accept such appointment and perform such services on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, for and in consideration of the covenants herein made, and upon the terms and subject to the conditions herein set forth, the parties hereto agree as follows:

Section 1. Definitions. All capitalized terms used herein and not otherwise herein defined shall have the meanings ascribed to them in the Indenture and, if so not defined therein, the Official Statement.

Section 2. Appointment of Remarketing Agent. Pursuant to the Indenture and this Remarketing Agreement, the Issuer hereby appoints the Remarketing Agent as its designee with respect to the Bonds, and the Remarketing Agent hereby accepts such appointment, with such duties as described herein and in the Indenture.

Section 3. Remarketing of Bonds.

(a) The Remarketing Agent hereby agrees to perform the duties and obligations, and only such duties and obligations, as are expressly imposed upon it as Remarketing Agent herein and under the Indenture and, except as otherwise provided in and subject to the limitations set forth in the Indenture, agrees to use its reasonable best efforts to remarket the Bonds as set forth in the Indenture, as agent for the Issuer and not as principal. The Remarketing Agent may at any time and from time to time seek to obtain an Opinion of Counsel satisfactory to the Remarketing Agent concerning the effect that any action or inaction contemplated by the Remarketing Agent may have on the excludability of interest income on the Bonds from gross income for federal income tax purposes under the Code. The Remarketing Agent may rely on and act in accordance with any such Opinion of Counsel.

It is understood and agreed upon by the parties hereto that the Remarketing Agent is only acting hereunder as the agent of the Issuer, and not as principal, insofar as the purchase of Bonds is concerned, and is only obligated to use its reasonable best efforts to remarket the Bonds. The Remarketing Agent is not and shall not be deemed to be acting as an underwriter for the Bonds and is in no way obligated hereunder to advance its own funds to purchase the Bonds. The foregoing shall in no way be deemed to limit the responsibilities and obligations of any Credit Facility Provider to advance funds under any Credit Facility.

(b) The Remarketing Agent shall have no duty to act hereunder to the extent the Remarketing Agent is not required to perform its obligations under the Indenture and shall have no duty to act under the Indenture to the extent it is not required to perform its obligations hereunder. The Remarketing Agent may for its own account or as broker or agent for others deal in Bonds and may do anything any other Bondholder may do to the same extent as if the Remarketing Agent were not serving as such. The Remarketing Agent may execute and perform any of its duties hereunder or under the Indenture through agents, attorneys, employees or co remarketing agents and shall not be responsible for the misconduct or negligence of any agent, attorney, employee or co remarketing agent appointed with due care.

(c) The Remarketing Agent shall not be required to remarket any Bonds if, subsequent to their date of issuance:

(i) Any representation of the Issuer made or incorporated by reference herein shall prove to have been untrue, incorrect, incomplete or misleading in any material respect and, in the reasonable opinion of the Remarketing Agent, the marketability of the Bonds is materially and adversely affected thereby;

(ii) A default by the Issuer in the observance or performance of any covenant or agreement contained in this Remarketing Agreement shall have occurred and be continuing;

(iii) Legislation shall have been enacted by the United States Congress, or a decision by any court of the United States, including the Tax Court, shall have been rendered, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States or any branch thereof, including the Internal Revenue Service, or any other governmental agency shall have been made or proposed, with respect to federal taxation upon interest received on obligations of the general character of the Bonds, or an Event of Taxability or a Determination of Taxability shall have occurred or other action or events shall have transpired that (A) may have the purpose or effect, directly or indirectly, of making interest with respect to the Bonds subject to inclusion in gross income for federal income tax purposes, or (B) in the reasonable opinion of the Remarketing Agent, materially and adversely affects the marketability of the Bonds;

(iv) Any legislation, ordinance, rule or regulation shall have been enacted by any governmental body, department or agency of the State or any decision by any court of competent jurisdiction within the State shall have been rendered that in the reasonable opinion of the Remarketing Agent materially and adversely affects the marketability of the Bonds;

(v) Any legislation shall have been enacted, any decision by a court of the United States shall have been rendered or any stop order, ruling, regulation or official statement by or on behalf of the Securities and Exchange Commission or other governmental agency shall have been made to the effect that the Bonds or the Indenture are not exempt from registration, qualification or other requirements of the Securities Act of 1933, as amended, the Trust Indenture Act of 1939, as amended or other federal securities laws;

(vi) Any legislation shall have been enacted, any decision by a court of the United States shall have been rendered or any ruling, regulation or official statement by or on behalf of, the Comptroller of the Currency or the Federal Reserve Board or other governmental agency shall have been made that would render the Remarketing Agent's activities hereunder illegal or subject it to registration or licensing to which it is not now subject;

(vii) Any event shall have occurred or condition shall exist (including without limitation insufficient coverage under any Credit Facility of principal, premium, if any, or interest payable on the Bonds while in any particular Mode as may be required by the Indenture, any material adverse change in the financial condition of any Credit Facility Provider, the expiration of any Credit Facility or the issuance of any Alternate Credit Facility) that, in the reasonable opinion of the Remarketing Agent, materially and adversely affects the marketability of the Bonds or the liquidity or security therefor; or

(viii) Any event shall have occurred, or information shall have become known which, in the reasonable judgment of the Remarketing Agent, makes untrue in any material adverse respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the

statements made therein, in light of the circumstances under which they were made, not misleading; or

(ix) In the reasonable opinion of the Remarketing Agent the marketability of the Bonds has been affected because (A) additional material restrictions not in force as of their date of issuance shall have been imposed upon trading in securities generally by any governmental authority or by a national securities exchange, (B) any Event of Default exists under the Indenture, (C) a general banking moratorium shall have been established by federal or State authorities, or (D) war or an outbreak of hostilities or other national or international calamity or crisis shall have occurred or escalated to such a magnitude as in the reasonable opinion of the Remarketing Agent to have a materially adverse effect on the marketability of the Bonds.

Section 4. Determination of Modes. The Remarketing Agent shall determine the per annum interest rate with respect to the Bonds in accordance with the Indenture and shall provide notice thereof to the parties, in the manner and at the times set forth in the Indenture.

Section 5. Remarketing Agent Compensation. With respect to Bonds bearing interest at a Weekly Rate or a Flexible Rate, the Issuer agrees to pay to the Remarketing Agent continuing remarketing and tender agent fees computed as 0.07% per annum of the outstanding principal amount of the Bonds, commencing on the effective date of this agreement. Such fees shall be payable in arrears on each March 1, June 1, September 1 and December 1 until the first March 1, June 1, September 1 or December 1 succeeding payment in full of the Bonds, commencing September 1, 2019 (which payment shall include the pro-rated amount otherwise due on June 1). The fee shall be deemed earned in full upon receipt by the Remarketing Agent, and no portion shall be refundable for any reason, including, without limitation, termination of this Remarketing Agreement. The Remarketing Agent reserves the right to periodically review and possibly revise the remarketing and tender agent fees payable by the Issuer hereunder based on prevailing market conditions related to the remarketing of the Bonds and other comparable securities. The Issuer also agrees to reimburse the Remarketing Agent for all reasonable out of pocket expenses incurred by it in connection herewith, including, without limitation, fees and disbursements of counsel to the Remarketing Agent.

For the services of the Remarketing Agent in connection with the remarketing of Bonds upon the adjustment of the Bonds to a Fixed Rate (the "Fixed Rate Conversion Date"), the Issuer shall pay to the Remarketing Agent a fee to be mutually agreed upon by the Issuer and the Remarketing Agent no later than the date the Issuer first notifies the Trustee and the Credit Facility Provider of its intention to convert the Bonds to a Fixed Rate. In the event the Issuer and the Remarketing Agent are unable to agree upon a fee, the Remarketing Agent shall be under no obligation to use its reasonable best efforts to remarket the Bonds upon such conversion to a Fixed Rate.

Section 6. Resignation or Removal of Remarketing Agent.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created hereunder and under the Indenture. The Remarketing Agent may be removed of all or a portion of its duties and obligations hereunder and under the Indenture at any time, at

the direction of the Authority. Upon the resignation or removal of the Remarketing Agent, the Issuer shall appoint a successor Remarketing Agent in accordance with the Indenture.

Section 7. Representations and Warranties of the Issuer. The Issuer represents and warrants to the Remarketing Agent that (i) each of the Issuer's representations and warranties contained in BotW Reimbursement Agreement true and correct as of the date hereof and is hereby made to the Remarketing Agent as if set forth herein and (ii) the Issuer is in compliance with all terms, covenants and conditions of the BotW Reimbursement Agreement and the Indenture and each other agreement or document relating to the Bonds to which it is a party.

Section 8. Representations and Warranties of the Remarketing Agent. The Remarketing Agent represents and warrants to the Issuer that (i) it meets the requirements set forth in Section 4.20 of the Indenture and (ii) this Remarketing Agreement has been duly authorized, executed and delivered by the Remarketing Agent, and, assuming due authorization, execution and delivery by the Issuer, the Remarketing Agreement constitutes a legal, valid and binding agreement of the Remarketing Agent enforceable in accordance with its respective terms, subject to laws relating in bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought.

Section 9. Disclosure Covenants.

(a) In the event that the Remarketing Agent, in connection with the remarketing of the Bonds, is required to comply with Rule 15c2 12, as amended (the "Rule"), of the Securities and Exchange Commission, the Issuer agrees to take all actions as are necessary at that time to comply with the provisions of the Rule.

(b) The Issuer hereby approves the use and distribution of the Official Statement (including any amendments, modifications and supplements thereto) and all exhibits and appendices thereto and documents incorporated therein by reference and all other documents provided by the Issuer to the Remarketing Agent for use in the remarketing of the Bonds. The Issuer agrees to cause the Remarketing Agent to be furnished with as many copies of the Official Statement and all exhibits and appendices thereto and documents incorporated by reference therein as the Remarketing Agent may reasonably request. The Issuer further agrees to furnish the Remarketing Agent with such other information as the Issuer deems necessary or as the Remarketing Agent may reasonably request from time to time in connection with the remarketing of the Bonds in accordance with the terms hereof, including, but not limited to, upon the Remarketing Agent's request, the Issuer's (a)(i) prompt notification to the Remarketing Agent in writing of the circumstances and details of any event or condition known to the Issuer relating to or affecting the Issuer or the Bonds or any document or agreement related to the Bonds or executed in connection with the issuance or original purchase and sale thereof shall occur which might affect the accuracy or completeness of any statement of a material fact contained in the Official Statement or any exhibit or appendix thereto or document incorporated by reference therein or any other materials or information furnished by the Issuer to the Remarketing Agent in connection with the remarketing or sale of any Bond hereunder or, alternatively, (ii) written confirmation that no event or condition referenced in (a)(i) exists at the time of the Remarketing Agent's request and (b), if in the opinion of the Issuer, the Remarketing Agent or their respective counsel, any event or condition referenced in (a)(i) requires the preparation and publication of a supplement or

amendment to the Official Statement, the Issuer will forthwith prepare and furnish to the Remarketing Agent (at the expense of the Issuer) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Remarketing Agent) which will amend or supplement the Official Statement so that it will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

Section 10. Additional Covenants. The Issuer will cooperate with the Remarketing Agent, and the Issuer will pay all costs and expenses incurred by the Remarketing Agent (a) in obtaining and maintaining a rating on the Bonds by one of the national rating agencies so long as such a rating is reasonably deemed necessary by the Remarketing Agent in its sole discretion in order to remarket the Bonds at the lowest interest cost to the Issuer and (b) in the qualification of the Bonds for offering and sale and the determination of the eligibility of the Bonds for investment under the laws of such jurisdictions as the Remarketing Agent shall designate and will use its reasonable best efforts to continue such qualification in effect so long as required for the remarketing of the Bonds by the Remarketing Agent, provided that neither the Issuer nor the Remarketing Agent shall be required to take any action which would subject it to general service of process or to qualify as a foreign corporation in any jurisdiction where it is not now so subject.

Section 11. Failures by Purchasers. The Remarketing Agent shall not be liable to the Issuer or the Credit Facility Provider on account of the failure of any person to whom the Remarketing Agent has remarketed a Bond to pay for such Bond or deliver any document in respect of such remarketing. If there is such a failure, the Remarketing Agent will use its reasonable best efforts to remarket such Bond to a substitute purchaser on the terms set forth herein and in the Indenture.

Section 12. Notices.

(a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted hereunder must be in writing except as expressly provided otherwise.

(b) Except as otherwise provided herein, any notice or other communication shall be sufficiently given and deemed given when (i) delivered by hand, (ii) sent by a nationally recognized overnight courier, (iii) mailed by first-class mail, postage prepaid, or, (iv) unless specifically prohibited under the terms of the Indenture, by telecopy under the provisions of this Remarketing Agreement, addressed as follows:

If to the Trustee:

The Bank of New York Mellon Trust Company, N.A.
555 Kearny Street, Suite 600
San Francisco, CA 94108
Attention: Corporate Trust
Telephone No.: (415) 263-2418
Facsimile No.: (415) 399-1647

If to the Remarketing Agent:

Raymond James & Associates, Inc.
Attn: Thomas Galvin, Short-Term Products
50 North Front Street
12th Floor
Memphis, TN 38103

with a copy to:

If to the Issuer:

Modesto Public Financing Authority
c/o City of Modesto
City Hall
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Auditor and Treasurer
Telephone No.: (209) 577-5387
Facsimile No.: (209) 491-5992

If to Bank of America, N.A.:

CA5-704-13-11
315 Montgomery St., 13th Floor
San Francisco, CA 94104
Facsimile: 415-622-5032

If to BotW (effective after the delivery of the BotW Credit facility):

Regarding credit matters:

To such address(es) as indicated in the BotW Reimbursement Agreement.

Regarding operational matters:

To such address(es) as indicated in the BotW Reimbursement Agreement.

Each of the above parties may, by written notice given hereunder to the others, designate any further or different addresses to which or means by which, subsequent notices, certificates, requests or other communications shall be sent.

Section 13. Governing Law. **THIS REMARKETING AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.**

Section 14. Counterparts. This Remarketing Agreement may be executed in several counterparts, each of which shall be an original and all of which, when taken together, shall constitute but one and the same instrument.

Section 15. Binding Effect. This Remarketing Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns, except that the Issuer may not assign any of its rights or obligations hereunder without the consent of the Remarketing Agent.

Section 16. Termination. This Remarketing Agreement shall terminate (except as to rights to any fees, expenses and costs payable and rights to indemnity or contribution, which shall survive any termination) on the earlier of (a) the removal or resignation of the Remarketing Agent pursuant to Section 6 hereof, (b) payment in full of the Bonds, or (c) the Fixed Rate Conversion Date.

Section 17. Miscellaneous.

(a) Nothing herein shall be construed to make any party hereto an employee of the other or to establish any fiduciary relationship among the Issuer and the Remarketing Agent except as expressly provided herein.

(b) Subject to prior written consent required by the terms of the Credit Facility Reimbursement Agreement, this Remarketing Agreement may be amended from time to time only by an instrument in writing executed by the parties hereto.

(c) The headings contained herein are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Remarketing Agreement.

(d) If any one or more of the covenants, provisions or agreements contained in this Remarketing Agreement shall be determined by a court of competent jurisdiction to be invalid, the invalidity of such covenants, provisions and agreements shall in no way affect the validity or effectiveness of the remainder of this Remarketing Agreement, and this Remarketing Agreement shall continue in full force to the fullest extent permitted by law.


(e) All of the representations, warranties and covenants made in this Remarketing Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any party hereto, (ii) delivery of and any payment for any Bonds hereunder, or (iii) termination or cancellation of this Remarketing Agreement.

(f) No covenant, agreement or obligation contained in this Remarketing Agreement shall be deemed to be a covenant, agreement or obligation of any present or future director, officer, employee, member or agent of the Issuer in his or her individual capacity, and neither the directors of the Issuer nor any official thereof executing this Remarketing Agreement shall be liable personally on this Remarketing Agreement or be subject to any personal liability or accountability by reason of the execution and delivery thereof or by reason of the covenants, obligations or agreements of the Issuer contained in this Remarketing Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Remarketing Agreement to be duly executed in their respective names by their duly authorized officers as of the day and year first above written.

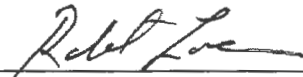
MODESTO PUBLIC FINANCING AUTHORITY

By: 
Auditor and Treasurer

RAYMOND JAMES & ASSOCIATES, INC.

By: Robert Larkins

Title: Senior Managing Director

Signature: 

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

CERTIFICATE REGARDING CITY RESOLUTION

June 13, 2019

I, Stephanie Lopez, 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. 2019-224 (the “Resolution”), adopted at the regular meeting of the City Council of the City held on May 7, 2019, 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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Dated as of the date first written above.

CITY OF MODESTO

By: Stephanie Lopez for
Stephanie Lopez
City Clerk

**MODESTO CITY COUNCIL
RESOLUTION NO. 2019-224**

RESOLUTION APPROVING A REIMBURSEMENT AGREEMENT AMONG BANK OF THE WEST, THE CITY OF MODESTO AND MODESTO PUBLIC FINANCING AUTHORITY, AND A RELATED FEE LETTER AGREEMENT; A SUPPLEMENT TO AN OFFICIAL STATEMENT; A REMARKETING AND INTEREST SERVICES AGREEMENT BY AND BETWEEN MODESTO PUBLIC FINANCE AUTHORITY AND RAYMOND JAMES AND ASSOCIATES, INC.; AND AUTHORIZING CERTAIN OTHER ACTIONS RELATED TO AUTHORITY'S LEASE REVENUE REFUNDING BONDS, SERIES 2008

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"), of which approximately \$50,915,000 remain outstanding as of September 1, 2019; and

WHEREAS, Bank of America, N.A., as the initial Credit Facility Provider ("BofA") 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, subsequently, on various occasions, the City requested BofA to extend the Stated Expiration Date of the Initial Credit Facility, and BofA agreed, most recently extending the Stated Expiration Date to June 22, 2019; and

WHEREAS, following a competitive solicitation and upon the advice of its municipal financial advisor, Public Financial Management, the City has determined that it is in its best interest to replace the Initial Credit Facility with a new letter of credit (the “Replacement Credit Facility”) provided by Bank of the West (the “BotW”); and

WHEREAS, in connection with the issuance of the Replacement Credit Facility, the City, the Authority and BotW will enter into a Reimbursement Agreement (the “Reimbursement Agreement”) and related Fee Letter Agreement (the “Fee Letter”); and

WHEREAS, the City and the Authority will prepare a supplement to the Official Statement for the 2008 Bonds describing certain material information regarding BotW and the substitution of the Replacement of Credit Facility (the “Supplement to Official Statement”); and

WHEREAS, in connection with the delivery of the Replacement of Credit Facility, the City has also determined, to facilitate the remarketing of the Bonds in the most cost-effective manner and upon the advice of its municipal financial advisor, to replace Merrill Lynch/BofA as dealer and remarketing agent for the Bonds and to appoint Raymond James & Associates Inc. as the new remarketing agent and to enter into a new Remarketing and Interest Services Agreement (substantially identical to the agreement with BofA) with Raymond James & Associates Inc.; 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:

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.

2. Approval of the Reimbursement Agreement and Fee Letter. The Reimbursement Agreement and related Fee Letter 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 and Fee Letter in substantially said forms, with such changes therein as such officer executing the Reimbursement Agreement and Fee Letter may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

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.

4. Approval of the Remarketing and Interest Services Agreement. The Remarketing and Interest Services Agreement proposed to be executed and entered into by the Authority with Raymond James & Associates, Inc., in the form presented at this meeting and on file with the City Clerk, is hereby approved, in substantially said forms, with such changes therein as such officer of the Authority executing the Agreement may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

5. 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.

6. 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, the Fee Letter, the Supplement to Official Statement and the Remarketing and Interest Services Agreement, and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

7. 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 7th day of May, 2019, by Councilmember Grewal, who moved its adoption, which motion being duly seconded by Councilmember Zoslocki, was upon roll call carried and the resolution adopted by the following vote:

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

NOES: Councilmembers: None

ABSENT: Councilmembers: None

ATTEST: 
STEPHANIE LOPEZ, City Clerk

(SEAL)

APPROVED AS TO FORM:

By: 
ADAM U. LINDGREN, City Attorney

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

CERTIFICATE REGARDING AUTHORITY RESOLUTION

June 13, 2019

I, Stephanie Lopez, 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.

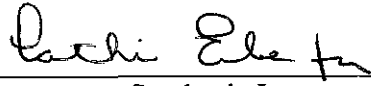
I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. 01-2019 (the "Resolution"), adopted at the special meeting of the Commission of the Authority held on May 7, 2019, of which meeting all of the members of the Governing Board had due notice and at which a quorum was present and acting throughout.

I hereby further certify that I have carefully compared the same with the original Resolution so adopted at said meeting and that it is a full, true and correct copy of said Resolution; and that said Resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

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Dated as of the date first written above.

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Stephanie Lopez
Secretary

**MODESTO PUBLIC FINANCING AUTHORITY
RESOLUTION NO. 01-2019**

**RESOLUTION OF THE MODESTO PUBLIC FINANCING AUTHORITY
RELATING TO MODESTO PUBLIC FINANCING AUTHORITY LEASE
REVENUE REFUNDING BONDS SERIES 2008 APPROVING A NEW CREDIT
FACILITY AND APPROVING THE FORM OF AND AUTHORIZING THE
EXECUTION AND DELIVERY OF A REIMBURSEMENT AGREEMENT, A
FEE LETTER AGREEMENT AND A SUPPLEMENT TO OFFICIAL
STATEMENT; APPROVING A NEW REMARKETING AND INTEREST
SERVICES AGREEMENT 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; 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”) of which approximately \$50,915,000 remain outstanding;

WHEREAS, Bank of America, N.A., as the initial Credit Facility Provider (“BofA”) 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, subsequently, on various occasions, the Authority requested BofA to extend the Stated Expiration Date of the Initial Credit Facility, and BofA agreed, most recently extending the Stated Expiration Date to June 22, 2019; and

WHEREAS, following a competitive solicitation and upon the advice of its municipal financial advisor, Public Financial Management, the Authority has determined that it is its best interest to replace the Initial Credit Facility with a new letter of credit (the "Replacement Credit Facility") provided by Bank of the West ("BotW"); and

WHEREAS, in connection with the issuance of the Replacement Credit Facility, the City, the Authority and BotW will enter into a Reimbursement Agreement (the "Reimbursement Agreement") and related Fee Letter Agreement (the "Fee Letter"); and

WHEREAS, the City and the Authority will prepare a Supplement to the Official Statement for the 2008 Bonds describing certain material information regarding BotW and the substitution of the Replacement of Credit Facility (the "Supplement to Official Statement"); and

WHEREAS, in connection with the delivery of the Replacement Credit Facility, the Authority has also determined, to facilitate the remarketing of the Bonds in the most cost-effective manner and upon the advice of its municipal financial advisor, to replace Merrill Lynch/BofA as dealer and remarketing agent for the Bonds and to appoint Raymond James & Associates, Inc. as the new remarketing agent and to enter into a new Remarketing and Interest Services Agreement (substantially identical to the agreement with BofA) with Raymond James & Associates, Inc.; 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:

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.

2. Approval of the Reimbursement Agreement and Fee Letter. The Reimbursement Agreement and Fee Letter, proposed to be executed and entered into by and among the Authority, the City and BotW, 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 and the Fee Letter in substantially said forms, with such changes therein as such officer executing the Reimbursement Agreement and the Fee Letter may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

3. 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.

4. Approval of the Remarketing and Interest Services Agreement. The Remarketing and Interest Services Agreement, proposed to be executed and entered into by and between the Authority and Raymond James & Associates, Inc., in the form presented at this meeting and on file with the Secretary of the Authority, is hereby approved, and any 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 and Interest Services Agreement in substantially said form, with such changes therein as such officer executing the Remarketing and Interest Services Agreement may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

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.

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, the Fee Letter, the Supplement to Official Statement, and the Remarketing and Interest Services

Agreement and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

7. Effective Date. This Resolution shall take effect immediately upon its passage.

The foregoing resolution was introduced at a regular meeting of the Modesto Public Financing Authority of the City of Modesto held on the 7th day of May, 2019, by Agency Commissioner Grewal, who moved its adoption, which motion being duly seconded by Agency Commissioner Zoslocki, was upon roll call carried and the resolution adopted by the following vote:

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

NOES: Agency Commissioners: None

ABSENT: Agency Commissioners: None

ATTEST:


STEPHANIE LOPEZ, Agency Secretary

(SEAL)

APPROVED AS TO FORM

By:


ADAM U. LINDGREN, General Counsel

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

CLOSING CERTIFICATE OF THE CITY

June 13, 2019

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:

1. That authorized officers of the City have executed the following documents on behalf of the City:

(a) the Reimbursement Agreement, dated as of June 1, 2019 (the “Reimbursement Agreement”), by and among the City, the Modesto Public Financing Authority (the “Authority”) and Bank of the West (the “Bank”); and

(b) the Fee Letter Agreement, dated June 13, 2019 (the “Fee Letter”), by and among the Bank, the City and the Authority.

2. The undersigned further certify that:

(a) the Reimbursement Agreement and the Fee Letter (collectively the “City Documents”) have been duly executed and delivered and each constitutes a valid and legally binding obligation of the City enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors’ rights generally and the application of equitable principles if equitable remedies are sought;

(b) the resolution of the City, adopted on May 7, 2019, at a meeting of the City Council duly called, noticed and conducted, at which a quorum was present and acting throughout (the “City Resolution”), authorizing the execution, delivery and due performance of the City Documents, is in full force and effect at the date hereof and has not been amended, modified or supplemented; and

(c) the City has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date hereof.

3. The undersigned further certify that:

(a) the representations and warranties set forth in the Reimbursement Agreement and in any other certificate, letter, writing or instrument delivered by the City to the Bank pursuant to the Reimbursement Agreement or in connection with the Reimbursement Agreement, are true and correct on and as of the date hereof;

(b) no material adverse change in the financial condition, operations or prospects of the City or laws, rules or regulations (or their interpretation or administration) has occurred as of the date hereof that, in any case, may adversely affect the consummation of the transaction, as determined in the sole discretion of the Bank;

(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 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;

(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) no governmental approvals (other than the City Resolution or the resolution of the Commission of the Authority) are necessary for the City and the Authority to enter into the Reimbursement agreement, the Fee Letter and the Remarketing Agreement.

4. The officers identified below are duly authorized by the City Council of the City to execute on behalf of the City, certain documents, certificates and agreements relating to the Bonds and the Reimbursement Agreement and that pursuant to such authority certain documents, certificates and agreements have been executed by such persons, and attested to by the signature of the City Clerk of the City, and, each of the undersigned by their signature confirms that the other signatures set forth below are genuine. The officers identified below are duly authorized to represent the City in connection with the Reimbursement Agreement upon which the Bank may rely until it receives a new certificate.

Capitalized terms used herein not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement.


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Dated as of the date first written above.

CITY OF MODESTO

By: 

DeAnna Christensen
Director of Finance

By: 

Stephanie Lopez
City Clerk

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

CLOSING, SIGNATURE AND INCUMBENCY CERTIFICATE OF THE CITY

June 13, 2019

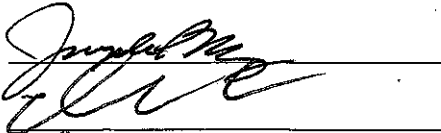
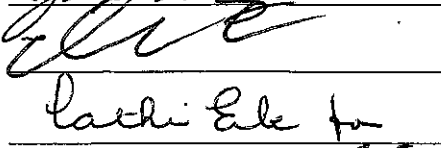
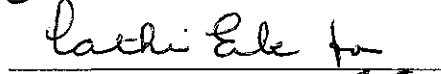
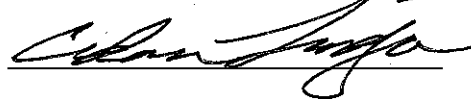
The undersigned, the City Manager and City Clerk respectively, of the City of Modesto (the “City”), a charter city and municipal corporation duly organized and existing under the laws of the State of California, hereby certify on behalf of the City, in connection with the Modesto Public Financing Authority Lease Revenue Refunding Bonds, Series 2008 (the “Series 2008 Bonds”), as follows:

1. The undersigned further certify that the following persons are now, and at all times since June 1, 2016 have been, the duly appointed or elected, qualified and acting members of the City Council:

<u>Name</u>	<u>Office</u>
Ted Brandvold	Mayor
Mani Grewal	Councilmember
Tony Madrigal	Councilmember
Kristi Ah You	Councilmember
Bill Zoslocki	Councilmember
Jenny Kenoyer	Councilmember
Douglas Ridenour	Councilmember

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2. The officers identified below are duly authorized by the City Council of the City to execute on behalf of the City, certain documents, certificates and agreements relating to the Series 2008 Bonds and that pursuant to such authority certain documents, certificates and agreements have been executed by such persons, and attested to by the signature of the City Clerk of the City, and, each of the undersigned by their signature confirms that the other signatures set forth below are genuine:

<u>Name</u>	<u>Official Title</u>	<u>Signature</u>
Joseph Lopez	City Manager	
DeAnna Christensen	Director of Finance	
Stephanie Lopez	City Clerk	
Adam Lindgren	City Attorney	

3. The undersigned further certify that authorized officers of the City have executed the following documents on behalf of the City:

(a) Reimbursement Agreement dated June 1, 2019, by and among the Bank of the West, the Authority and the City; and

(b) Fee Letter Agreement, dated June 13, 2019, by and among the Bank of the West, the Authority and the City.

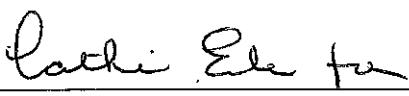
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Dated as of the date first written above.

CITY OF MODESTO

By: 

Joseph Lopez
City Manager

By: 

Stephanie Lopez
City Clerk



Chicago Title Insurance Company

POLICY NO.: CACTI7750-7750-4518-0051806668-CTIC-2008-05

OWNER'S POLICY OF TITLE INSURANCE

Issued by
Chicago Title Insurance Company

Any notice of claim and any other notice or statement in writing required to be given the Company under this Policy must be given to the Company at the address shown in Section 18 of the Conditions.

COVERED RISKS

SUBJECT TO THE EXCLUSIONS FROM COVERAGE, THE EXCEPTIONS FROM COVERAGE CONTAINED IN SCHEDULE B, AND THE CONDITIONS, CHICAGO TITLE INSURANCE COMPANY, a Nebraska corporation (the "Company") insures, as of Date of Policy and, to the extent stated in Covered Risks 9 and 10, after Date of Policy, against loss or damage, not exceeding the Amount of Insurance, sustained or incurred by the Insured by reason of:

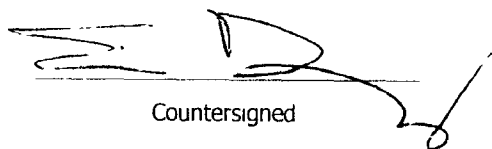
1. *Title being vested other than as stated in Schedule A.*
2. *Any defect in or lien or encumbrance on the Title. This Covered Risk includes but is not limited to insurance against loss from*
 - (a) *A defect in the Title caused by*
 - (i) *forgery, fraud, undue influence, duress, incompetency, incapacity, or impersonation;*
 - (ii) *failure of any person or Entity to have authorized a transfer or conveyance;*
 - (iii) *a document affecting Title not properly created, executed, witnessed, sealed, acknowledged, notarized, or delivered;*
 - (iv) *failure to perform those acts necessary to create a document by electronic means authorized by law;*
 - (v) *a document executed under a falsified, expired, or otherwise invalid power of attorney;*
 - (vi) *a document not properly filed, recorded, or indexed in the Public Records including failure to perform those acts by electronic means authorized by law; or*
 - (vii) *a defective judicial or administrative proceeding.*
 - (b) *The lien of real estate taxes or assessments imposed on the Title by a governmental authority due or payable, but unpaid.*
 - (c) *Any encroachment, encumbrance, violation, variation, or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land. The term "encroachment" includes encroachments of existing improvements located on the Land onto adjoining land, and encroachments onto the Land of existing improvements located on adjoining land.*
3. *Unmarketable Title*
4. *No right of access to and from the Land.*


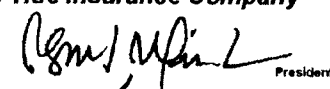
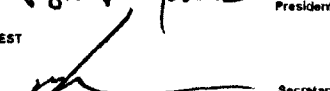
5. *The violation or enforcement of any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to*
 - (a) *the occupancy, use, or enjoyment of the Land;*
 - (b) *the character, dimensions, or location of any improvement erected on the Land;*
 - (c) *the subdivision of land; or*
 - (d) *environmental protection*

if a notice, describing any part of the Land, is recorded in the Public Records setting forth the violation or intention to enforce, but only to the extent of the violation or enforcement referred to in that notice.
6. *An enforcement action based on the exercise of a governmental police power not covered by Covered Risk 5 if a notice of the enforcement action, describing any part of the Land, is recorded in the Public Records, but only to the extent of the enforcement referred to in that notice.*
7. *The exercise of the rights of eminent domain if a notice of the exercise, describing any part of the Land, is recorded in the Public Records.*
8. *Any taking by a governmental body that has occurred and is binding on the rights of a purchaser for value without Knowledge.*
9. *Title being vested other than as stated Schedule A or being defective*
 - (a) *as a result of the avoidance in whole or in part, or from a court order providing an alternative remedy, of a transfer of all or any part of the title to or any interest in the Land occurring prior to the transaction vesting Title as shown in Schedule A because that prior transfer constituted a fraudulent or preferential transfer under federal bankruptcy, state insolvency, or similar creditors' rights laws; or*
 - (b) *because the instrument of transfer vesting Title as shown in Schedule A constitutes a preferential transfer under federal bankruptcy, state insolvency, or similar creditors' rights laws by reason of the failure of its recording in the Public Records*
 - (i) *to be timely, or*
 - (ii) *to impart notice of its existence to a purchaser for value or to a judgment or lien creditor.*
10. *Any defect in or lien or encumbrance on the Title or other matter included in Covered Risks 1 through 9 that has been created or attached or has been filed or recorded in the Public Records subsequent to Date of Policy and prior to the recording of the deed or other instrument of transfer in the Public Records that vests Title as shown in Schedule A*

The Company will also pay the costs, attorneys' fees, and expenses incurred in defense of any matter insured against by this Policy, but only to the extent provided in the Conditions.

IN WITNESS WHEREOF, CHICAGO TITLE INSURANCE COMPANY has caused this policy to be signed and sealed by its duly authorized officers.


Countersigned

Chicago Title Insurance Company

 BY  President
 ATTEST  Secretary

SCHEDULE A

Name and Address of Title Insurance Company: Chicago Title Company, 2720 Transworld Drive, Ste 100,
Stockton, CA 95206

Policy No.: CACTI7750-7750-4518-0051806668-CTIC-2008-05

Address Reference: various properties, Modesto, California

Amount of Insurance: \$ 65,170,000.00
Premium: \$ 61,911.50

Date of Policy: August 28, 2008 at 08:00 AM

1. Name of Insured:

The City of Modesto and Bank of New York , Mellon Trust Company, as trustee

2. The estate or interest in the Land that is insured by this policy is:

A leasehold as created by that certain lease dated August 1, 2008, executed by Modesto Public Financing Authority, as lessor, and the City of Modesto, as lessee, and recorded August 28, 2008, Instrument No. 2008-094321, of Official Records, for the term, upon and subject to all of the provisions contained therein.

3. Title is vested in:

City of Modesto

4. The Land referred to in this policy is described as follows:

SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF

THIS POLICY VALID ONLY IF SCHEDULE B IS ATTACHED

LEGAL DESCRIPTION

EXHIBIT "A"

THE LAND REFERRED TO HEREIN BELOW IS SITUATED THE CITY OF MODESTO, COUNTY OF STANISLAUS, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

Parcel No. One: Communication Facility

An undivided 1/2 interest in and to the following:

Parcel Two as per Parcel Map filed September 24, 1979, in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. Two: Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the City of Modesto, as per Map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Recorder.

Together With:

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20 foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

Parcel No. Three: a portion of 10th. Street Admin.

Lot A:

Parcel One of Parcel Map filed June 15, 2000 in Book 50 of Parcel Maps, Page 25, Stanislaus County Records.

Excepting therefrom that portion thereof conveyed to Civic Partners Modesto, Inc. by Corporation Grant Deed recorded June 29, 2001, Instrument No. 2001-0072135, Stanislaus County Records.

Lot B:

That portion of Parcel Three of Parcel Map filed June 15, 2000, in Book 50 of Parcel Maps, Page 25, Stanislaus County Records, being more particularly described as follows:

Beginning at the most Easterly corner of the above mentioned Parcel 3; thence South 46° 50' 12" West along

the line common to said Parcels 1 and 3, a distance of 15.83 feet; thence leaving last said line and proceeding North 43° 09' 48" West, a distance of 16.00 feet to a point on the above mentioned line common to said Parcels 1 and 3; thence along last said line, the following two (2) courses: 1) North 46° 50' 12" East, a distance of 15.83 feet; 2) South 43° 09' 48" East, a distance of 16.00 feet to the point of beginning.

Parcel No. Four: A portion of 10th. Street Admin.

Parcel B of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.

Parcel No. Five: Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. Six: Parking Structure

Lots 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. Seven: Parking Lot #25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. Eight: Fire Station #3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 in Volume 21 of Maps, Page 55, Stanislaus County Records.

Parcel No. Nine: Fire Station #6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. Ten: Fire Station #7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. Eleven: Fire Station #5

Parcel 11-1

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Beginning at a point on the East line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the Southeast corner of said Lot 2; thence from said point of beginning parallel to the South line of said Lot 2, North 88° 30' West 660 feet to a point on the West line of said Lot 2; thence North 0° 30' West along said West line of said Lot 2 a distance of 153.73 feet; thence East parallel with the South line of said Lot 2, a distance of 660 feet to a point on the East line of said Lot 2, located on the center line of said Oakdale Road; thence along the East line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24

feet to the point of beginning.

Excepting therefrom all that portion thereof lying Northerly of the North line of Burchell Court (formerly Northern Boulevard) extending Westerly to the West line of Lot 2.

Also excepting therefrom all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

Also excepting therefrom all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

Parcel 11-2

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Commencing at a point on the Southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the Northeastern corner of Parcel "E" on the Western line of Timothy Avenue as shown on the Map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, Page 53, Stanislaus County Records; thence along a line at right angles to the Western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the Northerly extension of the centerline of Timothy Avenue; thence along said Northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the Northern line of said Chambers property, which is also the Southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the Southern line of Parcel "A" as per Map of Record of Survey filed July 6, 1962 in Volume 9 of Surveys, Page 25, Stanislaus County Records; thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the Southeastern corner of said Parcel "A", said corner being the Northeast corner of said Chambers property which is also a point on the Western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at page 695, as Instrument No. 29947, Stanislaus County Records; thence along said Western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

Parcel 11-3

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records.

Beginning at the Northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the North line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said North line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the Southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, page 643, as Instrument No. 9843, Stanislaus County Records; thence along the West line of the City of Modesto property as conveyed by Deed above referred to and the Northerly extension of said Westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

Parcel 11-4

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Beginning at the Northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records ; thence North $83^{\circ} 31' 30''$ West along the North line of said Parcel D and its Westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North $0^{\circ} 30'$ West, along the Northerly extension of said centerline of Timothy Avenue to the Southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North $82^{\circ} 47' 55''$ East along the South line of the City of Modesto property, as conveyed by Deed above referred to, to the Southeast corner thereof, said point being on the West line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence South along the West line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

Parcel 11-5

All that portion of Lot 2 of the Fresno Tract, as per Map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

Commencing at the 3/4 inch iron pipe set for the Northeastern corner of Parcel "A", as per Map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the Northern line of said Parcel "A", South $89^{\circ} 46' 50''$ West, 135.63 feet to the Northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the Eastern line of the Chambers property and the Western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South $07^{\circ} 52' 29''$ West, 132.90 feet to the Southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South $00^{\circ} 30' 00''$ East, 48.44 feet, more or less, to a point on the Southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said Southern line of the property conveyed to Chambers by Deed last above referred to and the North line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, page 53, Stanislaus County Records, North $88^{\circ} 30'$ West, 30.02 feet to a point on the Western line of Timothy Avenue, as shown on said Record of Surveys; thence along said Western line, North $00^{\circ} 30' 00''$ West, 0.52 feet; thence along a tangent curve concave to the Southwest having a radius of 15.00 feet, a central angle of $46^{\circ} 11' 13''$ and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North $43^{\circ} 18' 47''$ East; thence along said reverse curve concave to the East, having a radius of 50.00 feet, a central angle of $98^{\circ} 43' 30''$ and an arc length of 86.15 feet; thence along a radial line, South $37^{\circ} 57' 43''$ East, 50.00 feet to the Southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

Parcel No. Twelve: Corporation Yard

All that portion of Section 29 Township 3 South Range 9 East MDB&M described as All of Block 434 and all of Lots 11 to 21 inclusive of Block 433 of City of Modesto. Except that portion of Lots 19, 20 and 21 in Block 433 described as beginning at the Southwest corner of Lot 21; then along the West line of Lots 21 and 20, North $20^{\circ} 19' 36''$ E., 68.5 feet to a point on a non tangent curve; thence along said curve concave to the Northeast with the long chord bearing South $31^{\circ} 08' 27''$ East from said point, having a radius of 787 feet, a central angle of $5^{\circ} 34' 11''$, an arc length of 76.5 feet, to the South line of Block 433; then along the South line of Block 433, North $88^{\circ} 53' 48''$ West, 63.35 feet to point of origin.

Parcel No. Thirteen: Fire Station No. 11

Parcel 1B, as per Parcel Map filed July 25, 1967 in Book 3 of Parcel Maps, Page 120, Stanislaus County Records.

Parcel No. Fourteen: Fire Station No. 9

Lots 14 and 15 in Block 1850 of Fara Estates, as per Map filed October 17, 1979 in Volume 28 of Maps, Page 68, Stanislaus County Records

Parcel No. Fifteen: a portion of 10th. Street Admin.

1) Parcel A-1 of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.

2) Parcel A-2 of Record of Survey filed August 24, 2001 in Book 26 of Record of Surveys, Page 29, Stanislaus County Records.

Parcel No. Sixteen: McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

APN: 052-063-62, 106-040-01,09,10, 111-009-35, 105-037-32,33,34,35, 105-038-19, 105-040-15, 034-019-48, 076-042-14, 052-013-28, 119-005-20, 101-003-2, 046-016-53, 070-002-3, 105-007-005,006

SCHEDULE B

EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage, and the Company will not pay costs, attorneys' fees, or expenses that arise by reason of:

1. **Property taxes**, which are a lien not yet due and payable, including any assessments collected with taxes to be levied for the fiscal year 2008-2009.
2. **The lien of supplemental taxes**, if any, assessed pursuant to the provisions of Chapter 3.5 (Commencing with Section 75) of the Revenue and Taxation code of the State of California.

THE FOLLOWING ITEMS AFFECT PARCEL ONE HEREIN:

3. General and Special taxes assessed by the State Board of Equalization and collected by the Stanislaus County Auditor: S.B.E. No. 2312-50-23 Pcl no. 1

4. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: Public Utilities
Affects: The North and East 10 feet of the premises.

5. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: Pacific Telephone and Telegraph Company
Purpose: Aerial and underground communication facilities
Recorded: January 10, 1984, Instrument No. 1984-34295, Book 3759, Page 328, of Official Records
Affects: a portion, as described therein.

6. **A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
Lessee: Modesto Public Financing Authority
Recorded: August 28, 2008, Instrument No. 2008-094322, of Official Records

Affects: the City of Modesto's undivided 1/2 interest

THE FOLLOWING ITEMS AFFECT PARCEL TWO HEREIN:

7. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The City of Modesto
 Purpose: Public Utilities
 Recorded: March 7, 1988, Instrument No. 1988-13839, of Official Records
 Affects: The 20 foot alley vacated therein.

8. **Matters** contained in that certain document entitled "Covenant for Access and Maintenance" dated February 23, 1988, executed by The City of Modesto recorded March 7, 1988, Instrument No. 1988-13840, of Official Records, which document, among other things, contains or provides for: "City to provide access ways" and "for the mutual, reciprocal and non-exclusive ingress and egress by vehicular and pedestrian traffic", etc..

Reference is hereby made to said document for full particulars.

9. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment Agency: of the City of Modesto
 Recorded: November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project; Recorded January 24, 2008, Instrument No. 2008-7172.

10. **A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
 Lessee: Modesto Public Financing Authority
 Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

THE FOLLOWING ITEMS AFFECT PARCEL THREE Lots Aand B HEREIN:

- 11. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document.

Granted to: Modesto Irrigation District
 Purpose: Electrical facilities
 Recorded: June 1, 1989, Instrument No. 1989-039796, of Official Records
 Affects: A 5 foot by 5 foot portion depicted on Parcel Map 50/25, and as described in this document.

- 12. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment Agency: of the City of Modesto
 Recorded: November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project; Recorded January 24, 2008, Instrument No. 2008-7172.

- 13. **Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: September 12, 1997, Instrument No. 1997-0071426, of Official Records

- 14. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The City of Modesto
 Purpose: Public Utilities
 Recorded: November 19, 1997, Instrument No. 1997-0095109, of Official Records
 Affects: The alley in Block 67, City of Modesto, and other property.

and re-recorded March 12, 1998, Instrument No. 1998-0023037, of Official Records

- 15. Matters** contained in that certain document entitled "Memorandum of Master Agreement" dated August 12, 1997, executed by and between The County of Stanislaus, the City of Modesto, City-County Capital Improvements and the Redevelopment Agency of the City of Modesto. recorded February 23, 1998, Instrument No. 1998-0016621, of Official Records, which document, among other things, contains or provides for: The acquisition and development of the real property located in Block bounded by 10th. Street, 11th. Street, J Street and K Street, in Modesto, California, etc..

Reference is hereby made to said document for full particulars.

Reference is made to said document for full particulars.

- 16. Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: March 6, 1998, Instrument No. 1998-0021102, of Official Records

- 17.** Terms, covenants, conditions and provisions of that certain unrecorded "Disposition and Development Agreement", by and between Civic Partners Modesto, LLC and The Redevelopment Agency of the City of Modesto, dated August 21, 1997:
Disclosed by: Partial Assignment of Disposition and Development Agreement- Cinema/Retail Parcel.
Recorded : March 24, 1998, Instrument No. 1998-0026296, O.R.

- 18. Matters** contained in that certain document entitled "Reciprocal Easement, Operation and Maintenance Agreement with Restrictions and Covenants" dated June 12, 2000, executed by and between City-County Capital Improvements and Financing Agency, The Redevelopment Agency of the City of Modesto and Civic Partners Modesto, Inc. recorded June 15, 2000, Instrument No. 2000-0048248, of Official Records, which document, among other things, contains or provides for: Use of the Plaza Area and Civic Area, etc..

Reference is hereby made to said document for full particulars.

- 19. Easement(s)** for the purpose(s) shown below and rights incidental thereto as set forth in a document;

In favor of: City-County Capital Improvements and financing Agency, The Redevelopment Agency of the City of Modesto and Civic Partners Modesto, Inc.

Purpose: for the purposes described therein

Recorded: June 15, 2000, Instrument No. 2000-0048248, of Official Records

Affects: The Service area and the Plaza Area, as depicted on Parcel Map 50/25 and described in this document.

- 20. Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: Public Utilities
Affects: Portions depicted on Parcel Map 50/25

- 21. Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: June 15, 2000, Instrument No. 2000-0048250, of Official Records

Affects: Lot B of Parcel Three herein.

- 22. Matters** contained in that certain document entitled "Parking Agreement" dated June 12, 2000, executed by and between The Redevelopment Agency of the City of Modesto and Civic Partners Modesto, Inc. recorded June 15, 2000, Instrument No. 2000-0048254, of Official Records, which document, among other things, contains or provides for: use of spaces in the parking garage, etc..

Reference is hereby made to said document for full particulars.

Assignment of said Parking Agreement by document Recorded October 2, 2000, Instrument No. 2000-82494:

Assignee: Bank of america

- 23. Matters** contained in that certain document entitled "Parking Agreement" dated June 12, 2000, executed by and between The Redevelopment Agency of the City of Modesto and Civic Partners, Inc. recorded June 15, 2000, Instrument No. 2000-0048258, of Official Records, which document, among other things, contains or provides for: use of parking spaces, etc..

Reference is hereby made to said document for full particulars.

- 24. Matters** contained in that certain document entitled "Parking Agreement" dated June 12, 2000, executed by and between The Redevelopment Agency of the City of Modesto and Vintage Ranch Properties recorded June 15, 2000, Instrument No. 2000-0048259, of Official Records, which document, among other things, contains or provides for: use of parking spaces, etc..

Reference is hereby made to said document for full particulars.

Affects: Lot A of Parcel Three herein.

- 25. Matters** contained in that certain document entitled "Reciprocal Easement, Operation and Maintenance Agreement with Restrictions and Covenants" dated August 17, 2001, executed by and between City-County Capital Improvements and Financing agency and The Redevelopment Agency of the City of Modesto. recorded August 24, 2001, Instrument No. 2001-0099731, of Official Records, which document, among other things, contains or provides for: entering into "certain agreements and to grant each other certain easements and other rights", etc..

Reference is hereby made to said document for full particulars.

- 26. Covenants, conditions and restrictions**, but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law, as set forth in the document referred to in the numbered item last above shown.

- 27. Easement(s)** for the purpose(s) shown below and rights incidental thereto as set forth in a document;

In favor of:	City-County Capital Improvements and Financing Agency and The Redevelopment Agency of the City of Modesto
Purpose:	Easements and rights over parcels and property, as described therein.
Recorded:	August 24, 2001, Instrument No. 2001-0099731, of Official Records
Affects:	Those portions, as described therein.

- 28. A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor:	City of Modesto
Lessee:	Modesto Public Financing Authority
Recorded:	August 28, 2008, Instrument No. 2008-094323, of Official Records

THE FOLLOWING ITEMS AFFECT PARCEL FOUR HEREIN:

- 29. The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment Agency:	of the City of Modesto
Recorded:	November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project; Recorded January 24, 2008, Instrument No. 2008-7172.

- 30. Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: September 12, 1997, Instrument No. 1997-0071426, of Official Records

- 31. Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The City of Modesto

Purpose: Public Utilities

Recorded: November 19, 1997, Instrument No. 1997-0095109, of Official Records

Affects: The alley in Block 67, City of Modesto, and other property.

and re-recorded March 12, 1998, Instrument No. 1998-0023037, of Official Records

- 32. Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: February 23, 1998, Instrument No. 1998-16620, of Official Records

- 33. Matters** contained in that certain document entitled "Memorandum of Master Agreement" dated August 12, 1997, executed by and between The County of Stanislaus, the City of Modesto, City-County Capital Improvements and the Redevelopment Agency of the City of Modesto. recorded February 23, 1998, Instrument No. 1998-0016621, of Official Records, which document, among other things, contains or provides for: The acquisition and development of the real property located in Block bounded by 10th. Street, 11th. Street, J Street and K Street, in Modesto, California, etc..

Reference is hereby made to said document for full particulars.

- 34. Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: February 25, 1998, Instrument No. 1998-0017550, of Official Records

THE FOLLOWING THREE ITEMS AFFECT A ONE-HALF INTEREST IN PARCEL FOUR

35. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City-County Capital Improvements and financing Agency
 Lessee: Stanislaus County Capital Improvements Financing Authority
 Recorded: March 10, 1998, Instrument No. 1998-0021737, of Official Records

Among other things said lease provides for: upon termination hereof, fee title to an undivided one-half interest in the site and the City-County building shall vest in the Lessee herein.

Affects: A one-half interest in Parcel Four

36. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: Stanislaus County Capital Improvements and Financing Authority
 Lessee: County of Stanislaus
 Recorded: March 10, 1998, Instrument No. 1998-0021738, of Official Records

Affects: A one-half interest in Parcel Four

37. Terms, covenants, conditions and provisions of that certain unrecorded "Disposition and Development Agreement", by and between Civic Partners Modesto, LLC and The Redevelopment Agency of the City of Modesto, dated August 21, 1997:
 Disclosed by: Partial Assignment of Disposition and Development Agreement- Cinema/Retail Parcel.
 Recorded : March 24, 1998, Instrument No. 1998-0026296, O.R.**38. Matters** contained in that certain document entitled "Reciprocal Easement, Operation and Maintenance Agreement with Restrictions and Covenants" dated June 12, 2000, executed by and between City-County Capital Improvements and Financing Agency, The Redevelopment Agency of the City of Modesto and Civic Partners Modesto, Inc. recorded June 15, 2000, Instrument No. 2000-0048248, of Official Records, which document, among other things, contains or provides for: Use of the Plaza Area and Civic Area, etc..

Reference is hereby made to said document for full particulars.

39. Easement(s) for the purpose(s) shown below and rights incidental thereto as set forth in a document;

In favor of: City-County Capital Improvements and financing Agency, The Redevelopment Agency of the City of Modesto and Civic Partners Modesto, Inc.
 Purpose: for the purposes described therein
 Recorded: June 15, 2000, Instrument No. 2000-0048248, of Official Records
 Affects: The Service area and the Plaza Area, as depicted on Parcel Map 50/25 and described in this document.

- 40. **Matters** contained in that certain document entitled "Parking Agreement" dated June 12, 2000, executed by and between The Redevelopment Agency of the City of Modesto and Civic Partners, Inc. recorded June 15, 2000, Instrument No. 2000-0048258, of Official Records, which document, among other things, contains or provides for: use of parking spaces, etc..

Reference is hereby made to said document for full particulars.

- 41. **Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: September 22, 2000, Instrument No. 2000-0079753, of Official Records

- 42. **Matters** contained in that certain document entitled "Reciprocal Easement, Operation and Maintenance Agreement with Restrictions and Covenants" dated August 17, 2001, executed by and between City-County Capital Improvements and Financing agency and The Redevelopment Agency of the City of Modesto. recorded August 24, 2001, Instrument No. 2001-0099731, of Official Records, which document, among other things, contains or provides for: entering into "certain agreements and to grant each other certain easements and other rights", etc..

Reference is hereby made to said document for full particulars.

- 43. **Covenants, conditions and restrictions**, but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law, as set forth in the document referred to in the numbered item last above shown.

- 44. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as set forth in a document;

In favor of:	City-County Capital Improvements and Financing Agency and The Redevelopment Agency of the City of Modesto
Purpose:	Easements and rights over parcels and property, as described therein.
Recorded:	August 24, 2001, Instrument No. 2001-0099731, of Official Records
Affects:	Those portions, as described therein.

- 45. **A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor:	Redevelopment Agency of the City of Modesto
Lessee:	Modesto Public Financing Authority
Recorded:	August 28, 2008, Instrument No. 2008-094324, of Official Records

Affects: Parcels 4 and 15

THE FOLLOWING ITEMS AFFECT PARCEL FIVE HEREIN:

- 46. The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment
 Agency: of the City of Modesto
 Recorded: November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project; Recorded January 24, 2008, Instrument No. 2008-7172.

- 47. A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
 Lessee: Modesto Public Financing Authority
 Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

THE FOLLOWING AFFECT PARCEL SIX HEREIN:

- 48. Matters** contained in that certain document entitled "Property Management Agreement" dated July 16, 1979, executed by and between The City of Modesto and the Economic Development Administration, United States of America recorded August 3, 1979, Instrument No. 1979-8147, Book 3222, Page 361, of Official Records, which document, among other things, contains or provides for: Covenants and Agreements concerning use and transfer of this property..

Reference is hereby made to said document for full particulars.

- 49. The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment
 Agency: of the City of Modesto
 Recorded: November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project;
Recorded January 24, 2008, Instrument No. 2008-7172.

50. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
Lessee: Modesto Public Financing Authority
Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcel 2, 5 through 14 and 16

THE FOLLOWING AFFECT PARCEL SEVEN HEREIN:

51. The fact that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment Agency: of the City of Modesto
Recorded: November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project;
Recorded January 24, 2008, Instrument No. 2008-7172.

52. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
Lessee: Modesto Public Financing Authority
Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects:

THE FOLLOWING ITEMS AFFECT PARCEL EIGHT HEREIN:

- 53. Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: Public Utilities
Affects: Southerly 5 feet, Easterly and Northerly 10 feet.

- 54. Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: December 13, 1966, Instrument No. 1966-42182, Book 2137, Page 478, of Official Records

- 55. A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
Lessee: Modesto Public Financing Authority
Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

THE FOLLOWING ITEMS AFFECT PARCEL NINE HEREIN:

- 56. Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: O. McHenry
Purpose: Ditch
Recorded: January 20, 1904, Book 86 of Deeds, Page 333, of Official Records
Affects: The herein described parcel.

- 57. Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document.

Granted to: Modesto Irrigation District
Purpose: Aboveground electrical facilities
Recorded: March 26, 1985, Instrument No. 1985-0043925, Book 38, Page 1460, of Official Records
Affects: That portion described therein.

58. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
 Lessee: Modesto Public Financing Authority
 Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

THE FOLLOWING AFFECT PARCEL TEN HEREIN:**59. Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document.

Granted to: Frank Martin, Jr. et. ux.
 Purpose: using pumping equipment
 Recorded: July 26, 1951, Instrument No. 1951-0017317, of Official Records
 Affects: That portion described therein

Restrictions on the use, by the owners of said land, of the easement area as set forth in the easement document shown hereinabove.

Reference is made to said document for full particulars.

60. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document.

Granted to: City of Modesto
 Purpose: Public utilities
 Recorded: June 13, 1974, Instrument No. 1974-0049730, Book 2635, Page 179, of Official Records
 Affects: That portion described therein.

61. Easement(s) for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: Public Utilities
 Affects: The Northerly and Easterly 10 feet.

62. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
 Lessee: Modesto Public Financing Authority
 Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

THE FOLLOWING ITEMS AFFECT PARCEL ELEVEN HEREIN:

- 63. Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: October 11, 1957, Instrument No. 1957-0026217, Book 1449, Page 91, of Official Records

- 64. A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
 Lessee: Modesto Public Financing Authority
 Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

THE FOLLOWING ITEMS AFFECT PARCEL TWELVE HEREIN:

- 65. General Plan Covenants, Conditions and Restrictions**, but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law contained in deeds of other lots in said tract, an example of which can be found in the deed:

From: C.B. Weil, et.ux.
 Recorded: September 2, 1920, Instrument No. 1920-10257, Book 318 of Deeds, Page 189, of Official Records

Said Covenants provide for reversion in case of violation thereof.

- 66. Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document.

Granted to: City of Modesto
 Purpose: Utilities, ingress and egress
 Recorded: March 2, 1961, Instrument No. 1961-6485, Book 1666, Page 126, of Official Records

- 67. The fact** that the ownership of said land does not include rights of access to or from the street, highway, or freeway abutting said land, such rights having been relinquished by the document,

Recorded: April 18, 1961, Instrument No. 1961-12106, Book 1677, Page 371, of Official Records

Affects: That portion adjacent to the State Highway, as described therein.

- 68. Waiver of any claims for damages** to said property by reason of the location, construction, landscaping or maintenance of the freeway adjoining said property, as contained in the deed to the State of California, recorded April 18, 1961, Instrument No. 1961-12106, Book 1677, Page 371, of Official Records.

- 69. The fact** that the ownership of said land does not include rights of access to or from the street, highway, or freeway abutting said land, such rights having been relinquished by the document,

Recorded: September 20, 1961, Instrument No. 1961-29956, Book 1709, Page 356, of Official Records

Affects: That portion adjacent to the State Highway, as described therein.

- 70. The fact** that the ownership of said land does not include rights of access to or from the street, highway, or freeway abutting said land, such rights having been relinquished by the document,

Recorded: August 15, 1962, Instrument No. 1962-31137, Book 1789, Page 503, of Official Records

Affects: That portion adjacent to the State Highway, as described therein.

- 71. The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment

Agency: of the City of Modesto

Recorded: November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project;
Recorded January 24, 2008, Instrument No. 2008-7172.

- 72. A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto

Lessee: Modesto Public Financing Authority

Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

THE FOLLOWING ITEMS AFFECT PARCEL THIRTEEN HEREIN:

73. Covenants, conditions and restrictions in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: February 19, 1930, Instrument No. 1930-2052, Book 380, Page 179, of Official Records

74. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: William Paul Couture, et.al.
Purpose: Road purposes
Recorded: September 1, 1967, Instrument No. 1967-27833, Book 2181, Page 592, of Official Records
Affects: That portion, as described therein.

Restrictions on the use, by the owners of said land, of the easement area as set forth in the easement document shown hereinabove.

Reference is made to said document for full particulars.

75. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
Lessee: Modesto Public Financing Authority
Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 though 14 and 16

THE FOLLOWING ITEMS AFFECT PARCEL FOURTEEN HEREIN:

76. Easement(s) for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: Public Utilities
Affects: The Front or Westerly and Southerly 10 feet

Purpose: Planting
Affects: The Front or Westerly and Southerly 3 feet.

77. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
Lessee: Modesto Public Financing Authority
Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

THE FOLLOWING ITEMS AFFECT PARCEL FIFTEEN HEREIN:

78. The fact that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment Agency: of the City of Modesto
Recorded: November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project; Recorded January 24, 2008, Instrument No. 2008-7172.

79. Covenants, conditions and restrictions in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: September 12, 1997, Instrument No. 1997-0071426, of Official Records

80. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The City of Modesto
Purpose: Public Utilities
Recorded: November 19, 1997, Instrument No. 1997-0095109, of Official Records
Affects: The alley in Block 67, City of Modesto, and other property.

and re-recorded March 12, 1998, Instrument No. 1998-0023037, of Official Records

- 81. Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: February 23, 1998, Instrument No. 1998-16620, of Official Records

Affects: This and other property.

- 82. Matters** contained in that certain document entitled "Memorandum of Master Agreement" dated August 12, 1997, executed by and between The County of Stanislaus, the City of Modesto, City-County Capital Improvements and the Redevelopment Agency of the City of Modesto. recorded February 23, 1998, Instrument No. 1998-0016621, of Official Records, which document, among other things, contains or provides for: The acquisition and development of the real property located in Block bounded by 10th. Street, 11th. Street, J Street and K Street, in Modesto, California, etc..

Reference is hereby made to said document for full particulars.

- 83. Covenants, conditions and restrictions**, but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law, as set forth in the document referred to in the numbered item last above shown.

- 84. Easement(s)** for the purpose(s) shown below and rights incidental thereto as set forth in a document;

In favor of: City-County Capital Improvements and Financing Agency and The Redevelopment Agency of the City of Modesto

Purpose: Easements and rights over parcels and property, as described therein.

Recorded: August 24, 2001, Instrument No. 2001-0099731, of Official Records

Affects: Those portions, as described therein.

- 85. A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: Stanislaus County Capital Improvements and Financing Authority

Lessee: County of Stanislaus

Recorded: March 10, 1998, Instrument No. 1998-0021738, of Official Records

Affects: A one-half interest in parcel Fifteen

86. Terms, covenants, conditions and provisions of that certain unrecorded "Disposition and Development Agreement", by and between Civic Partners Modesto, LLC and The Redevelopment Agency of the City of Modesto, dated August 21, 1997:
 Disclosed by: Partial Assignment of Disposition and Development Agreement- Cinema/Retail Parcel.
 Recorded : March 24, 1998, Instrument No. 1998-0026296, O.R.

87. Covenants, conditions and restrictions in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: February 25, 1998, Instrument No. 1998-0017550, of Official Records

THE FOLLOWING THREE ITEMS AFFECT A ONE-HALF INTEREST IN PARCEL FIFTEEN HEREIN.

88. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City-County Capital Improvements and financing Agency
 Lessee: Stanislaus County Capital Improvements Financing Authority
 Recorded: March 10, 1998, Instrument No. 1998-0021737, of Official Records

Among other things said lease provides for: upon termination hereof, fee title to an undivided one-half interest in the site and the City-County building shall vest in the Lessee herein.

Reference is made to said document for full particulars.

Affects: A one-half interest in Parcel Fifteen

89. Matters contained in that certain document entitled "Reciprocal Easement, Operation and Maintenance Agreement with Restrictions and Covenants" dated June 12, 2000, executed by and between City-County Capital Improvements and Financing Agency, The Redevelopment Agency of the City of Modesto and Civic Partners Modesto, Inc. recorded June 15, 2000, Instrument No. 2000-0048248, of Official Records, which document, among other things, contains or provides for: Use of the Plaza Area and Civic Area, etc..

Reference is hereby made to said document for full particulars.

- 90. **Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: September 22, 2000, Instrument No. 2000-0079753, of Official Records

- 91. **Matters** contained in that certain document entitled "Reciprocal Easement, Operation and Maintenance Agreement with Restrictions and Covenants" dated August 17, 2001, executed by and between City-County Capital Improvements and Financing agency and The Redevelopment Agency of the City of Modesto. recorded August 24, 2001, Instrument No. 2001-0099731, of Official Records, which document, among other things, contains or provides for: entering into "certain agreements and to grant each other certain easements and other rights", etc..

Reference is hereby made to said document for full particulars.

- 92. **Covenants, conditions and restrictions** in the declaration of restrictions but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Recorded: August 24, 2001, Instrument No. 2001-0099739, of Official Records

- 93. **An unrecorded lease** with certain terms, covenants, conditions and provisions set forth therein as disclosed by the document

Entitled: Memorandum of Lease Agreement with Option to Purchase
 Lessor: The Redevelopment Agency of the City of Modesto
 Lessee: Civic Partners Modesto, Inc.
 Recorded: October 12, 2001, Instrument No. 2001-121918, of Official Records

Among other things said lease provides for: an Option to Purchase.

The present ownership of the leasehold created by said lease and other matters affecting the interest of the lessee are not shown herein.

THE FOLLOWING AFFECT PARCEL SIXTEEN HEREI:

94. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document.

Granted to: Modesto Irrigation District
 Purpose: Aboveground Electrical Facilities
 Recorded: January 19, 1989, Instrument No. 1989-0003767, of Official Records
 Affects: That portion of Lots 21,22,23 and 24, as described therein.

Said easement so reserved is to be appurtenant to and for the benefit and use of the remaining lands of the grantor and any subsequent subdivisions thereof.

95. Matters contained in that certain document entitled "Notice of Landmark Preservation Site Designation" dated December 5, 1989, executed by Modesto City Council recorded January 23, 1990, Instrument No. 1990-0006491, of Official Records, which document, among other things, contains or provides for: Designation as a Landmark.

Reference is hereby made to said document for full particulars.

96. The fact that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment Agency: of the City of Modesto
 Recorded: November 27, 1991, Instrument No. 1991-094041, of Official Records

Reference is made to said document for full particulars.

Revised Notice of adoption of the Redevelopment Plan for the Modesto Redevelopment Project; Recorded January 24, 2008, Instrument No. 2008-7172.

97. A lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: City of Modesto
 Lessee: Modesto Public Financing Authority
 Recorded: August 28, 2008, Instrument No. 2008-094325, of Official Records

Affects: Parcels 2, 5 through 14 and 16

- 98. This is a pro forma policy** furnished to or on behalf of the party to be insured. It neither reflects the present status of title, nor is it intended to be a commitment to insure. The inclusion of endorsements as a part of the pro forma policy in no way evidences the willingness of the Company to provide any affirmative coverage shown therein. There are requirements which must be met before a final policy can be issued in the same form as this pro forma policy. A commitment to insure setting forth these requirements should be obtained from the company.
- 99. Additional matters** may be added or other amendments may be made to this pro forma policy by reason of any defects, liens or encumbrances that appear for the first time in the public records or come to the attention of the Company and are created or attach between the issuance of this pro forma policy and the issuance of a policy of title insurance. The Company shall have no liability because of such addition or amendment.

END OF SCHEDULE B

ENDORSEMENT

Attached to Policy No. CACT17750-7750-4518-0051806668-CTIC-2008-05

Issued by

Chicago Title Insurance Company

The Company insures against loss or damage sustained by reason of the enforcement or attempted enforcement of any reverter, right of re-entry or right or power of termination of the estate or interest referred to in Schedule A upon a breach of the covenants, conditions and restrictions referred to in Schedule B.

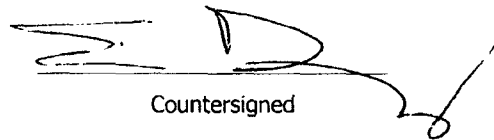
As used in this endorsement, the words "covenants, conditions or restrictions" do not refer to or include any covenant, condition or restriction (a) relating to obligations of any type to perform maintenance, repair or remediation on the Land, or (b) pertaining to environmental protection of any kind or nature, including hazardous or toxic matters, conditions or substances except to the extent that a notice of a violation or alleged violation affecting the Land has been recorded in the Public Records at Date of Policy and is not excepted in Schedule B.

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements.

Dated: August 28, 2008



Chicago Title Insurance
Company


Countersigned

EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy, and the Company will not pay loss or damage, costs, attorneys' fees, or expenses that arise by reason of:

- 1 (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
 - (i) the occupancy, use, or enjoyment of the Land;
 - (ii) the character, dimensions or location of any improvement erected on the Land;
 - (iii) the subdivision of land; or
 - (iv) environmental protection;or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(a) does not modify or limit the coverage provided under Covered Risk 5.
- (b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 6.
- 2 Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.
- 3 Defects, liens, encumbrances, adverse claims, or other matters:
 - (a) created, suffered, assumed, or agreed to by the Insured Claimant;
 - (b) not Known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;
 - (c) resulting in no loss or damage to the Insured Claimant;
 - (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risk 9 and 10); or
 - (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Title.
- 4 Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction vesting the Title as shown in Schedule A, is
 - (a) a fraudulent conveyance or fraudulent transfer; or
 - (b) a preferential transfer for any reason not stated in Covered Risk 9 of this policy.
- 5 Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching between Date of Policy and the date of recording of the deed or other instrument of transfer in the Public Records that vests Title as shown in Schedule A.

CONDITIONS

1. DEFINITION OF TERMS

The following terms when used in this policy mean

(A) "Amount of Insurance" The amount stated in Schedule A, as may be increased or decreased by endorsement to this policy, increased by Section 8(b), or decreased by Sections 10 and 11 of these Conditions

(B) "Date of Policy" The date designated as "Date of Policy" in Schedule A

(C) "Entity" A corporation, partnership, trust, limited liability company or other similar legal entity

(D) "Insured". The Insured named in Schedule A

(E) The term "Insured" also includes

(1) successors to the Title of the Insured by operation of law as distinguished from purchase, including heirs, devisees, survivors, personal representatives, or next of kin,

(2) successors to an Insured by dissolution, merger, consolidation, distribution, or reorganization

(3) successors to an Insured by its conversion to another kind of Entity.

(4) a grantee of an Insured under a deed delivered without payment of actual valuable consideration concerning the Title

(5) if the stock, shares, memberships, or other equity interests of the grantee are wholly-owned by the named Insured

(6) if the grantee wholly owns the named Insured

(7) if the grantee is wholly-owned by an affiliated Entity of the named Insured, provided the affiliated Entity and the named Insured are both wholly-owned by the same person or Entity, or

(8) if the grantee is a trustee or beneficiary of a trust created by a written instrument established by the Insured named in Schedule A for estate planning purposes

(9) With regard to (A), (B), (C), and (D) reserving however all rights and defenses as to any successor that the Company would have had against any predecessor Insured

(10) "Insured Claimant" An Insured claiming loss or damage

(11) "Knowledge" or "Known" Actual knowledge, not constructive knowledge or notice that may be imputed to an Insured by reason of the Public Records or any other records that impart constructive notice of matters affecting the Title

(12) "Land" The land described in Schedule A, and affixed improvements that by law constitute real property. The term "Land" does not include any property beyond the lines of the area described in Schedule A, nor any right, title, interest, estate

or easement in abutting streets, roads, avenues, alleys, lanes, ways, or waterways, but this does not modify or limit the extent that a right of access to and from the Land is insured by this policy

(13) "Mortgage". Mortgage, deed of trust, trust deed, or other security instrument, including one evidenced by electronic means authorized by law

(14) "Public Records". Records established under state statutes at Date of Policy for the purpose of imparting constructive notice of matters relating to real property to purchasers for value and without Knowledge. With respect to Covered Risk 5(d), "Public Records" shall also include environmental protection liens filed in the records of the clerk of the United States District Court for the district where the Land is located

(15) "Title" The estate or interest described in Schedule A.

(16) "Unmarketable Title" Title affected by an alleged or apparent matter that would permit a prospective purchaser or lessee of the Title or lender on the Title to be released from the obligation to purchase, lease, or lend if there is a contractual condition requiring the delivery of marketable title

2. CONTINUATION OF INSURANCE

The coverage of this policy shall continue in force as of Date of Policy in favor of an Insured, but only so long as the Insured retains an estate or interest in the Land, or holds an obligation secured by a purchase money Mortgage given by a purchaser from the Insured, or only so long as the Insured shall have liability by reason of warranties in any transfer or conveyance of the Title. This policy shall not continue in force in favor of any purchaser from the Insured of either (i) an estate or interest in the Land, or (ii) an obligation secured by a purchase money Mortgage given to the Insured

3. NOTICE OF CLAIM TO BE GIVEN BY INSURED CLAIMANT

The Insured shall notify the Company promptly in writing (i) in case of any litigation as set forth in Section 5(a) of these Conditions, (ii) in case Knowledge shall come to an Insured hereunder of any claim of title or interest that is adverse to the Title as insured, and that might cause loss or damage for which the Company may be liable by virtue of this policy, or (iii) if the Title, as insured, is rejected as Unmarketable Title. If the Company is prejudiced by the failure of the Insured Claimant to provide prompt notice, the Company's liability to the Insured Claimant under the policy shall be reduced to the extent of the prejudice

4. PROOF OF LOSS

In the event the Company is unable to determine the amount of loss or damage, the Company may, at its option,

require as a condition of payment that the Insured Claimant furnish a signed proof of loss. The proof of loss must describe the defect, lien, encumbrance, or other matter insured against by this policy that constitutes the basis of loss or damage and shall state, to the extent possible, the basis of calculating the amount of the loss or damage

5. DEFENSE AND PROSECUTION OF ACTIONS

(a) Upon written request by the Insured, and subject to the options contained in Section 7 of these Conditions, the Company, at its own cost and without unreasonable delay, shall provide for the defense of an Insured in litigation in which any third party asserts a claim covered by this policy adverse to the Insured. This obligation is limited to only those stated causes of action alleging matters insured against by this policy. The Company shall have the right to select counsel of its choice (subject to the right of the Insured to object for reasonable cause) to represent the Insured as to those stated causes of action. It shall not be liable for and will not pay the fees of any other counsel. The Company will not pay any fees, costs, or expenses incurred by the Insured in the defense of those causes of action that allege matters not insured against by this policy.

(b) The Company shall have the right, in addition to the options contained in Section 7 of these Conditions, at its own cost, to institute and prosecute any action or proceeding or to do any other act that in its opinion may be necessary or desirable to establish the Title, as insured, or to prevent or reduce loss or damage to the Insured. The Company may take any appropriate action under the terms of this policy, whether or not it shall be liable to the Insured. The exercise of these rights shall not be an admission of liability or waiver of any provision of this policy. If the Company exercises its rights under this subsection, it must do so diligently.

(c) Whenever the Company brings an action or asserts a defense as required or permitted by this policy, the Company may pursue the litigation to a final determination by a court of competent jurisdiction, and it expressly reserves the right, in its sole discretion, to appeal from any adverse judgment or order

6. DUTY OF INSURED CLAIMANT TO COOPERATE

(a) In all cases where this policy permits or requires the Company to prosecute or provide for the defense of any action or proceeding and any appeals, the Insured shall secure to the Company the right to so prosecute or provide defense in the action or proceeding, including the right to use, at its option, the name of the Insured for this purpose. Whenever requested by the Company, the Insured, at the Company's expense, shall give the Company all reasonable aid (i) in securing evidence, obtaining witnesses, prosecuting or defending the action or proceeding, or effecting settlement, and (ii) in any other lawful act that in the

opinion of the Company may be necessary or desirable to establish the Title or any other matter as insured. If the Company is prejudiced by the failure of the Insured to furnish the required cooperation, the Company's obligations to the Insured under the policy shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation, with regard to the matter or matters requiring such cooperation.

(b) The Company may reasonably require the Insured Claimant to submit to examination under oath by any authorized representative of the Company and to produce for examination, inspection, and copying, at such reasonable times and places as may be designated by the authorized representative of the Company, all records, in whatever medium maintained, including books, ledgers, checks, memoranda, correspondence, reports, e-mails, disks, tapes, and videos whether bearing a date before or after Date of Policy, that reasonably pertain to the loss or damage. Further, if requested by any authorized representative of the Company, the Insured Claimant shall grant its permission, in writing, for any authorized representative of the Company to examine, inspect, and copy all of these records in the custody or control of a third party that reasonably pertain to the loss or damage. All information designated as confidential by the Insured Claimant provided to the Company pursuant to this Section shall not be disclosed to others unless, in the reasonable judgment of the Company, it is necessary in the administration of the claim. Failure of the Insured Claimant to submit for examination under oath, produce any reasonably requested information, or grant permission to secure reasonably necessary information from third parties as required in this subsection, unless prohibited by law or governmental regulation, shall terminate any liability of the Company under this policy as to that claim.

7. OPTIONS TO PAY OR OTHERWISE SETTLE CLAIMS; TERMINATION OF LIABILITY

In case of a claim under this policy, the Company shall have the following additional options:

(a) To Pay or Tender Payment of the Amount of Insurance

If pay or tender payment of the Amount of Insurance under this policy together with any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment or tender of payment and that the Company is obligated to pay.

If upon the exercise by the Company of this option, all liabilities and obligations of the Company to the Insured under this policy other than to make the payment required in this subsection shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation.

(b) To Pay or Otherwise Settle With Parties Other Than the Insured or With the Insured Claimant

(i) To pay or otherwise settle with other parties for or in the name of an Insured Claimant any claim insured against under this policy. In addition, the Company will pay any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment and that the Company is obligated to pay.

(ii) To pay or otherwise settle with the Insured Claimant the loss or damage provided for under this policy, together with any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment and that the Company is obligated to pay.

If upon the exercise by the Company of either of the options provided for in subsections (b)(i) or (ii), the Company's obligations to the Insured under this policy for the claimed loss or damage, other than the payments required to be made, shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation.

8. DETERMINATION AND EXTENT OF LIABILITY

This policy is a contract of indemnity against actual monetary loss or damage sustained or incurred by the Insured Claimant who has suffered loss or damage by reason of matters insured against by this policy.

(a) The extent of liability of the Company for loss or damage under this policy shall not exceed the lesser of

(i) the Amount of Insurance or

(ii) the difference between the value of the Title as insured and the value of the Title subject to the risk insured against by this policy.

(b) If the Company pursues its rights under Section 5 of these Conditions and is unsuccessful in establishing the Title, as insured,

(i) the Amount of Insurance shall be increased by 10%, and

(ii) the Insured Claimant shall have the right to have the loss or damage determined either as of the date the claim was made by the Insured Claimant or as of the date it is settled and paid.

(c) In addition to the extent of liability under (a) and (b), the Company will also pay those costs, attorneys' fees, and expenses incurred in accordance with Sections 5 and 7 of these Conditions.

9. LIMITATION OF LIABILITY

(a) If the Company establishes the Title, or removes the alleged defect, lien or encumbrance, or cures the lack of a right of access to or from the Land, or cures the claim of Unmarketable Title all as insured, in a reasonably diligent manner by any method, including litigation and the completion of any appeals, it shall have fully performed its obligations with respect to that matter and shall not be liable for any loss or damage caused to the Insured.

(b) In the event of any litigation, including litigation by the Company or with the Company's consent, the Company shall have no liability for loss or damage until there has been a final determination by a court of competent jurisdiction, and disposition of all appeals, adverse to the Title, as insured.

(c) The Company shall not be liable for loss or damage to the Insured for liability voluntarily assumed by the Insured in settling any claim or suit without the prior written consent of the Company.

10. REDUCTION OF INSURANCE; REDUCTION OR TERMINATION OF LIABILITY

All payments under this policy, except payments made for costs, attorneys' fees, and expenses, shall reduce the Amount of Insurance by the amount of the payment.

11. LIABILITY NONCUMULATIVE

The Amount of Insurance shall be reduced by any amount the Company pays under any policy insuring a Mortgage to which exception is taken in Schedule B or to which the Insured has agreed, assumed, or taken subject, or which is executed by an Insured after Date of Policy and which is a charge or lien on the Title, and the amount so paid shall be deemed a payment to the Insured under this policy.

12. PAYMENT OF LOSS

When liability and the extent of loss or damage have been definitely fixed in accordance with these Conditions, the payment shall be made within 30 days.

13. RIGHTS OF RECOVERY UPON PAYMENT OR SETTLEMENT

(a) Whenever the Company shall have settled and paid a claim under this policy, it shall be subrogated and entitled to the rights of the Insured Claimant in the Title and all other rights and remedies in respect to the claim that the Insured Claimant has against any person or property, to the extent of the amount of any loss, costs, attorneys' fees, and expenses paid by the Company. If requested by the Company, the Insured Claimant shall execute documents to evidence the transfer to the Company of these rights and remedies. The Insured Claimant shall permit the Company to sue, compromise, or settle in the name of the Insured Claimant and to use the name of the Insured Claimant in any transaction or litigation involving these rights and remedies.

If a payment on account of a claim does not fully cover the loss of the Insured Claimant, the Company shall defer the exercise of its right to recover until after the Insured Claimant shall have recovered its loss.

(b) The Company's right of subrogation includes the rights of the Insured to indemnities, guaranties, other policies of insurance, or bonds notwithstanding any terms or conditions contained in those instruments that address subrogation rights.

14. ARBITRATION

Either the Company or the Insured may demand that the claim or controversy shall be submitted to arbitration pursuant to the Title Insurance Arbitration Rules of the American Land Title Association ("Rules"). Except as provided in the Rules, there shall be no joinder or consolidation with claims or controversies of other persons. Arbitrable matters may include, but are not limited to, any controversy or claim between the Company and the Insured arising out of or relating to this policy, any service in connection with its issuance or the breach of a policy provision, or to any other controversy or claim arising out of the transaction giving rise to this policy. All arbitrable matters when the Amount of Insurance is \$2,000,000 or less shall be arbitrated at the option of either the Company or the Insured. All arbitrable matters when the Amount of Insurance is in excess of \$2,000,000 shall be arbitrated only when agreed to by both the Company and the Insured. Arbitration pursuant to this policy and under the Rules shall be binding upon the parties. Judgment upon the award rendered by the Arbitrator(s) may be entered in any court of competent jurisdiction.

15. LIABILITY LIMITED TO THIS POLICY; POLICY ENTIRE CONTRACT

(a) This policy together with all endorsements, if any, attached to it by the Company is the entire policy and contract between the Insured and the Company. In interpreting any provision of this policy, this policy shall be construed as a whole.

(b) Any claim of loss or damage that arises out of the status of the Title or by any action asserting such claim shall be restricted to this policy.

(c) Any amendment of or endorsement to this policy must be in writing and authenticated by an authorized person, or expressly incorporated by Schedule A of this policy.

(d) Each endorsement to this policy issued at any time is made a part of this policy and is subject to all of its terms and provisions. Except as the endorsement expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsement, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance.

16. SEVERABILITY

In the event any provision of this policy, in whole or in part, is held invalid or unenforceable under applicable law, the policy shall be deemed not to include that provision or such part held to be invalid, but all other provisions shall remain in full force and effect.

17. CHOICE OF LAW; FORUM

(a) Choice of Law. The Insured acknowledges the Company has underwritten the risks covered by this policy and determined the premium charged therefor in reliance upon the law affecting interests in real property and applicable to the interpretation, rights, remedies, or enforcement of policies of title insurance of the jurisdiction where the Land is located.

Therefore, the court or an arbitrator shall apply the law of the jurisdiction where the Land is located to determine the validity of claims against the Title that are adverse to the Insured and to interpret and enforce the terms of this policy. In neither case shall the court or arbitrator apply its conflicts of law principles to determine the applicable law.

(b) Choice of Forum. Any litigation or other proceeding brought by the Insured against the Company must be filed only in a state or federal court within the United States of America or its territories having appropriate jurisdiction.

18. NOTICES, WHERE SENT

Any notice of claim and any other notice or statement in writing required to be given to the Company under this policy must be given to the Company at:

Chicago Title Insurance Company

P O Box 45023

Jacksonville, FL 32232-5023

Attn: Claims Department

LEASE ESTOPPEL CERTIFICATE

June 13, 2019

The undersigned Successor Agency to the Redevelopment Agency of the City of Modesto (the “Successor Agency”), as successor in interest to the Redevelopment Agency of the City of Modesto (the “**Redevelopment Agency**”) pursuant to Part 1.85 of Division 24 of the California Health and Safety Code, is a party to that certain Facilities Lease (Parking Garage), dated as of August 1, 2008 (the “**Lease**”), by and between the Redevelopment Agency and the Modesto Public Financing Authority (the “**Authority**”), pursuant to which the Successor Agency leases certain real property and improvements (the “**Leased Property**”) to the Authority.

The Lease was executed in connection with the issuance by the Authority of \$65,170,000 original aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 (the “**Bonds**”). In order to support payment of principal and interest with respect to the Bonds, Bank of the West (the “**Bank**”) is issuing a letter of credit (the “**Letter of Credit**”) pursuant to a Reimbursement Agreement, dated as of June 1, 2019 (the “**Reimbursement Agreement**”), by and among the Bank, the Authority and the City of Modesto (the “**City**”).

Capitalized terms used herein but not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement.

The Successor Agency, with full knowledge that the Bank, in issuing the Letter of Credit on the date hereof, is relying upon the truth, accuracy and completeness of the statements made by the Successor Agency herein, hereby certifies, represents and warrants to the Bank that:

1. The Lease was duly authorized, executed and delivered by the Redevelopment Agency, and is in full force and effect and has not been modified, amended, added onto, extended or renewed and is binding upon, and enforceable against, the Successor Agency in accordance with its terms.
2. Neither the Successor Agency nor the Authority is in breach of or in default under the Lease and no event or condition which, with the passage of time or the giving of notice or both, would constitute such a breach or default by the Successor Agency or the Authority under the Lease has occurred or is continuing. There are no claims by third parties against the Successor Agency or the Authority relating to the Leased Property subject to the Lease, or their respective uses that have not been disclosed in writing to the Bank.
3. The Successor Agency is the fee owner of the Leased Property subject to the Lease and of the lessor’s interest in the Lease. Neither the fee interest in such Leased Property or the lessor’s interest in the Lease has been transferred or encumbered.

4. There are no actions, whether voluntary or otherwise, pending against the Successor Agency pursuant to the bankruptcy or insolvency laws of the United States or any state thereof and, to the best knowledge of the Successor Agency, none have been threatened.

IN WITNESS WHEREOF, the Successor Agency has duly executed, acknowledged and delivered this Certificate as of as of the date first written above.

**SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE
CITY OF MODESTO**

By: _____

A handwritten signature in black ink, appearing to be a stylized name, written over a horizontal line.

Authorized Signatory

LEASE ESTOPPEL CERTIFICATE

June 13, 2019

The undersigned Modesto Public Financing Authority (the “**Authority**”), is a party to that certain Facilities Lease (Parking Garage), dated as of August 1, 2008 (the “**Lease**”), by and between the Successor Agency to the Redevelopment Agency of the City of Modesto (the “**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 and the Authority, pursuant to which the Successor Agency leases certain real property and improvements (the “**Leased Property**”) to the Authority.

The Lease was executed in connection with the issuance by the Authority of \$65,170,000 original aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding Bonds Series 2008 (the “**Bonds**”). In order to support payment of principal and interest with respect to the Bonds, Bank of the West (the “**Bank**”) is issuing a letter of credit (the “**Letter of Credit**”) pursuant to a Reimbursement Agreement, dated as of June 1, 2019 (the “**Reimbursement Agreement**”), by and among the Bank, the Authority and the City of Modesto (the “**City**”).

Capitalized terms used herein but not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement.

The Authority, with full knowledge that the Bank, in issuing Letter of Credit on the date hereof, is relying upon the truth, accuracy and completeness of the statements made by the Authority herein, hereby certifies, represents and warrants to the Bank that:

1. The Lease has been duly authorized, executed and delivered by the Authority, and is in full force and effect and has not been modified, amended, added onto, extended or renewed and is binding upon, and enforceable against, the Authority in accordance with its terms.
2. Neither the Successor Agency nor the Authority is in breach of or in default under the Lease and no event or condition which, with the passage of time or the giving of notice or both, would constitute such a breach or default by the Successor Agency or the Authority under the Lease has occurred or is continuing. There are no claims by third parties against the Successor Agency or the Authority relating to the Leased Property subject to the Lease, or their respective uses that have not been disclosed to the Bank.
3. The Successor Agency is the fee owner of the Leased Property subject to the Lease and of the lessor’s interest in the Lease. Neither the fee interest in such Leased Property or the lessor’s interest in the Lease has been transferred or encumbered.
4. There are no actions, whether voluntary or otherwise, pending against the Authority pursuant to the bankruptcy or insolvency laws of the United States or any state thereof and, to the best knowledge of the Authority, none have been threatened.

IN WITNESS WHEREOF, the Authority has duly executed, acknowledged and delivered this Certificate as of as of the date first written above.

**MODESTO PUBLIC FINANCING
AUTHORITY**

By:  _____
Authorized Signatory

From: Nicholas Jones <JONESNI@pfm.com>
Sent: Tuesday, June 11, 2019 5:10 PM
To: Vargas, Lucy
Cc: Kevin Dong
Subject: RE: Modesto LOC Replacement - Closing room
Attachments: RE: Modesto Letter of Credit Replacement: Closing Mechanics and Payment Details for Mandatory Tender and Remarketing; Rationale (S&P).pdf; 2019-05_Modesto PUB Fin Auth_Ser 20081_RL_signed.pdf

See attached, summary below:

-Current 2008 LRB CUSIP: 607796BU2

-Associated Bank Bond CUSIP: 607796BV0 (used only if necessary in the event the LRBs become bank bonds due to a failed remarketing, hasn't been used yet)

-Bond ratings (these match the "expected" ratings listed in the OS Supplement):

	S&P	Fitch
Short-Term (downgraded due to LOC substitution)	A-1	F1
Long-Term (downgraded due to LOC substitution)	A	AA

Anything else you need for closing or are we good to go? Any wires need to be set up?

Thanks,
Nick

From: Vargas, Lucy [mailto:lucy.vargas@nortonrosefulbright.com]
Sent: Tuesday, June 11, 2019 1:06 PM
To: Nicholas Jones <JONESNI@pfm.com>
Subject: Modesto LOC Replacement - Closing room

EXTERNAL EMAIL: Use care with links and attachments.

Nick,

Would you please provide me with the Evidence of reservation of CUSIP and the Confirmation of rating, including underlying ratings?

Best regards,

Lucy

Lucy Vargas | Senior Paralegal
Norton Rose Fulbright US LLP
555 California Street, Suite 3300, San Francisco, California 94104-1609, United States
Tel +1 628 231 6786 | Fax +1 628 231 6799
lucy.vargas@nortonrosefulbright.com

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33 Whitehall Street
New York, NY 10004

T 212 908 0500 / 800 75 FITCH
www.fitchratings.com

May 29, 2019

Ms. DeAnna Christensen
Finance Director
City of Modesto
1010 10 Street
Modesto, CA 95354

Re: Modesto Public Financing Authority Lease Rate Revenue Refunding Bonds 2008 (the "Bonds")

Dear Ms. Christensen:

On the effective date of June 13, 2019, Fitch ("**Fitch**") (see definition below) will downgrade the long and short-term rating to 'AA/F1' to the above Bonds. The rating outlook for the long-term rating will be stable. The long-term 'AA' rating is based jointly on the underlying rating that Fitch has assigned to the Modesto Public Finance Authority (rated 'A+', Stable Outlook) and the support provided by and irrevocable letter of credit (LOC) provided by Bank of the West (rated 'A/F1', Stable Outlook). The LOC has a stated expiration date of June 13, 2023, unless such date is extended or terminated, while bonds are in the weekly and daily rate modes. The short-term 'F1' rating will be based solely on the LOC provided by Bank of the West.

Ratings are subject to the receipt by Fitch of final transaction documents.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

Fitch seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

FitchRatings

Ms. DeAnna Christensen
Rating letter - page 2
May 29, 2019

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Ratings are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only.

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It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, the accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

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In this letter, “**Fitch**” means Fitch Ratings, Inc. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact me at 212-908-0829.

Sincerely,



Fitch
Joseph Staffa
Senior Director
Public Finance

June 11, 2019

City of Modesto
1010 10th Street, Suite 3300
Modesto, CA 95354
Attention: Ms. DeAnna Christensen, Finance Director

Re: *Modesto Public Finance Authority, California, Lease Revenue Bonds, Series 2008*

Dear Ms. Christensen:

S&P Global Ratings has reviewed the rating on the above-listed obligations. Based on our review, we have lowered our credit rating from "A+/A-1" to "A/A-1" while affirming the not meaningful outlook. A copy of the rationale supporting the rating and outlook is enclosed.

This letter constitutes S&P Global Ratings' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements or to allow the Issuer to comply with its regulatory obligations) will become effective only after we have released the ratings on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable. Any such dissemination shall not be done in a manner that would serve as a substitute for any products and services containing S&P Global Ratings' intellectual property for which a fee is charged.

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Please send hard copies to:
S&P Global Ratings
Public Finance Department
55 Water Street
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

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enclosure

S&P Global Ratings
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Summary:

**Modesto Public Financing Authority,
California
Modesto; Letter Of Credit**

Primary Credit Analyst:

Radhika Kalra, New York (1) 212-438-2143; radhika.kalra@spglobal.com

Secondary Contact:

Santos Souffront, New York (1) 212-438-2197; santos.souffront@spglobal.com

Research Contributor:

Jamil D Joshi, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

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Rationale

Rating Sensitivity

Summary:

Modesto Public Financing Authority, California Modesto; Letter Of Credit

Credit Profile

Modesto Pub Fin Auth, California

Modesto, California

Modesto Pub Fin Auth (Modesto) LOC

Long Term Rating

A/A-1

Downgraded

Rationale

S&P Global Ratings lowered its rating on Modesto Public Financing Authority, Calif.'s series 2008 lease revenue refunding bonds, issued for Modesto, to 'A/A-1' from 'A+/A-1'.

The rating action reflects our view of the replacement of the existing letter of credit (LOC) provided by Bank of America N.A. with a new LOC provided by Bank of the West on June 13, 2019.

The long-term component of the rating reflects our opinion of the LOC provided by Bank of the West and our opinion of the likelihood bondholders will receive interest and principal payments when due if they do not exercise the put option. The short-term component of the rating reflects the short-term issuer credit rating on the LOC provider and our opinion of the likelihood bondholders will receive interest and principal payments associated with the purchase price if they exercise the put option.

The LOC provides coverage for all principal and interest payments and the purchase price of certificates not successfully tendered for a maximum of 34 days at 12% while the bonds bear interest in daily or weekly rate modes. The LOC expires June 13, 2023.

Rating Sensitivity

In view of the structure, changes to our rating on the bonds could result from, among other events, changes to the rating on the LOC provider or amendments to transaction terms. We will likely maintain our rating on the bonds as long as the LOC has not expired or otherwise terminated. If any of these conditions change, we will likely withdraw our rating on the bonds.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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

CLOSING CERTIFICATE OF THE AUTHORITY

June 13, 2019

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:

1. The undersigned further certify that authorized officers of the Authority executed the following documents on behalf of the Authority:

(a) the Reimbursement Agreement, dated as of June 1, 2019 (the “Reimbursement Agreement”), by and among the City of Modesto (the “City”), the Authority and Bank of the West (the “Bank”);

(b) the Fee Letter Agreement, dated June 13, 2019 (the “Fee Letter”), by and among the Bank, the City and the Authority; and

(c) the Remarketing and Interest Services Agreement, dated May 13, 2019 (the “Remarketing Agreement”) by and between the Authority and Raymond James & Associates, Inc. (the “Remarketing Agent”).

2. The undersigned further certify that:

(a) the Reimbursement Agreement, the Fee Letter and the Remarketing Agreement (collectively the “Authority Documents”) have been duly executed and delivered and each constitutes a valid and legally binding obligation of the Authority enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors’ rights generally and the application of equitable principles if equitable remedies are sought;

(b) the resolution of the Authority, adopted on May 7, 2019, at a meeting of the Commission of the Authority duly called, noticed and conducted, at which a quorum was present and acting throughout (the “Authority Resolution”), authorizing the execution, delivery and due performance of the Authority Documents, is in full force and effect at the date hereof and has not been amended, modified or supplemented; and

(c) the Authority has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date hereof.

3. The undersigned further certify that:

(a) the representations and warranties set forth in the Reimbursement Agreement and in any other certificate, letter, writing or instrument delivered by the Authority to the Bank pursuant to the Reimbursement Agreement or in connection with the Reimbursement Agreement, are true and correct on and as of the date hereof;

(b) 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;

(c) 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;

(d) 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;

(e) 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


(f) 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.

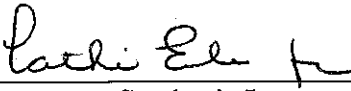
4. The officers identified below are duly authorized by the Commission of the Authority to execute on behalf of the Authority, certain documents, certificates and agreements relating to the Bonds and the Reimbursement Agreement, and that pursuant to such authority certain documents, certificates and agreements have been executed by such persons, and attested to by the signature of the Secretary of the Commission, and, each of the undersigned by their signature confirms that the other signatures set forth below are genuine. The officers identified below are duly authorized to represent the Authority in connection with the Reimbursement Agreement, upon which the Bank may rely until it receives a new certificate.

Capitalized terms used herein not otherwise defined herein shall have the meanings ascribed thereto in the Reimbursement Agreement.

Dated as of the date first written above.

MODESTO PUBLIC FINANCING AUTHORITY

By: 
DeAnna Christensen
Auditor and Treasurer

By: 
Stephanie Lopez
Secretary

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

CLOSING, SIGNATURE AND INCUMBENCY CERTIFICATE OF THE AUTHORITY

June 13, 2019



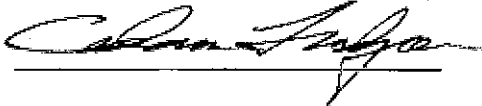
The undersigned, the Auditor and Treasurer and Secretary, respectively, of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, hereby certify on behalf of the Authority, in connection with the Authority's Lease Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds"), as follows:

1. The undersigned certify that the following persons are now, and at all times since June 1, 2016 have been, the duly appointed or elected, qualified and acting members of the Commission of the Authority:

<u>Name</u>	<u>Position</u>
Ted Brandvold	Chairperson
Mani Grewal	Member
Tony Madrigal	Member
Kristi Ah You	Member
Bill Zoslocki	Member
Jenny Kenoyer	Member
Douglas Ridenour	Member

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2. The officers identified below are duly authorized by the Commission of the Authority (the "Commission") to execute on behalf of the Authority, certain documents, certificates and agreements relating to the Series 2008 Bonds, and that pursuant to such authority certain documents, certificates and agreements have been executed by such persons, and attested to by the signature of the Secretary of the Commission, and, each of the undersigned by their signature confirms that the other signatures set forth below are genuine:

<u>Name</u>	<u>Official Title</u>	<u>Signature</u>
DeAnna Christensen	Auditor and Treasurer	
Stephanie Lopez	Secretary	
Adam Lindgren	Counsel to Authority	


3. The undersigned further certify that authorized officers of the Authority executed the following documents on behalf of the Authority:

- (a) the Reimbursement Agreement dated as of June 1, 2019, by and among the Bank of the West, the Authority and the City;
- (b) the Fee Letter Agreement, dated June 13, 2019, by and among the Bank of the West, the Authority and the City; and
- (c) the Remarketing and Interest Services Agreement, dated May 13, 2019 by between the Authority and the Remarketing Agent.

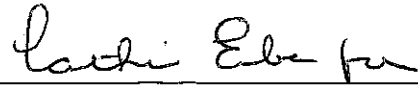
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Dated as of the date first written above.

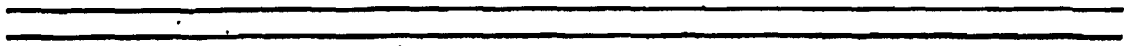
MODESTO PUBLIC FINANCING AUTHORITY

By: 

DeAnna Christensen
Auditor and Treasurer

By: 

Stephanie Lopez
Secretary



JOINT EXERCISE OF POWERS AGREEMENT

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of December 1, 1989



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THIS AGREEMENT is by and among the CITY OF MODESTO (the "City") and the INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF MODESTO (the "IDA"), each duly organized and existing under the laws of the State of California (the "State"), collectively called the "Members".

WITNESSETH:

WHEREAS, the Marks-Roos Local Bond Pooling Act of 1985 (hereinafter defined as the "Bond Law") authorizes agencies formed under the Joint Exercise of Powers Law (hereinafter defined as the "Act") to issue bonds for the purpose of acquiring and constructing Public Capital Improvements (as that term is defined in the Act) and to lease those Public Capital Improvements to public agencies in California;

WHEREAS, the City intends to finance the renovation of the main terminal building at the Modesto City-County Airport/Harry Sham Field by entering into a lease/leaseback financing of the Airport, and the IDA is willing to assist the City and to facilitate such financing;

NOW, THEREFORE, in consideration of the above premises and of the mutual promises herein contained, the Members do hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, the words and terms defined in this Article shall, for the purpose hereof, have the meanings herein specified.

"Act" means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State.

"Agreement" means this Joint Exercise of Powers Agreement.

"Auditor and Treasurer" means the Director of Finance of the City, designated as Auditor and Treasurer of the Authority in Section 3.02.

"Authority" means the Modesto Public Financing Authority created pursuant to this Agreement.

"Bond Law" means the Marks-Roos Local Bond Pooling Act of 1985, being Article 4 of the Act (commencing with Section 6584), as now or hereafter amended, or any other law hereafter legally available for use by the Authority in the authorization and issuance of Bonds to finance the acquisition of Obligations and/or Public Capital Improvements.

"Bonds" means bonds of the Authority issued pursuant to Section 6590 or 6591 of the Bond Law.

"Chairperson" means the Chairperson of the Authority.

"Commission" means the Commission referred to in Section 2.03, which shall be the governing body of the Authority.

"Commissioners" means the representatives of the Members appointed to the Commission pursuant to Section 2.03.

"Fiscal Year" means the period from July 1 to and including the following June 30.

"Members and Member" means each of the parties to this Agreement and **"Member"** means any such party.

"Public Agency" means any public agency authorized by the Act to enter into a joint exercise of powers agreement with the Members.

"Public Capital Improvement" has the meaning given to such term in Section 6585(g) of the Act, as in effect on the date hereof, and as hereafter amended.

"Secretary" means the secretary of the Authority.

"State" means the State of California.

"Vice Chairperson" means the vice Chairperson of the Authority.

ARTICLE II

GENERAL PROVISIONS

Section 2.01. Purpose. This Agreement is made pursuant to the Act providing for the joint exercise of powers common to the Members. The purpose of this Agreement is to provide for the financing of Public Capital Improvements for the Members through the issuance of Bonds by the Authority and the leasing of the Public Capital Improvements to the Members.

Section 2.02. Creation of Authority. Pursuant to the Act, there is hereby created a public entity to be known as the "Modesto Public Financing Authority". The Authority shall be a public entity separate and apart from the Members, and shall administer this Agreement.

Section 2.03. Commission. The Authority shall be administered by a Commission of seven (7) Commissioners. The members of the City Council of the City shall be, *ex officio*; the Commissioners of the Authority. The number of Commissioners may be changed by amendment of this Agreement. The Commission shall be called the "Commission of the Modesto Public Financing Authority". All voting power of the Authority shall reside in the Commission.

Section 2.04. Meetings of the Commission.

(a) **Regular Meetings.** The Commission shall provide for its regular meetings; provided, however, that at least one regular meeting shall be held each year. The date, hour and place of the holding of regular meetings shall be fixed by resolution of the Commission and a copy of such resolution shall be filed with each of the Members.

(b) **Special Meetings.** Special meetings of the Commission may be called in accordance with the provisions of Section 54956 of the Government Code of the State.

(c) **Call, Notice and Conduct of Meetings.** All meetings of the Commission, including without limitation, regular, adjourned regular and special meetings, shall be called, noticed, held and conducted in accordance with the provisions of Sections 54950 et seq. of the Government Code of the State.

Section 2.05. Minutes. The Secretary shall cause to be kept minutes of the meetings of the Commission and shall, as soon as possible after each meeting, cause a copy of the minutes to be forwarded to each Commissioner and to each of the Members.

Section 2.06. Voting. Each Commissioner shall have one vote.

Section 2.07. Quorum; Required Votes; Approvals. Commissioners holding a majority of the votes shall constitute a quorum for the transaction of business, except that less than a quorum may adjourn from time to time. The affirmative votes of at least a majority of the Commissioners shall be required to take any action by the Commission.

Section 2.08. Bylaws. The Commission may adopt, from time to time, such bylaws, rules and regulations for the conduct of its meetings as are necessary for the purposes hereof.

ARTICLE III
OFFICERS AND EMPLOYEES

Section 3.01. Chairperson, Vice-Chairperson, Executive Director and Secretary. The Mayor of the City shall, *ex officio*, serve as the Chairperson of the Authority, the Mayor pro tem of the City shall, *ex officio*, serve as the Vice Chairperson of the Authority, and the City Clerk of the City shall, *ex officio*, serve as the Secretary. The City Manager of the City shall, *ex officio*, serve as the Executive Director of the Authority. The officers shall perform the duties normal to said offices; and

(a) the Chairperson shall preside over all meetings of the Commission of the Authority, and shall perform such other duties as may be imposed by the Commission;

(b) the Vice Chairperson shall perform all of the Chairperson's duties in the absence of the Chairperson;

(c) the Executive Director shall sign all contracts on behalf of the Authority, and shall perform such other duties as may be imposed by the Commission;

(d) the Secretary shall countersign all contracts signed by the Executive Director on behalf of the Authority, perform such other duties as may be imposed by the Commission and cause a copy of this Agreement to be filed with the Secretary of State of the State pursuant to the Act.

Section 3.02. Auditor and Treasurer. Pursuant to Section 6505.6 of the Act, the Director of Finance of the City is hereby designated as the Auditor and Treasurer of the Authority. The Auditor and Treasurer shall be the depository, shall have custody of all of the accounts, funds and money of the Authority from whatever source, shall have the duties and obligations set forth in Sections 6505 and 6505.5 of the Act and shall assure that there shall be strict accountability of all funds and reporting of all receipts and disbursements of the Authority.

Section 3.03. Officers in Charge of Records, Funds and Accounts. Pursuant to Section 6505.1 of the Act, the Auditor and Treasurer shall have charge of, handle and have access to all accounts, funds and money of the Authority and all records of the Authority relating thereto; and the Secretary shall have charge of, handle and have access to all other records of the Authority.

Section 3.04. Bonding Persons Having Access to Public Capital Improvements. From time to time, the Commission may designate persons, in addition to the Secretary and the Auditor and Treasurer, having charge of, handling or having access to any records, funds or accounts or other Public Capital Improvements of the Authority, and the respective amounts of the official bonds of the Secretary and the Auditor and Treasurer and such other persons pursuant to Section 6505.1 of the Act.

Section 3.05. Legal Advisor. The City Attorney of the City of Modesto shall serve as legal advisor to the Authority.

Section 3.06. Other Employees. The Commission shall have the power to appoint and employ such other consultants and independent contractors as may be necessary for the purposes of this Agreement.

All of the privileges and immunities from liability, exemption from laws, ordinances and rules, all pension, relief, disability, workers' compensation and other benefits which apply to the activities of officers, agents, or employees of an Agency when performing their respective functions shall apply to them to the same degree and extent while engaged in the performance of any of the functions and other duties under this Agreement.

None of the officers, agents, or employees directly employed by the Commission shall be deemed, by reason of their employment by the Commission to be employed by any Member or, by reason of their employment by the Commission, to be subject to any of the requirements of the Members.

Section 3.07. Assistant Officers. The Commission may appoint such assistants to act in the place of the Secretary or other officers of the Authority (other than any Commissioner) as the Commission shall from time to time deem appropriate.

ARTICLE IV

POWERS

Section 4.01. General Powers. The Authority shall exercise in the manner herein provided the powers common to each of the Members and necessary to the accomplishment of the purposes of this Agreement, subject to the restrictions set forth in Section 4.04, including but not limited to the common power of eminent domain with respect to Public Capital Improvements.

As provided in the Act, the Authority shall be a public entity separate from the Members. The Authority shall have the power to finance the acquisition of Public Capital Improvements necessary or convenient for the operation of the Members, and to acquire Obligations of the Members.

Section 4.02. Power to Issue Bonds. The Authority shall have all of the powers provided in Article 4 of the Act (commencing with Section 6584), including the power to issue Bonds under the Bond Law.

Section 4.03. Specific Powers. The Authority is hereby authorized, in its own name, to do all acts necessary for the exercise of the foregoing powers, including but not limited to, any or all of the following:

- (a) to make and enter into contracts;
- (b) to employ agents or employees;
- (c) to acquire, construct, manage, maintain or operate any buildings, works or improvements;
- (d) to acquire, construct, hold and dispose of Public Capital Improvements, including the leasing of such Public Capital Improvements from and to the Members;
- (e) to sue and be sued in its own name;
- (f) to incur debts, liabilities or obligations, provided that no debt, liability or obligation shall constitute a debt, liability or obligation of any of the Members;
- (g) to apply for, accept, receive and disburse grants, loans and other aids from any agency of the United States of America or of the State;
- (h) to invest any money in the treasury pursuant to Section 6505.5 of the Act that is not required for the immediate necessities of the Authority, as the Authority determines is advisable, in the same manner and upon the same conditions as local agencies, pursuant to Section 53601 of the Government Code of the State;

(i) to apply for letters of credit or other form of credit enhancement in order to secure the repayment of its Bonds and enter into agreements in connection therewith;

(j) to carry out and enforce all the provisions of this Agreement;

(k) to make and enter into Bond Purchase Agreements;

(l) to purchase Obligations issued by any Member; and

(m) to exercise any and all other powers as may be provided in the Bond Law.

Section 4.04. Restrictions on Exercise of Certain Powers. The powers of the Authority shall be exercised in the manner provided in the Act and in the Bond Law, and, except for those powers set forth in the Bond Law, shall be subject (in accordance with Section 6509 of the Act) to the restrictions upon the manner of exercising such powers that are imposed upon the City in the exercise of similar powers.

Section 4.05. Obligations of Authority. The debts, liabilities and obligations of the Authority shall not be the debts, liabilities and obligations of any of the Members.

ARTICLE V

METHODS OF PROCEDURE; CREDIT TO MEMBERS

Section 5.01. Assumption of Responsibilities By the Authority. As soon as practicable after the date of execution of this Agreement, the Commissioners shall give notice (in the manner required by Section 2.04) of the organizational meeting of the Commission. At said meeting the Commission shall provide for its regular meetings as required by Section 2.04 and elect a Chairperson, Vice Chairperson and the Secretary.

Section 5.02. Delegation of Powers. Each of the Members hereby delegates to the Authority the power and duty to acquire, by lease, lease-purchase, installment sale agreements, or otherwise, such Public Capital Improvement necessary or convenient for the operation of the Members.

Section 5.03. Credit to Members. All accounts or funds created and established pursuant to any trust agreement or indenture to which the Authority is a party, and any interest earned or accrued thereon, shall inure to the benefit of the respective Members for which such funds or accounts were created.

ARTICLE VI

CONTRIBUTION: ACCOUNTS AND REPORTS: FUNDS

Section 6.01. Contributions. The Members may in the appropriate circumstance when required hereunder: (a) make contributions from their treasuries for the purposes set forth herein, (b) make payments of public funds to defray the cost of such purposes, (c) make advances of public funds for such purposes, such advances to be repaid as provided herein, or (d) use its personnel, equipment or property in lieu of other contributions or advances.

Section 6.02. Accounts and Reports. To the extent not covered by the duties assigned to a trustee chosen by the Authority, the Auditor and Treasurer shall establish and maintain such funds and accounts as may be required by good accounting practice or by any provision of any trust agreement or indenture entered into with respect to the proceeds of any Bonds issued by the Authority. The books and records of the Authority in the hands of a trustee or the Auditor and Treasurer shall be open to inspection at all reasonable times by representatives of the Members. The Auditor and Treasurer of the Authority, within 180 days after the close of each Fiscal Year, shall give a complete written report of all financial activities for such Fiscal Year to the Members to the extent such activities are not covered by the report of such trustee. The trustee appointed under any trust agreement or indenture shall establish suitable funds, furnish financial reports and provide suitable accounting procedures to carry out the provisions of said trust agreement or indenture. Said trustee may be given such duties in said trust agreement or indenture as may be desirable to carry out this Agreement.

Section 6.03. Funds. Subject to the applicable provisions of any trust agreement or indenture which the Authority may enter into, which may provide for a trustee to receive, have custody of and disburse Authority funds, the Auditor and Treasurer of the Authority shall receive, have the custody of and disburse Authority funds as nearly as possible in accordance with generally accepted accounting practices, shall make the disbursements required by this Agreement or to carry out any of the provisions or purposes of this Agreement.

Section 6.04. Administrative Expenses. The Members shall pay their proportionate share (determined on the basis of a Member's percentage share of any financings completed by the Authority) of administrative expenses.

ARTICLE VII

TERM; DISPOSITION OF ASSETS

Section 7.01. Term. This Agreement shall become effective as of the date of execution hereof by the parties hereto, and shall continue in full force and effect so long as bonds of the Authority are outstanding or any lease agreements are outstanding between the Authority and a Member or Members (or between Members).

Section 7.02. Disposition of Assets. Upon termination of this Agreement, all property of the Authority, both real and personal, shall be divided among the parties hereto in such manner as shall be agreed upon by the parties.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 8.01. Notices. Notices hereunder shall be in writing and shall be sufficient if delivered to:

City of Modesto
801 11th Street
Modesto, California 95354
Attn: Finance Director

Industrial Development Agency
of the City of Modesto
801 11th Street
Modesto, California 95354
Attn: Chairperson

Section 8.02. Section Headings. All section headings in this Agreement are for convenience of reference only and are not to be construed as modifying or governing the language in the section referred to or to define or limit the scope of any provision of this Agreement.

Section 8.03. Consent. Whenever in this Agreement any consent or approval is required, the same shall not be unreasonably withheld.

Section 8.04. Law Governing. This Agreement is made in the State under the constitution and laws of the State and is to be so construed.

Section 8.05. Amendments. This Agreement may be amended at any time, or from time to time, except as limited by contract with the holders of Bonds issued by the Authority or certificates of participation in payments to be made by the Authority or the Members or by applicable regulations or laws of any jurisdiction having authority, by one or more supplemental agreements executed by all of the parties to this Agreement either as required in order to carry out any of the provisions of this Agreement or for any other purpose, including without limitation addition of new parties (including any legal entities or taxing areas heretofore or hereafter created) in pursuance of the purposes of this Agreement.

Section 8.06. Enforcement by Authority. The Authority is hereby authorized to take any or all legal or equitable actions, including but not limited to injunction and specific performance, necessary or permitted by law to enforce this Agreement.

Section 8.07. Severability. Should any part, term or provision of this Agreement be decided by any court of competent jurisdiction to be illegal or in conflict with any law of the State, or otherwise be rendered unenforceable or ineffectual, the validity of the remaining portions or provisions shall not be affected thereby.

Section 8.08. Successors. This Agreement shall be binding upon and shall inure to the benefit of the successors of the respective Members. None of the Members may assign any right or obligation hereunder without the written consent of the other Members.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and attested by their proper officers thereunto duly authorized and their official seals to be hereto affixed, on the day and year set opposite the name of each of the parties.

CITY OF MODESTO

Dated: November 21, 1989



City Manager


ATTEST:



City Clerk

(SEAL)


Approved as to Form:



City Attorney

INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF MODESTO

Dated: November 21, 1989



Executive Director


ATTEST:



Secretary

(SEAL)

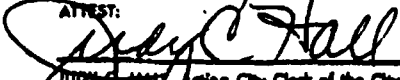
Approved as to Form:



General Counsel

The foregoing is a correct copy of the original on file in this office, which has not been revoked and is now in full force and effect.

ATTEST:



JUDY G. [unclear], Acting City Clerk of the City of Modesto, County of Stanislaus, State of California.

State of California
Secretary of State



I, BRUCE McPHERSON, Secretary of State of the State of California, hereby certify:

That the attached transcript of 1 page(s) was prepared by and in this office from the record on file, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

OCT 10 2006



A handwritten signature in cursive script, reading "Bruce McPherson".

BRUCE McPHERSON
Secretary of State



State of California
 March Jong Eu
 Secretary of State

FILE NO. 1027

FILED
 In the Office of the Secretary of State
 of the State of California

DEC 19 1989

March Jong Eu
 MARCH JONG EU, Secretary of State

(Office Use Only)

NOTICE OF A JOINT POWERS AGREEMENT
 (Government Code Section 65035 or 65037)

Instructions:

1. Complete and mail to: Secretary of State,
 P.O. Box 704, Sacramento, CA 95812-0704 (916) 324-6778
2. Include filing fee of \$5.00
3. Do not include attachments, unless otherwise specified

The name of the agency or entity created under the agreement and responsible for the administration of the agreement is:

MODESTO PUBLIC FINANCING AUTHORITY

Mailing address: 801 11th Street, Modesto, California 95854

Provide a short title of the agreement if applicable: Joint Exercise of Powers Agreement

The public agencies party to the agreement are:

- (1) City of Modesto
- (2) Industrial Development Authority of the City of Modesto
- (3)

if more space is needed, continue on a separate sheet and attach it to this form.

The effective date of the agreement is: December 5, 1989

Provide a condensed statement of the agreement's purpose or the powers to be exercised:

Financing Public Capital Improvements for the City of Modesto

William H. Madison

Signature
 William H. Madison, Jones Hall Hill, & White
 Special Counsel
 Typed Name and Title

State of California
Secretary of State



I, BRUCE McPHERSON, Secretary of State of the State of California, hereby certify:

That the attached transcript of 01 page(s) was prepared by and in this office from the record on file, of which it purports to be a copy, and that it is full, true and correct.



IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

OCT 20 2006

A handwritten signature in cursive script, appearing to read "Bruce McPherson".

BRUCE McPHERSON
Secretary of State



State of California
Secretary of State

FILED
In the office of the Secretary of State
of the State of California

OCT 19 2006

(Office Use Only)

STATEMENT OF FACTS
ROSTER OF PUBLIC AGENCIES FILING
(Government Code Section 53051)

Instructions:

- 1. Complete and mail to: Secretary of State, P.O. Box 942877, Sacramento, CA 94277-0001 (916) 653-3984
2. A street address must be given as the official mailing address or as the address of the presiding officer.
3. Complete addresses as required.
4. If you need additional space, please include information on an 8 1/2 X 11 page.

New Filing [] Update [x]

Legal name of Public Agency: Modesto Public Financing Authority

Nature of Update: Change in Commissioners

County: Stanislaus

Official Mailing Address: P.O. Box 642, Modesto, California 95353 (physical address: 1010 Tenth Street)

Name and Address of each member of the governing board:

Chairman, President or other Presiding Officer (Indicate Title): Chairperson

Name: Jim Ridenour Address: P.O. Box 642, Modesto, California 95353

Secretary or Clerk (Indicate Title): Secretary

Name: Jean Morris Address: P.O. Box 642, Modesto, California 95353

Members:

Name: Will O'Bryant (Vice Chairperson) Address: P.O. Box 642, Modesto, California 95353

Name: Bob Dunbar (Member) Address: P.O. Box 642, Modesto, California 95353

Name: Brad Hawn (Member) Address: P.O. Box 642, Modesto, California 95353

Name: Janice Keating (Member) Address: P.O. Box 642, Modesto, California 95353

Name: Garrad Marsh (Member) Address: P.O. Box 642, Modesto, California 95353

Name: Kristin Olsen (Member) Address: P.O. Box 642, Modesto, California 95353

Date: October 17, 2006

Jean Morris
Signature

Jean Morris, Secretary

Typed Name and Title





I hereby certify that the foregoing transcript of 01 page(s) *PM* is a full, true and correct copy of the original record in the custody of the California Secretary of State's office.

APR 15 2019

Date: _____

Alex Padilla

ALEX PADILLA, Secretary of State



State of California
Secretary of State

STATEMENT OF FACTS
ROSTER OF PUBLIC AGENCIES FILING
(Government Code section 53051)

FILED
Secretary of State
State of California

JAN 07 2019

(Office Use Only)

Instructions:

- 1. Complete and mail to: Secretary of State, P.O. Box 942870, Sacramento, CA 94277-2870 (916) 653-3984
2. A street address must be given as the official mailing address or as the address of the presiding officer.
3. Complete addresses as required.
4. If you need additional space, attach information on an 8 1/2" X 11" page, one sided and legible.

New Filing [] Update [x]

Legal name of Public Agency: Modesto Public Financing Authority

Nature of Update: Member information; Vice Mayor change

County: Stanislaus

Official Mailing Address: P.O. Box 642, Modesto, CA 95353; 1010-10th Street, Modesto, CA 95354

Name and Address of each member of the governing board:

Chairman, President or other Presiding Officer (Indicate Title): Mayor

Name: Ted Brandvold Address: P.O. Box 642, Modesto, CA 95353; 1010-10th Street, Modesto, CA 95354

Secretary or Clerk (Indicate Title): City Clerk

Name: Stephanie Lopez Address: P.O. Box 642, Modesto, CA 95353

Members:

Name: Tony Madrigal Address: P.O. Box 642, Modesto, CA 95353

Name: Jenny Kenoyer, Vice Mayor Address: P.O. Box 642, Modesto, CA 95353

Name: Mani Grewal Address: P.O. Box 642, Modesto, CA 95353

Name: Bill Zoslocki Address: P.O. Box 642, Modesto, CA 95353

Name: Douglas Ridenour, Sr. Address: P.O. Box 642, Modesto, CA 95353

RETURN ACKNOWLEDGMENT TO: (Type or Print)

January 4, 2019

NAME [Stephanie Lopez, City Clerk

ADDRESS P.O. Box 642

CITY/STATE/ZIP [Modesto, CA 95353

Date

Signature

Stephanie Lopez, City Clerk

Typed Name and Title

STATEMENT OF FACTS
ROSTER OF PUBLIC AGENCIES FILING (Page 2 of 2)

Name: Kristi Ah You

Address: P.O. Box 642, Modesto, CA 95353



I hereby certify that the foregoing transcript of 02 page 01 is a full, true and correct copy of the original record in the custody of the California Secretary of State's office.

APR 15 2019

Date: _____

Alex Padilla


ALEX PADILLA, Secretary of State

NOTICE OF INTENT TO FURNISH AN ALTERNATE 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 Trustee of the above captioned bonds (the "Bonds"), pursuant to Section 4.19(D) of the Indenture, that the Authority intends to substitute a letter of credit issued by Bank of the West for the current letter of credit issued by Bank of America, N.A., which expires on June 22, 2019. The anticipated substitution date is June 13, 2019 (the "Substitution Date"). The Trustee is hereby instructed to give notice to the Bondholders not later than 15 days prior to the Substitution Date that the Bonds are subject to mandatory purchase on the Substitution Date. Such notice to Bondholders shall comply with the provisions of Section 4.09(B)(1)(b) of the Indenture.

**MODESTO PUBLIC FINANCING
AUTHORITY**

By: _____



DeAnna Christensen
Auditor and Treasurer

Dated: May 13, 2019

EXHIBIT A
NOTICE PARTIES

City

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Finance Director
Telephone No.: (209) 577-5387
Facsimile No.: (209) 491-5992

Trustee

The Bank of New York Mellon Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, CA 94108-2527
Attention: Corporate Trust
Telephone No.: (415) 263-2418
Facsimile No.: (415) 399-1647

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 500
Los Angeles, CA 900071
Telephone No.: (213) 630-6204
Facsimile No.: (213) 630-6215

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 No.: (866) 255-1444

Credit Facility Provider

Bank of America, N.A.
CA5-704-13-11
315 Montgomery Street, 13th Flr.
San Francisco, CA 94104
Telephone No.: (415) 953-9025
Facsimile No.: (415) 622-5032

Rating Agencies

Fitch Ratings
33 Whitehall Street
New York, New York 10004
Telephone No.: (212) 908-0500
Facsimile No.: (212) 480-4421
Email: msf.surveillance@fitchratings.com

Standard and Poor's
Attn: Muni Structured Finance
55 Water Street, 38th Floor
New York, New York 10041
Telephone No.: (212) 438-2000
Facsimile No.: (212) 438-2648
Email: vrdb_rating_request@spglobal.com

Remarketing Agent

Banc of America, N.A.
Hearst Tower
214 N. Tyron Street
NC 1-027-14-01
Charlotte, North Carolina 28255-0001
Attention: Municipal Trading and Underwriting
Facsimile No.: (704) 388-0393

Banc of America, N.A.
600 Montgomery Street, 18th Floor
CA5-801-18-36
San Francisco, CA 94111
Attention: Public Finance Group
Facsimile No.: (415) 986-1194

NOTICE TO BONDHOLDERS OF MANDATORY PURCHASE OF BONDS
\$65,170,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS
SERIES 2008

NOTICE IS HEREBY GIVEN to the Owners of the above captioned bonds (the "Bonds"), pursuant to Section 4.09(B) of the Indenture, that due to the substitution of a new letter of credit issued by Bank of the West in place of the current letter of credit issued by Bank of America, N.A., all of the Bonds are subject to mandatory tender and purchase on June 13, 2019 (the "Mandatory Tender Date") at a purchase price of par plus accrued interest to the Mandatory Tender Date. On the Mandatory Tender Date the Bonds shall cease to accrue interest.

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

By: _____



Authorized Signatory

Dated: May 28, 2019



Norton Rose Fulbright US LLP
555 California Street, Suite 3300
San Francisco, California 94104-1609

Tel +1 628 231 6800
Fax +1 628 231 6799
nortonrosefulbright.com

June 13, 2019

Modesto Public Financing Authority
Modesto, California

City of Modesto
Modesto, California

Bank of the West
San Francisco, California

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

\$65,170,000 original aggregate principal amount of
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”), 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 issuance 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”). The Bonds were issued pursuant to an Indenture, dated as of August 1, 2008, 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 ascribed to them 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”) leased certain properties to the Authority pursuant to (i) a Facilities Lease (Parking Garage) (the “Parking Garage Facilities Lease”), dated as of August 1, 2008, by and between the Authority and the City, as successor agency to the Redevelopment Agency pursuant to Part 1.85 of Division 24 of the California Health and Safety Code (the “Successor Agency”), (ii) a Facilities Lease (Police

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

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Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Facilities and Miscellaneous Facilities) (the “City Facilities Lease”), dated as of August 1, 2008, by and between the City and the Authority, (iii) a Facilities Lease (City-County Administration Building) (the “City-County Facilities Lease”), dated as of August 1, 2008, by and between the Financing Agency and the Authority, and (iv) a Facilities Lease (Communications Dispatch Center) (the “Communications Facilities Lease”), dated as of August 1, 2008, by and between the City and the Authority (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”). The Authority has in turn leased such properties to the City pursuant to the terms of a lease agreement, dated as of August 1, 2008, between the City and the Authority, as amended by that certain Amendment No. 1 to Lease Agreement, dated as of August 1, 2011 (collectively, the “Lease Agreement”). 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.

In rendering this opinion, we have examined: (i) the Indenture, (ii) Facilities Leases, (iii) the Lease Agreement; (ii) Resolution No. 01-2019 adopted by the Commission of the Authority on May 7, 2019 (the “Authority Resolution”); (iv) Resolution No. 2019-224 adopted by the City Council of the City on May 7, 2019 (the “City Resolution”); (v) the Reimbursement Agreement, dated as of June 1, 2019 (the “Reimbursement Agreement”), by and among the City, the Authority and Bank of the West (the “Bank”); including a form of a letter of credit dated the date hereof and issued pursuant thereunder (the “Letter of Credit”), and the Fee Letter Agreement, dated June 13, 2019, by and among the City, the Authority and the Bank (the “Fee Letter” and together with the Reimbursement Agreement, the “Bank Documents”), (vii) a certified copy of the record of proceedings relating to the issuance of the Bonds, and (viii) 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 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 therefor under the Indenture.

2. The Indenture has been duly authorized, executed and delivered by the Authority, and assuming the due authorization, execution and delivery by the Trustee, 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 (as the case may be) and constitute the legal, valid and binding obligations of the parties thereto. The Parking Garage Facilities Lease constitutes the legal, valid and binding obligation of the Successor Agency.

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. The Bank Documents have been duly authorized, executed and delivered by the City and the Authority, and assuming the due and valid authorization, execution and delivery by the Bank, constitute the legal, valid and binding obligations of the City and the Authority.

6. The substitution of the Letter of Credit for the existing Credit Facility under the Indenture is authorized or permitted by the laws of the State of California and the Indenture; and, in and of itself, with not cause interest on the Bonds to be includable in the gross income of the owners of the Bonds for federal income tax purposes.

In rendering the opinion in paragraph 6 above, we have relied upon the opinion of Hawkins, Delafield and Wood LLP, Bank Counsel, delivered on the date hereof as to matters relating to the Bank and the Letter of Credit.

With respect to the opinions expressed herein, the rights and obligations under the Bonds, the Indenture, the Facilities Leases, the Lease Agreement and the Bank Documents 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

Modesto Public Finance Authority
City of Modesto
Bank of the West
The Bank of New York Mellon Trust Company, N.A.
June 13, 2019
Page 4

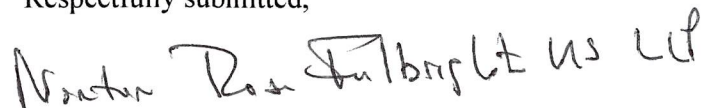
NORTON ROSE FULBRIGHT

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.

The provision of this opinion to the Bank or the Trustee shall not create any attorney – client relationship between our firm and either of the Bank or the Trustee. This opinion may not be relied upon by any other person, firm, corporation or other entity without our prior written consent; provided, however that Fitch Ratings, Inc. and S&P Global Ratings may rely on this opinion and copies of this opinion may be included in the closing transcripts for the transactions connected with the Letter of Credit.

Respectfully submitted,



Hawkins Delafield & Wood LLP

333 SOUTH GRAND AVENUE
LOS ANGELES, CA 90071
WWW.HAWKINS.COM

June 13, 2019

Bank of the West
San Francisco, California

City of Modesto
Modesto, California

Modesto Public Financing Authority
Modesto, California

The Bank of New York Mellon Trust Company, N.A., as trustee
Los Angeles, California

Raymond James & Associates, Inc., as Remarketing Agent
San Francisco, California

Modesto Public Financing Authority
Lease Revenue Refunding Bonds
Series 2008

Ladies and Gentlemen:

Description of Representation

We have acted as special counsel for Bank of the West, a banking corporation organized under the laws of the State of California (the “Bank”), in connection with (i) that certain Reimbursement Agreement, dated as of June 1, 2019 (the “Agreement”), by and among the City of Modesto (the “City”), the Modesto Public Financing Authority (the “Authority”) and the Bank and (ii) that certain Irrevocable Transferable Letter of Credit No. MB60517199 dated June 13, 2019 (the “Letter of Credit”), issued by the Bank in favor of the Trustee for the account of the City. Capitalized terms used herein that are not defined herein shall have the respective meanings attributed to such terms in the Agreement.

Materials Examined

We have examined a copy of the Agreement and the Letter of Credit. We have also considered such questions of law and relied on such records, documents, instruments and certificates of public officials and of officers of the Bank as we have deemed necessary for purposes of rendering this opinion.

Opinions

Based solely upon our examination of such documents, having regard for legal considerations we deem relevant, and subject to the assumptions, limitations, qualifications and exceptions contained herein, we are of the following opinions:

1. The Bank is duly licensed to conduct a commercial banking and trust business by the California Department of Business Oversight. The Bank has the power to execute and deliver the Letter of Credit.
2. The Letter of Credit has been duly executed and delivered by the Bank.
3. The Letter of Credit constitutes the valid and legally binding obligation of the Bank, enforceable against the Bank in accordance with its terms.

Certain Assumptions

With your permission we have assumed the following: (a) the authenticity of original documents and the genuineness of all signatures (except with respect to the Bank); (b) the conformity to the originals of all documents submitted to us as copies; (c) the truth, accuracy, and completeness of the information, representations, and warranties contained in the records, documents, instruments, and certificates we have reviewed; (d) the absence of any evidence extrinsic to the provisions of the written agreements between the parties that the parties intended a meaning contrary to that expressed by those provisions; and (e) that none of the circumstances described in Section 5109 of the California Commercial Code is present.

Certain Limitations and Qualifications

Our opinion that the Letter of Credit is valid, binding and enforceable in accordance with its terms is subject to: (1) general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law; and (2) limitations imposed by bankruptcy, insolvency, fraudulent conveyance, receivership, conservatorship, reorganization, arrangement, liquidation, moratorium or other similar laws affecting the enforcement of creditors' rights in general heretofore or hereafter enacted, as such laws may be applied in the event of bankruptcy, insolvency, reorganization, arrangement, receivership, conservatorship, liquidation, readjustment of debt or other similar proceedings of, or moratorium or similar occurrence affecting, the Bank.

We express no opinion as to (a) matters governed by laws other than the laws of the State of California and the federal laws of the United States of America, or (b) the enforceability of any choice of law provision in the documents described herein.

We express no opinion as to whether a court may temporarily restrain a draw on the Letter of Credit. We note that acts or omissions of the Authority, the City or the Trustee may result in a court restraining a draw on the Letter of Credit, and we express no opinion as to whether any such restraint may occur. Such acts could include an attempt to draw on the Letter of Credit in violation of applicable law or equitable principles. See, e.g., Brenntag International Chemicals, Inc. v. Bank of India, 175 F.3d 245 (2d Cir. 1999); Chuidian v. Philippine National Bank, 976 F.2d 561 (9th Cir. 1992); Wysko Investment Co. v. Great American Bank, 131 B.R. 146 (D. Ariz. 1991); Hubbard Business Plaza v. Lincoln Liberty Life Insurance Co., 649 F. Supp. 1310 (D. Nev. 1986), *aff'd mem.*, 844 F.2d 792 (9th Cir. 1988); In re Delaware River Stevedores, Inc., 129 B.R. 38 (Bankr. E.D. Pa. 1991); In re Metrobility Optical Systems, Inc., 268 B.R. 326 (Bankr. D.N.H. 2001); Hendricks v. Bank of America, 408 F.3d 1127 (9th Cir. 2005); United Bank Ltd. v. Cambridge Sporting Goods Corp., 41 N.Y.2d 254 (N.Y. 1976).

Use of Opinion

This opinion is solely for your benefit in connection with the transactions covered by the first paragraph of this letter and may not be relied upon or used by, circulated, quoted or referred to, nor may copies hereof be delivered to, any other person or for any other purpose without our prior written approval; provided, however that Fitch Ratings, Inc. and S&P Global Ratings may rely on this opinion and copies of this opinion may be included in the closing transcripts for the transactions connected with the Letter of Credit. We disclaim any obligation to update this opinion letter for events occurring or coming to our attention after the date hereof.

Very truly yours,

Hawkins Delafic@WoodUP

ITEM 25

Please see Item 23 above.



555 Capitol Mall, Suite 1200
Sacramento, California 95814
tel (916) 556-1531
fax (916) 556-1516
www.meyersnave.com

Adam U. Lindgren
Attorney at Law
alindgren@meyersnave.com

June 13, 2019

City of Modesto
Modesto, California

Bank of the West
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 issuance 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) the Lease Agreement, dated as of August 1, 2008, by and between the Modesto Public Financing Authority (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”); (ii) Resolution No. ~~20192019~~ adopted by the City Council of the City on May 7, 2019 (the “City Resolution”); (iii) the Fee Letter Agreement, dated June 13, 2019 (the “Fee Letter”), by and among Bank of the West (the “Bank”), the City and the Authority; (iv) the Reimbursement Agreement, dated as of June 1, 2019 by and among the City, the Authority and the Bank (the “Reimbursement Agreement”); and (v) the Facilities Lease (Parking Garage), dated as of August 1, 2008, by and between the City, as successor agency to the Redevelopment Agency of the City of Modesto (the “Redevelopment Agency”) 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 Lease Agreement, the Reimbursement Agreement and the Fee Letter, 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 and is the Successor Agency 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 collection 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 the Redevelopment Agency (as the case may be) and, assuming due authorization, execution and delivery by the other parties thereto, the City Agreements constitute legal, valid and binding agreements of the City and the Successor Agency (as the case may be) 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 is based on such examination of the laws of the State of California as I have deemed relevant for the purposes of this opinion. I have not considered the effect, if any, of the laws of any other jurisdiction upon matters covered by this opinion. I have assumed the genuineness of all documents and signatures presented to me. I have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. I express no opinion as to the status of the Bonds or the interest thereon, or the City Documents under any federal securities laws or any state securities or "Blue Sky" law or any federal, state or local tax law. Without limiting any of the foregoing, I express no opinion as to any matter other than as expressly set forth above. I disclaim any obligation to update this opinion.

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.

Very truly yours,



Adam U. Lindgren
Attorney at Law

3233452.1



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Sacramento, California 95814
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fax (916) 556-1516
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Adam U. Lindgren
Attorney at Law
alindgren@meyersnave.com

June 13, 2019

City of Modesto
Modesto, California

Bank of the West
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 issuance 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) the Lease Agreement, dated as of August 1, 2008, by and between the Authority and the City of Modesto (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"); (ii) Resolution No. ~~01-2009~~ adopted by the Commission of the Authority on May ~~7~~, 2019 (the "Authority Resolution"); (iii) the Fee Letter Agreement, dated June 13, 2019 (the "Fee Letter"), by and among Bank of the West (the "Bank"), the City and the Authority; (iv) the Reimbursement Agreement, dated as of June 1, 2019, by and among the City, the Authority and the Bank (the "Reimbursement Agreement"); (v) the Remarketing Agreement, dated May 13, 2019, by and between the Authority and Raymond James & Associates, Inc., as remarketing agent (the "Remarketing Agent"), and (vi) the Facilities Lease (Parking Garage), dated as of August 1, 2008, by and between the City, 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 and the Authority (the "Facilities Lease," and, collectively with the Lease Agreement, the Reimbursement Agreement, the Fee Letter 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;

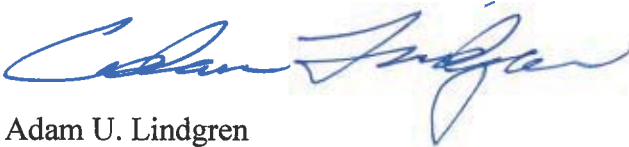
(f) no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Authority Agreements or for the 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 is based on such examination of the laws of the State of California as I have deemed relevant for the purposes of this opinion. I have not considered the effect, if any, of the laws of any other jurisdiction upon matters covered by this opinion. I have assumed the genuineness of all documents and signatures presented to me. I have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. I express no opinion as to the status of the Bonds or the interest thereon, or the City Documents under any federal securities laws or any state securities or "Blue Sky" law or any federal, state or local tax law. Without limiting any of the foregoing, I express no opinion as to any matter other than as expressly set forth above, and I disclaim any obligation to update this opinion.

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.

Very truly yours,



Adam U. Lindgren
Attorney at Law

3233454.1

NOTICE OF THE APPOINTMENT OF A SUCCESSOR REMARKETING AGENT
\$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 Trustee of the above captioned bonds (the "Bonds"), pursuant to Section 4.20(C) the Indenture securing the Bonds, that, effective May 20, 2019, Raymond James & Associates, Inc. will replace Banc of America Securities LLC as the Remarketing Agent for the Bonds. The first date on which Raymond James will reset the interest rate will be Wednesday, May 22, 2019, effective Thursday, May 23, 2019.

**MODESTO PUBLIC FINANCING
AUTHORITY**

By: _____



DeAnna Christensen
Auditor and Treasurer

Dated: May 16, 2019

**EXHIBIT A
NOTICE PARTIES**

City

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Finance Director
Telephone No.: (209) 577-5387
Facsimile No.: (209) 491-5992

Trustee

The Bank of New York Mellon Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, CA 94108-2527
Attention: Corporate Trust
Telephone No.: (415) 263-2418
Facsimile No.: (415) 399-1647

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 500
Los Angeles, CA 900071
Telephone No.: (213) 630-6204
Facsimile No.: (213) 630-6215

James.Dickson@bnymellon.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 No.: (866) 255-1444

Credit Facility Provider

Bank of America, N.A.
CA5-704-13-11
315 Montgomery Street, 13th Flr.
San Francisco, CA 94104
Telephone No.: (415) 953-9025
Facsimile No.: (800) 755-8743

Rating Agencies

Fitch Ratings
33 Whitehall Street
New York, New York 10004
Telephone No.: (212) 908-0500
Facsimile No.: (212) 480-4421
Email: msf.surveillance@fitchratings.com

Standard and Poor's
Attn: Muni Structured Finance
55 Water Street, 38th Floor
New York, New York 10041
Telephone No.: (212) 438-2000
Facsimile No.: (212) 438-2648
Email: vrdb_rating_request@spglobal.com

Remarketing Agent

Banc of America, N.A.
Hearst Tower
214 N. Tyron Street
NC 1-027-14-01
Charlotte, North Carolina 28255-0001
Attention: Municipal Trading and Underwriting
Facsimile No.: (704) 388-0393

Banc of America, N.A.
600 Montgomery Street, 18th Floor
CA5-801-18-36
San Francisco, CA 94111
Attention: Public Finance Group
Facsimile No.: (415) 986-1194

CONSENT TO APPOINTMENT OF NEW REMARKETING AGENT
BY BANK OF AMERICA, N.A. & ACKNOWLEDGEMENT BY BOFA SECURITIES, INC.

Bank of America, N.A.
CA9-193-38-01
315 Montgomery St., 13th Floor
San Francisco, CA 94104

BofA Securities, Inc.
Hearst Tower
214 N. Tryon Street
NC 1-027-14-01
Charlotte, North Carolina 28255-0001
Attention: Municipal Trading and Underwriting
Facsimile Number: (704) 388-0393

BofA Securities, Inc.
600 Montgomery Street, 18th Floor
CA5-801-18-36
San Francisco, CA 94111
Attention: Public Finance Group
Facsimile Number: (415) 986-1194

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

We hereby request your consent to (or in the case of BofA Securities, Inc., acknowledgment of) the appointment of Raymond James & Associates, Inc., as the new remarketing agent for the above-referenced bonds. The appointment and succession will be effective on May 20, 2019. Until such date, the Remarketing and Interest Services Agreement between the Authority and BofA Securities, Inc. shall remain in full force and effect.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

CITY OF MODESTO

By:  _____
Authorized Signatory

Dated as of May 17, 2019

AGREED BY:
Bank of America, N.A., as Letter of Credit
Provider

By: _____
Authorized Signatory

Dated as of May 17, 2019

ACKNOWLEDGED BY:
BofA Securities, Inc., as Remarketing Agent

By: _____
Authorized Signatory

Dated as of May 17, 2019

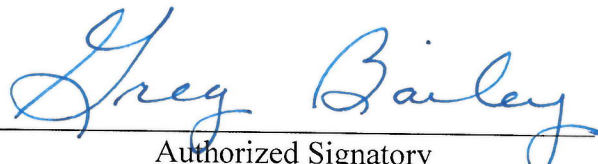
CITY OF MODESTO

By: _____
Authorized Signatory

Dated as of May 17, 2019

AGREED BY:

Bank of America, N.A., as Letter of Credit
Provider

By: 
Authorized Signatory
Greg Bailey
Senior Vice President

Dated as of May 17, 2019

ACKNOWLEDGED BY:

BofA Securities, Inc., as Remarketing Agent

By: _____
Authorized Signatory

Dated as of May 17, 2019

CITY OF MODESTO

By: _____
Authorized Signatory

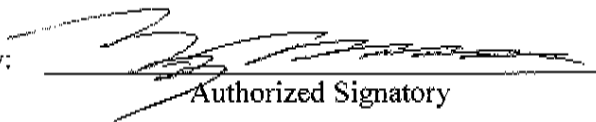
Dated as of May 17, 2019

AGREED BY:
Bank of America, N.A., as Letter of Credit
Provider

By: _____
Authorized Signatory

Dated as of May 17, 2019

ACKNOWLEDGED BY:
BofA Securities, Inc., as Remarketing Agent

By:  _____
Authorized Signatory

Dated as of May 17, 2019



Modesto Public Financing Authority
Lease Revenue Refunding Bonds, Series 2008
2019 Letter of Credit Replacement
Distribution List as of June 10, 2019

Issuer	
City of Modesto 1010 10 th Street Modesto, CA 95354	DeAnna Christensen, Finance Director Phone: 209.577.5387 Email: dachristensen@modestogov.com
Bond and Disclosure Counsel	
Norton Rose Fulbright US LLP 555 California Street, Suite 3300 San Francisco, CA 94104	Eric D. Tashman, Partner Phone: 628.231.6803 E-mail: eric.tashman@nortonrosefulbright.com Lucy Vargas, Senior Paralegal Phone: 628.231.6786 E-mail: lucy.vargas@nortonrosefulbright.com Krystal Sandoval, Project Assistant Phone: 628.231.6791 E-mail: krystal.sandoval@nortonrosefulbright.com
Municipal Advisor	
PFM Financial Advisors LLC 50 California Street, Suite 2300 San Francisco, CA 94111	Sarah Hollenbeck, Managing Director Phone: 415.982.5544, ext. 7260 E-mail: hollenbecks@pfm.com Nick Jones, Senior Managing Consultant Phone: 415.982.5544, ext. 7245 E-mail: jonesni@pfm.com Kevin Dong, Senior Analyst Phone: 415.393.7252 E-mail: dongk@pfm.com
Facility Provider	
Bank of the West 180 Montgomery Street San Francisco, CA 94104	Daniel Campbell, Vice President, Relationship Manager Phone: 916.552.4423 E-mail: daniel.campbell@botw.com Ted Neu, Director, Public Finance Manager Phone: 415.765.4938 E-mail: ted.neu@botw.com



Bank Counsel	
Hawkins Delafield & Wood LLP 333 South Grand Avenue Los Angeles, CA 90071	Melanie Murakami, Partner Phone: 213.236.9063 E-mail: mmurakami@hawkins.com
Remarketing Agent	
Raymond James & Associates, Inc. One Embarcadero Center, Suite 650 San Francisco, CA 94111	Robert Larkins, Managing Director Phone: 415.616.8025 E-mail: robert.larkins@raymondjames.com
	Emily Giles, Vice President Phone: 415.616.8923 E-mail: emily.giles@raymondjames.com
	Thomas Galvin, Managing Director Phone: 901.579.4226 E-mail: Thomas.galvin@raymondjames.com
	Michael Mobley, Vice President Phone: 901.579.4528 E-mail: Michael.mobley@raymondjames.com
Trustee	
Bank of New York Mellon Trust Company 400 South Hope Street, 4 th Floor Los Angeles, CA 90071	James Dickson Phone: 213.630.6204 E-mail: James.Dickson@bnymellon.com
	Daniel Marroquin E-mail: daniel.marroquin@bnymellon.com
	Rhea Ricard E-mail: rhea.ricard@bnymellon.com
Prior LOC Provider and Remarketing Agent	
Bank of America Merrill Lynch 333 South Hope Street, Suite 3820 Los Angeles, CA 90071	Bryon Rockwell Phone: 213.345.9585 E-mail: bryon.rockwell@baml.com
	Zach Carbone E-mail: zachary.carbone@baml.com
Rating Agency	
S&P Global Ratings	Radhika Kalra Phone: 212.438.2143 E-mail: radhika.kalra@spglobal.com
	Fitch Ratings 300 W. 57th Street New York, NY 10019
	Joseph Staffa Phone: 212.908.0829 E-mail: joseph.staffa@fitchratings.com



Printer

TBD

TBD

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