TRANSCRIPT

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

Closing Date: April 19, 2018

PROCEEDINGS RELATED TO CLOSING

Place

Norton Rose Fulbright US LLP
555 California Street, Suite 3300
San Francisco, California 94104

Time

Virtual Preclosing: Wednesday, April 18, 2018, 1:00 p.m. (California Time)

Closing: Thursday, April 19, 2018, 9:00 a.m. (California Time)

Parties

Interested Parties

City of Modesto, California
("City")

Public Financial Management, Inc.
("Municipal Advisor")

*Raymond James & Associates, Inc.
("Underwriter" or "UW")

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

Counsel

*Norton Rose Fulbright US LLP
("BC")

Jones Hall, A Professional Law Corporation
("UC")

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

Closing

The City and the Underwriter executed a Bond Purchase Agreement in the principal amount of $11,340,000, pursuant to which the Underwriter purchased bonds (the "Bonds") issued by the City, which Bonds are secured by Net Revenues under an Indenture. The proceeds of the Bonds were applied by the City, together with other available funds of the City, to (i) refund all of the City's Wastewater Revenue Bonds, Series 2006A (the "2006A Bonds"), which financed the acquisition and construction of improvements to the City's wastewater enterprise, and (ii) pay certain costs of issuance in connection with the financing.

In connection with the execution of the Bond Purchase Agreement, a closing (the "Closing") was held on Thursday, April 19, 2018 at 9:00 a.m. (California Time) (the "Closing Date").

A preclosing (the "Preclosing") was hosted on Wednesday, April 18, 2018 at 1:00 p.m. (California Time) by Norton Rose Fulbright US LLP, via the firm's Virtual Closing Site to confirm that all documents and papers were on hand, in proper form and properly executed.

The parties indicated above delivered each of the respective documents so indicated below in five (5) copies (unless otherwise indicated). The documents were executed in advance

of the Closing by the respective parties thereto and delivered no later than the Preclosing. All of such deliveries were deemed to have been placed in escrow until final delivery at the Closing had been made. Responsibility for preparing or assembling the documents is indicated in parentheticals.

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$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

CERTIFICATE OF THE CITY CLERK

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

I further certify that the attached Resolution No. 2018-102 (the "Resolution 2018-102") is a copy of the resolution adopted at the regular meeting of the City Council called and held on March 6, 2018, of which meeting all the members of the City Council had due notice and at which quorum was present and acting throughout.

I further certify that I have carefully compared the same with the original Resolution 2018-102 so adopted at the meeting and entered in the minutes of the City Council on file and of record in my office, and that it is a full, true and correct copy of the Resolution; and that the Resolution has not been amended, modified or rescinded since the date of adoption and are now in full force and effect.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the undersigned has executed this Certificate of the City Clerk as of the 19th of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____

Stephanie Lopez
City Clerk

29690286

MODESTO CITY COUNCIL
RESOLUTION NO. 2018-102

RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $14,500,000 PRINCIPAL AMOUNT OF WASTEWATER REVENUE REFUNDING BONDS, SERIES 2018A, AUTHORIZING AND DIRECTING EXECUTION OF A FOURTH SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE PURSUANT TO WHICH SUCH BONDS ARE ISSUED, APPROVING A BOND PURCHASE AGREEMENT, AN OFFICIAL STATEMENT AND A CONTINUING DISCLOSURE AGREEMENT, AND AUTHORIZING OTHER OFFICIAL ACTIONS

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

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

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

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

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

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

WHEREAS, the City previously incurred an obligation (the "2011 SWRCB Obligation"), pursuant to a Project Finance Agreement, dated as of August 26, 2011, as amended on May 11, 2012, by and between the State Water Resources Control Board, an

administrative and regulatory agency of the State of California (the "SWRCB"), and the City, which 2011 SWRCB Obligation constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture; and

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

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

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

WHEREAS, the City has determined that it is desirable and necessary and in the best interest of the City to authorize an additional series of wastewater revenue bonds in order to provide moneys to refund all the Series 2006 Bonds that remain outstanding, in a principal amount not to exceed $14,500,000, to be designated "City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A" (the "Series 2018A Bonds"), to be issued pursuant to the Indenture, as supplemented and amended by the Fourth Supplement (defined below); and

WHEREAS the Series 2018A Bonds are proposed to be sold to Raymond James & Associates, Inc. (the "Underwriter") pursuant to the Bond Purchase Agreement described below; and

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

WHEREAS, it is proposed that the City deem final for purposes of Rule 15c(2)-12 of the Securities Exchange Act of 1934, as amended, a Preliminary Official Statement (the "Preliminary Official Statement") and to execute and deliver a final Official Statement (the "Official Statement") and to authorize the distribution of the Preliminary Official Statement to prospective purchasers of the Series 2018A Bonds and the Official Statement to the actual purchasers of the Series 2018A Bonds; and

WHEREAS, all acts, conditions and things required by the Bond Law and the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the sale and issuance of the Series 2018A Bonds authorized hereby do exist, have happened and have been performed in regular and due time, form and manner required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to issue and sell the Series 2018A Bonds for the purpose, in the manner and upon the terms herein provided;

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

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

NOW, THEREFORE BE IT RESOLVED, that the Council of the City of Modesto hereby approves and authorizes:

1. Recitals. The above recitals are true and correct.
2. Approval of Series 2018A Bonds. The City Council hereby authorizes the issuance of its Wastewater Revenue Bonds, Series 2018A in an aggregate principal amount not to exceed $14,500,000.

3. Fourth Supplemental Indenture; Form of Series 2018A Bonds. The City Council hereby approves the form of the Fourth Supplemental Wastewater Revenue Bond Indenture (the "Fourth Supplement") by and between the Trustee, in substantially the form on file with the City Clerk together with any additions thereto or changes therein deemed necessary or advisable by Norton Rose Fulbright US LLP, Bond Counsel, or by the authorized officer executing the same, whose execution thereof shall be conclusive evidence of such officer's approval of any such additions and changes. Each of the Mayor, the City Manager or the Finance Director, or any duly authorized designee of any of such officers (each, an Authorized Officer"), acting singly, is authorized and directed to execute, and the City Clerk is authorized and directed to attest to said signature on, the final form of the Fourth Supplement for and in the name and on behalf of the City. The City hereby authorizes the delivery and performance of the Fourth Supplement. The proposed form of the Series 2018A Bonds as set forth in the Fourth Supplement is hereby approved and any Authorized Officer, acting singly, is hereby authorized and directed to execute for and on behalf of the City the Series 2018A Bonds in substantially such forms

and the City Clerk is authorized and directed to attest to said signature on the Series 2018A Bonds, and the Trustee is hereby authorized and directed to authenticate and deliver the Series 2018A Bonds to the Underwriter in accordance with the Fourth Supplement and the Bond Purchase Agreement approved herein, subject to the limitations set forth in Section 4 hereof.

4. Bond Purchase Agreement. The City Council hereby approves the form of the Bond Purchase Agreement (the "Bond Purchase Agreement") by and between the City and the Underwriter in substantially the form on file with the City Clerk together with any additions thereto or changes, therein deemed necessary or advisable by Bond Counsel, or by the Authorized Officer executing the same, whose execution thereof shall be conclusive evidence of such Authorized Officer's approval of any such additions and changes; provided, however, that the Underwriter's discount shall not exceed 0.5% of the principal amount of the Series 2018A Bonds, the net present value savings resulting from the issuance of the Series 2018A Bonds shall be no less than 3% of the principal amount of the Series 2006 Bonds being refunded, and the final maturity of the Series 2018A Bonds shall be not later than November 1, 2036. Each Authorized Officer, acting singly, is authorized and directed to execute the final form of the Bond Purchase Agreement for and in the name and on behalf of the City. The City hereby authorizes the delivery and performance of the Bond Purchase Agreement.

5. Official Statement. The City Council hereby approves the form of preliminary official statement of the City relating to the Series 2018A Bonds (the "Preliminary Official Statement") in substantially the form on file with the City Clerk. Each Authorized Officer, acting singly, is authorized to certify that the Preliminary

Official Statement, with such changes therein as the Authorized Officer so certifying shall approve after consultation with Bond Counsel, is as of its date "deemed final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission. Each Authorized Officer, acting singly, is authorized and directed to execute for and on behalf of the City a final official statement, in substantially the form of the Preliminary Official Statement, with such changes therein (and additions thereto to reflect the terms of the sale of the Series 2018A Bonds) as such Authorized Officer, acting singly, shall approve after consultation with Bond Counsel, such approval to be evidenced by the execution and delivery thereof. The Underwriter is authorized to distribute copies of the Preliminary Official Statement to persons who may be interested in the purchase of the Series 2018A Bonds, and the Underwriter is directed to deliver copies of any final official statement to all actual purchasers of the Series 2018A Bonds.

6. Continuing Disclosure Agreement. The City Council hereby approves the form of the Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") by and between the City and Digital Assurance Certification, L.L.C. in substantially the form on file with the City Clerk together with any additions thereto or changes therein deemed necessary or advisable by Bond Counsel, or by the Authorized Officer executing the same, whose execution thereof shall be conclusive evidence of such Authorized Officer's approval of any such additions and changes. Each Authorized Officer, acting singly, is authorized and directed to execute the final form of the Continuing Disclosure Agreement for and in the name and on behalf of the City. The City hereby authorizes the delivery and performance of the Continuing Disclosure Agreement.

7. Other Actions. All actions heretofore taken by the officers and agents of the City with respect to the issuance of the Series 2018A Bonds are hereby approved, confirmed and ratified. Each Authorized Officer and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, necessary to effectuate the purposes of this Resolution, including the negotiating and obtaining of a municipal bond insurance policy, debt service reserve surety bond or investment agreement for any funds and accounts held under the Indenture if an Authorized Officer, upon the advice of PFM Financial Advisors LLC, Municipal Advisor, determines that such policy, bond or agreement will result in debt service savings or will otherwise be financially advantageous to the City, and the execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance, sale and delivery of the Series 2018A Bonds.

The foregoing resolution was introduced at a regular meeting of the Council of the City of Modesto held on the 6th day of March, 2018, by Councilmember Kenoyer, who moved its adoption, which motion being duly seconded by Councilmember Ah You, 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

$16,535,000
City of Modesto, California
Wastewater Revenue Bonds
Series 2006A

April 19, 2018

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

The undersigned, authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), in connection with the City of Modesto, California Wastewater Revenue Bonds Series 2006A (the "2006A Bonds"), DOES HEREBY CERTIFY that attached hereto are true and correct copies of (i) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, (ii) the First Supplemental Indenture, dated as of April 1, 2005, (iii) the Second Supplemental Indenture, dated as of April 1, 2005, and (iv) the Third Supplemental Indenture, dated as of December 1, 2006, each between the City of Modesto, California and the Trustee, relating to the above-captioned Bonds.

Dated: April 19, 2018

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

By: _____
Authorized Officer

Execution Copy

WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of April 1, 2005

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WASTEWATER REVENUE BOND INDENTURE

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

W I T N E S S E T H:

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

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

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

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

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

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

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

WHEREAS, the execution and delivery of this Indenture has in all respects been duly and validly authorized by resolutions duly passed and approved by the City; and

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

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

ARTICLE I

EQUALITY OF SECURITY; DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

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

SECTION 1.02. Definitions. The terms defined in this Section shall, for all purposes of this Indenture and of any Supplemental Indenture and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

Accreted Value

"Accreted Value" means, with respect to any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified therein.

Annual Debt Service

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

Average Annual Debt Service

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

Balloon Indebtedness

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

Bond Law

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

Bond Obligation

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

Bonds; Serial Bonds; Term Bonds

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

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

"Term Bonds" means Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Business Day

"Business Day" means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed.

Capital Appreciation Indebtedness

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

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

"Certificate," "Statement," "Request," "Requisition" or "Order" of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its City Manager, Finance Director or any other person authorized by the City Manager or Finance Director to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.03 hereof, certificates and opinions shall include the statements provided for in Section 1.03 hereof.

Charter

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

City

"City" means the City of Modesto, California.

City Council

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

Code

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

Continuing Disclosure Agreement

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

Corporate Trust Office

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

Costs of Issuance

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning the Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance and credit enhancement costs, and any other cost, charge or fee in connection with the delivery of Bonds.

Current Interest Indebtedness

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

Debt Service

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

(a) The Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period;

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

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

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

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

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

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

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

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

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

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

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

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

Defeasance Securities

"Defeasance Securities" means any of the following:

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

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

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

Enterprise

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

Event of Default

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

Fiscal Year

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City which designation shall be provided to the Trustee in a Certificate of the City.

Generally Accepted Accounting Principles Applicable to Governments

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

Gross Revenues

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

Indenture

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

Independent Accountant

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

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial interest, direct or indirect, with the City; and

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

Information Services

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

Interest Fund

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

Investment Securities

"Investment Securities" means the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maximum Annual Debt Service

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

Moody's

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

Net Revenues

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

Operating Expenses

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

Opinion of Bond Counsel

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

Outstanding

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with Section 10.02, including Bonds (or portions of Bonds) referred to in Section 11.10; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

Owner or Bondholder or Bondowner

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

Parity Debt

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

Parity Reserve Fund

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

Principal Fund

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

Public Finance Contract

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

Public Finance Contract Payments

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

Public Finance Contract Receipts

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

Qualified Counterparty

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

Rating Category

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

Rebate Fund

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

Rebate Requirement

"Rebate Requirement" means the Rebate Requirement defined in the Tax Certificate.

Redemption Fund

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

Redemption Price

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

Reserve Fund Requirement

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

Securities Depositories

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

Series

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

Sewer Enterprise Fund

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

Short-Term Indebtedness

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

Standard & Poor's

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

State

"State" means the State of California.

Supplemental Indenture

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

Tax Certificate

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

Trustee

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

Variable Interest Rate

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

Variable Interest Rate Indebtedness

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

SECTION 1.03. Content of Certificates and Opinions. Every certificate or opinion provided for in this Indenture with respect to compliance with any provision hereof shall include (1) a statement that the person making or giving such certificate or opinion has read such

provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person, he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; and (4) a statement as to whether, in the opinion of such person, such provision has been complied with.

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

ARTICLE II

THE BONDS

SECTION 2.01. Authorization of Bonds. Bonds may be issued hereunder, in book-entry form or otherwise, from time to time as the issuance thereof is approved by the City. The maximum principal amount of Bonds which may be issued hereunder is not limited; subject, however, to the right of the City, which is hereby reserved, to limit the aggregate principal amount of Bonds which may be issued or Outstanding hereunder. The Bonds are designated generally as "City of Modesto, California Wastewater Revenue Bonds"; each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Bonds. The Bonds may be issued in such Series as from time to time shall be established and authorized by the City, subject to the covenants, provisions and conditions herein contained.

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

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

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

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

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

Except as may be provided in any Supplemental Indenture, only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form recited in the Supplemental Indenture creating such Series, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of authentication when manually executed by the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.05. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of Section 2.07 hereof, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of the same Series, tenor, maturity and interest rate and for a like aggregate principal amount; provided that no registration or transfer may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. The Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

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

SECTION 2.07. Bond Register. The Trustee will keep or cause to be kept, at its Corporate Trust Office sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection during normal business hours by the City upon reasonable prior notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

SECTION 2.08. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds. Any temporary Bond may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the City, shall be in registered form and may contain such reference to any of the provisions of this Indenture as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond shall be executed by the City and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds after being requested to do so, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Corporate Trust Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the Order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the City, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon receipt of the aforementioned indemnity). The City may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be

incurred by the City and the Trustee in the premises. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture. Neither the City nor the Trustee shall be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same.

ARTICLE III

ISSUANCE OF BONDS AND PARITY DEBT

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

(a) no Event of Default shall have occurred and then be continuing;

(b) the aggregate principal amount of Bonds issued hereunder shall not exceed any limitation imposed by law or otherwise;

(c) there shall be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement; and

(d) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, shall at least equal one hundred twenty-five percent (125%) of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt hereunder are the following:

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

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

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

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

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

(a) an executed copy of the Supplemental Indenture authorizing such Series;

(b) a Certificate of the City stating that no Event of Default has occurred and is then continuing;

(c) an Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the City in accordance with this

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

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

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

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

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

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

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

(b) refunding Bonds authorized pursuant to Section 3.03;

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

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

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

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

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

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

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

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

ARTICLE IV

REDEMPTION OF BONDS

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

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

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

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

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

ARTICLE V

NET REVENUES

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 5.03. Application of Principal Fund.

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

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

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

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

SECTION 5.05. Parity Reserve Fund.

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

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

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

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

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

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

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

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

The Trustee may commingle any of the funds or accounts established pursuant to this Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee hereunder shall be accounted for separately as required by this Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the City, may impose its customary charge therefor. The Trustee may sell or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security

is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

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

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

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

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

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

ARTICLE VI

COVENANTS

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

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

SECTION 6.03. Waiver of Laws. The City will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the City to the extent permitted by law.

SECTION 6.04. Further Assurances. The City will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

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

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

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

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

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

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

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

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

(a) all Operating Expenses estimated by the City to become due and payable in such Fiscal Year;

(b) the Debt Service on the Outstanding Bonds and Parity Debt becoming due and payable during such Fiscal Year;

(c) all other payments required for compliance with this Indenture and the instruments pursuant to which any Parity Debt shall have been issued; and

(d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

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

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

SECTION 6.11. Rebate Fund.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

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

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise in the amounts and at the times provided therefor;

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

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

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

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

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

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

SECTION 7.02. Application of Net Revenues and Other Funds After Default; Acceleration. If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all Net Revenues held by it and received thereafter and the Trustee shall apply all Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture (except as otherwise provided in this Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under this Indenture;

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

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

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

SECTION 7.03. Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, this Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under this Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Net Revenues, and other assets pledged under this Indenture, pending such proceedings. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of this Indenture (including Section 7.05).

SECTION 7.04. Bondholders' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

SECTION 7.05. Limitation on Bondholders' Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

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

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

SECTION 7.07. Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been

discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the City, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 7.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. Appointment; Duties, Immunities and Liabilities of Trustee.

(A) U.S. Bank National Association is hereby appointed as Trustee under this Indenture and hereby accepts the trust imposed upon it as Trustee hereunder and to perform all the functions and duties of the Trustee hereunder, subject to the terms and conditions set forth in this Indenture. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants shall be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

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

(C) The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing.

(D) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture, shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Request of the City or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the City shall give notice of the succession of such Trustee to the trusts hereunder by mail to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

(E) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company having a corporate trust office in the State, having a combined capital and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (E), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

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

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

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

SECTION 8.03. Liability of Trustee.

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

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

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

(D) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Indenture, including, without limitation, the provisions of Article VII hereof, unless such Bondholders shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

(E) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder.

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

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

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

(I) The Trustee shall not be responsible for:

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

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

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

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

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

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

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

SECTION 8.04. Right of Trustee to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, including, without limitation, counsel of or to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance herewith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the City, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable. The Trustee may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by the City or selected by the Trustee with due care in connection with matters required to be proven or ascertained in connection with its administration of the trusts created hereby.

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

ARTICLE IX

MODIFICATION OR AMENDMENT OF THIS INDENTURE

SECTION 9.01. Amendments Permitted.

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

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

(3) No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof exclusively, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture, or deprive the Owners of the Bonds of the lien created by this Indenture on such Net Revenues and other assets (in each case, except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery by the Trustee and the City of any Supplemental Indenture pursuant to this subsection (A), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give

such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

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

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

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

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the City may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners of the Bonds;

(3) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of the Bonds;

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

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

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

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

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

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

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

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

ARTICLE X

DEFEASANCE

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

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

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

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

SECTION 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then (but subject to any additional requirements with respect thereto as may be imposed by any insurer of the Bonds and set forth in a Supplemental Indenture) all liability of the City in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04 and the continuing duties of the Trustee hereunder.

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

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

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

SECTION 10.04. Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal or Redemption Price of, or interest on, any Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption as provided in this Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the City free from the trust created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail to the Owners of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Trustee shall not be required to pay Owners any interest on, or be liable to the Owners or any other person (other than the City) for any interest earned on, moneys so held. Any interest earned thereon shall belong to the City and shall be deposited monthly by the Trustee into the Sewer Enterprise Fund.

ARTICLE XI

MISCELLANEOUS

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

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

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

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

SECTION 11.03. Limitation of Rights to City, Trustee and Bondholders. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the City, the Trustee and the Owners of the Bonds and any Parity Debt, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the City, the Trustee and the Owners of the Bonds and any Parity Debt.

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

SECTION 11.05. Destruction or Delivery of Cancelled Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any Bonds, the Trustee may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Bonds, and deliver a certificate of such destruction to the City.

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

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

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

SECTION 11.08. Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the City if made in the manner provided in this Section.

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

The ownership of Bonds shall be proved by the bond registration books held by the Trustee. The Trustee may establish a record date as of which to measure consent of the Bondowners in order to determine whether the requisite consents are received.

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

SECTION 11.09. Disqualified Bonds. In determining whether the Owners of the requisite aggregate amount of Bond Obligation have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 11.10. Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to

particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

SECTION 11.11. Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

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

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

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

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

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

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

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

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

CITY OF MODESTO, CALIFORNIA

By: Gregory M. Baird
Deputy Director of Finance

(Seal)

ATTEST:

By: Jean Zahn
City Clerk

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

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

CITY OF MODESTO, CALIFORNIA

By:_____
Deputy Director of Finance

(Seal)

ATTEST:

By:_____
City Clerk

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

Execution Copy

FIRST SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of April 1, 2005

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

FIRST SUPPLEMENTAL
WASTEWATER REVENUE BOND INDENTURE

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

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

W I T N E S S E T H :

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

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

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

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

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

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

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

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

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

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

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

ARTICLE XII

THE 2005A BONDS

SECTION 12.01. Definitions. The terms defined in this Section shall, for all purposes of this First Supplement and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

1993 Bonds Escrow Agreement

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

1997 Bonds Escrow Agreement

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

First Supplement

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

Prior Indenture

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

Second Supplement

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

Securities Depository

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

Series 1993 Bonds

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

Series 1997 Bonds

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

Series 2005 Bonds

"Series 2005 Bonds" means collectively, the Series 2005A Bonds and the Series 2005B Bonds.

Series 2005 Costs of Issuance Fund

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

Series 2005A Bonds

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

Series 2005A Bond Insurance Policy

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

Series 2005A Bond Insurer

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

Series 2005B Bonds

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

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

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

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

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

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

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

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

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

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

SECTION 12.03. Redemption of Series 2005A Bonds.

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

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

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

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

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

SECTION 12.07. Effect of Redemption of Series 2005A Bonds. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2005A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2005A Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the date fixed for redemption, interest on the Series 2005A Bonds so called for redemption shall cease to accrue, said Series 2005A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2005A Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

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

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

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

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

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

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

(ii) The Trustee shall transfer to U.S. Bank National Association, as escrow agent under the 1997 Bonds Escrow Agreement, $34,114.056.00, to be applied, together with certain other amounts deposited therein at the direction of the City, towards the defeasance of the Series 1997 Bonds pursuant to the 1997 Bonds Escrow Agreement; and

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

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

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

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

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

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

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

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company or its successor (or any Substitute Depository or its successor) is no longer able to carry out its functions as depository;

provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

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

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

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

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

(E) So long as all Outstanding Series 2005A Bonds are registered in the name of "Cede & Co." or its registered assign, the City and the Trustee shall cooperate with "Cede & Co.," as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2005A Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

SECTION 12.13. Bond Insurance Provisions. Notwithstanding any other provision of the Indenture or this First Supplement to the contrary, so long as the Series 2005A Bond

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.]

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

CITY OF MODESTO, CALIFORNIA

By: _____
Deputy Director of Finance

(Seal)

ATTEST:

By: _____
City Clerk

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Officer

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

CITY OF MODESTO, CALIFORNIA

By: _____
Deputy Director of Finance

(Seal)

ATTEST:

By: _____
City Clerk

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2005A BOND)

No. ___ $_____

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

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
		April 13, 2005	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF MODESTO, CALIFORNIA

By: _____
Mayor

(SEAL)

Attested:

By: _____
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION
AND REGISTRATION]

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

Dated:

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Authorized Officer

STATEMENT OF INSURANCE

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

[FORM OF ASSIGNMENT]

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

_____

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

Dated: _____

Signature Guaranteed by:

_____

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

Execution Copy

SECOND SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of April 1, 2005

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

SECOND SUPPLEMENTAL
WASTEWATER REVENUE BOND INDENTURE

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

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

W I T N E S S E T H :

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

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

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

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

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

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

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

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

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

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

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

ARTICLE XIII

THE 2005B BONDS

SECTION 13.01. Definitions. The terms defined in this Section shall, for all purposes of this Second Supplement and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

1996 Bonds Escrow Agreement

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

First Supplement

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

Prior Indenture

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

Second Supplement

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

Securities Depository

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

Series 1996 Bonds

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

Series 2005 Bonds

"Series 2005 Bonds" means collectively, the Series 2005A Bonds and the Series 2005B Bonds.

Series 2005 Costs of Issuance Fund

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

Series 2005A Bonds

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

Series 2005B Bond Insurance Policy

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

Series 2005B Bond Insurer

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

Series 2005B Bonds

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

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

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

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

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

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

The Series 2005B Bonds are designated Serial Bonds.

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

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

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

SECTION 13.03. Redemption of Series 2005B Bonds.

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

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

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

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

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

SECTION 13.07. Effect of Redemption of Series 2005B Bonds. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2005B Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2005B Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the date fixed for redemption, interest on the Series 2005B Bonds so called for redemption shall cease to accrue, said Series 2005B Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2005B Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company or its successor (or any Substitute Depository or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

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

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

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

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

(E) So long as all Outstanding Series 2005B Bonds are registered in the name of "Cede & Co." or its registered assign, the City and the Trustee shall cooperate with "Cede & Co.," as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2005B Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

SECTION 13.12. Bond Insurance Provisions. Notwithstanding any other provision of the Indenture of this Second Supplement to the contrary, so long as the Series 2005B Bond Insurance Policy is in full force and effect and the Series 2005B Bond Insurer is not in default in its payment of obligations thereunder, the following provisions shall be in effect:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.]

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

CITY OF MODESTO, CALIFORNIA

By: Gregory M. Bard
Deputy Director of Finance

(Seal)

ATTEST:

By: Jean Zahr
City Clerk

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Officer

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

CITY OF MODESTO, CALIFORNIA

By: _____
Deputy Director of Finance

(Seal)

ATTEST:

By: _____
City Clerk

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2005B BOND)

No. ___ $_____

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

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
		April 13, 2005	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF MODESTO, CALIFORNIA

By: _____
Mayor

(SEAL)

Attested:

By: _____
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION
AND REGISTRATION]

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

Dated:

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Authorized Officer

STATEMENT OF INSURANCE

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

[FORM OF ASSIGNMENT]

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

_____

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

Dated: _____

Signature Guaranteed by:

_____

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

EXECUTION COPY

THIRD SUPPLEMENTAL
WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

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

Dated as of December 1, 2006

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

THIRD SUPPLEMENTAL
WASTEWATER REVENUE BOND INDENTURE

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EXHIBIT A – Form of Series 2006A Bonds.... A-1

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

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

W I T N E S S E T H:

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

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

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

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

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

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

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

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

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

ARTICLE XIV

THE 2006A BONDS

SECTION 14.01. Definitions. The terms defined in this Section shall, for all purposes of this Third Supplement and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

Securities Depository

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

Series 2006A Bond Insurance Policy

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

Series 2006A Bond Insurer

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

Series 2006A Bonds

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

Series 2006A Costs of Issuance Fund

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

Series 2006A Wastewater Enterprise Project Fund

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

Third Supplement

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

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

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

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

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

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

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

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

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

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

SECTION 14.03. Redemption of Series 2006A Bonds.

(A) Optional Redemption.

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

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

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

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

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

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

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

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

SECTION 14.07. Effect of Redemption of Series 2006A Bonds. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2006A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2006A Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the date fixed for redemption, interest on the Series 2006A Bonds so called for redemption shall cease to accrue, said Series 2006A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2006A

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

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

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

Term Series 2006A Bonds Due November 1, 2031

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

† Final Maturity.

Term Series 2006A Bonds Due November 1, 2036

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

† Final Maturity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company or its successor (or any Substitute Depository or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

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

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

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

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

(E) So long as all Outstanding Series 2006A Bonds are registered in the name of "Cede & Co." or its registered assign, the City and the Trustee shall cooperate with "Cede & Co.," as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2006A Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

SECTION 14.15. Bond Insurance Provisions. Notwithstanding any other provision of the Indenture or this Third Supplement to the contrary, so long as the Series 2006A Bond Insurance Policy is in full force and effect and the Series 2006A Bond Insurer is not in default in its payment of obligations thereunder, the following provisions shall be in effect:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

CITY OF MODESTO, CALIFORNIA

By: _____
Director of Finance

(Seal)

ATTEST:

By: _____
City Clerk

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

By: _____
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2006A BOND)

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. ___ $_____

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE BONDS,
SERIES 2006

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, ____	%	_____, 2006	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF MODESTO, CALIFORNIA

By: _____
Mayor

(SEAL)

Attested:

By: _____
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION
AND REGISTRATION]

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

Dated:

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

By: _____
Authorized Officer

STATEMENT OF INSURANCE

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

[FORM OF ASSIGNMENT]

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

_____

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

Dated: _____

Signature Guaranteed by:

_____

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

FOURTH SUPPLEMENTAL
WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

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

Dated as of April 1, 2018

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

FOURTH SUPPLEMENTAL
WASTEWATER REVENUE BOND INDENTURE

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EXHIBIT A – Form of Series 2018A Bonds A-1

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

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

W I T N E S S E T H :

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE XV

THE SERIES 2018A BONDS

SECTION 15.01 Definitions. The terms defined in this Section shall, for all purposes of this Fourth Supplement and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

Fourth Supplement

"Fourth Supplement" means this Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, between the City and the Trustee.

Redemption Date

"Redemption Date" means April 20, 2018.

Securities Depository

"Securities Depository" shall have the meaning assigned to such term in Section 15.13(A) hereof.

Series 2018A Bonds

"Series 2018A Bonds" means the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A, as described in Section 15.03(A) hereof.

Series 2018A Costs of Issuance Fund

"Series 2018A Costs of Issuance Fund" means the fund by that name established pursuant to Section 15.12 hereof.

SECTION 15.02 Amendments to Indenture.

(A) Definition of Reserve Fund Requirement. Upon issuance of the Series 2018A Bonds, the definition of Reserve Fund Requirement is hereby amended in its entirety to read as follows:

> "Reserve Fund Requirement" means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event shall the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent

(10%) of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

(B) Section 3.01(c). Upon issuance of the Series 2018A Bonds, Section 3.01(c) is hereby amended in its entirety to read as follows:

(c) there shall be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or by no reserve fund; and

(C) Section 5.05(B). Upon issuance of the Series 2018A Bonds, the first sentence of Section 5.05(B) shall be amended in its entirety to read as follows:

The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having at the time of deposit unsecured debt obligations rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in clause (C) below) on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement.

(D) Section 5.05(C). Upon issuance of the Series 2018A Bonds, the second sentence of Section 5.05(C) shall be amended in its entirety to read as follows:

Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated at the time of deposit in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers.

SECTION 15.03 Authorization; Terms of the Series 2018A Bonds.

(A) A third Series of Bonds to be issued under the Indenture is hereby created. Such Series shall be known as the "City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A" (herein referred to as the "Series 2018A Bonds"). The Series 2018A Bonds shall be issued in the aggregate principal amount of $11,340,000 in accordance with the Bond Law and this Indenture for the purposes of (i) refinancing the acquisition and construction of improvements to the Enterprise and (ii) paying the Costs of Issuance in connection with the issuance and delivery of the Series 2018A Bonds.

(B) The Series 2018A Bonds shall be issued in fully registered form and shall be initially registered in the name of "Cede & Co.", as nominee of The Depository Trust Company. The Series 2018A Bonds shall be evidenced by one Series 2018A Bond maturing on each of the maturity dates as set forth in subsection 15.03(C) in a denomination corresponding to the total principal amount of the Series 2018A Bonds of such maturity. Each Series 2018A Bond may be assigned by the Trustee a distinctive number or letter and number, and a record of the same shall be maintained by the Trustee. Registered ownership of the Series 2018A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 15.13.

(C) The Series 2018A Bonds shall be dated the date of delivery, shall be bonds which are Current Interest Indebtedness, shall be issued in denominations of $5,000 or any integral multiple thereof, and shall bear interest from the date thereof at the following rates per annum and shall mature on November 1 in the following years in the following amounts:

Maturity Date (November 1)	Principal Amount	Interest Rate
2025	$ 710,000	5.00%
2026	750,000	5.00
2027	780,000	5.00
2028	825,000	5.00
2029	865,000	5.00
2030	910,000	5.00
2031	955,000	5.00
2032	1,005,000	5.00
2033	1,055,000	5.00
2034	1,110,000	5.00
2035	1,160,000	4.00
2036	1,215,000	5.00

The Series 2018A Bonds are designated as Serial Bonds.

Interest on the Series 2018A Bonds shall be payable commencing on November 1, 2018 and semiannually thereafter on November 1 and May 1 of each year in lawful money of the United States of America by check mailed by first-class mail on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date; provided, that upon the written request of an Owner of one million dollars ($1,000,000) or more in aggregate principal amount of Series 2018A Bonds received by the Trustee prior to the applicable Record Date (which such request shall remain in effect until rescinded in writing by such Owner), interest shall be paid by wire transfer in immediately available funds. Interest on the Series 2018A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The principal of and premium, if any, on the Series 2018A Bonds are payable when due upon presentation thereof at the Corporate Trust Office of the Trustee, in lawful money of the United States of America.

So long as the Series 2018A Bonds are maintained in book-entry form, payments of principal, premium, if any, and interest shall be made by the Trustee to the Securities Depository by wire transfer.

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

SECTION 15.04 Redemption of Series 2018A Bonds.

(A) Optional Redemption. The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the

City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(B) Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Series 2018A Bonds shall also be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to Sections 6.06 or 6.07 of the Indenture, at a Redemption Price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

SECTION 15.05 Selection of Series 2018A Bonds for Redemption. Whenever provision is made in this Fourth Supplement for the redemption of less than all of the Series 2018A Bonds of any maturity (and interest rate), the Trustee shall select the Series 2018A Bonds to be redeemed, from all Series 2018A Bonds of the respective maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. The Trustee shall promptly notify the City in writing of the Series 2018A Bonds so selected for redemption.

SECTION 15.06 Notice of Redemption of Series 2018A Bonds. The City shall notify the Trustee at least forty-five (45) days prior to the redemption date for Series 2018A Bonds pursuant to Section 15.04(A) or (B). Notice of redemption of any Series 2018A Bonds shall be sent by the Trustee, by approved means, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Series 2018A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) to the Securities Depositories, and (iii) to the Information Services. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture.

SECTION 15.07 Partial Redemption of Series 2018A Bonds. Upon surrender of any Series 2018A Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Series 2018A Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the Series 2018A Bond surrendered.

SECTION 15.08 Effect of Redemption of Series 2018A Bonds. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2018A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2018A Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the date fixed for redemption, interest on the Series 2018A Bonds so called for redemption shall cease to accrue, said Series 2018A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2018A Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

All Series 2018A Bonds redeemed pursuant to the provisions of this Article shall be cancelled upon surrender thereof and destroyed.

SECTION 15.09 Form of Series 2018A Bonds. The Series 2018A Bonds and the certificate of authentication and registration to be executed thereon shall be in substantially the form set forth as Exhibit A hereto. The Series 2018A Bond designation letters and numbers, maturity dates, principal amounts, and interest rates and yields to maturity shall be inserted therein in conformity with Section 15.03.

SECTION 15.10 Issuance of Series 2018A Bonds. At any time after the execution and delivery of this Fourth Supplement, the City may execute and the Trustee shall authenticate and deliver the Series 2018A Bonds in the aggregate principal amount of $11,340,000 upon the Order of the City.

SECTION 15.11 Application of Proceeds of Series 2018A Bonds. The proceeds of the sale of the Series 2018A Bonds, in the amount of $13,373,634.04 (computed as $11,340,000.00 aggregate principal amount of the Series 2018A Bonds, less $49,795.76 Underwriter's discount), plus $2,083,429.80 original issue premium, shall be received by the Trustee on behalf of the City and held in trust and set aside as follows:

(i) The Trustee deposit in the Redemption Fund $13,182,803.88, to be applied, together with $1,533,075.75 from the Parity Reserve Fund and $312,878.75 from the Interest Fund, to redeem all of the outstanding Series 2006A Bonds on the Redemption Date at the Redemption Price. Moneys in the Redemption Fund shall be held uninvested.

(ii) The Trustee shall deposit in the Series 2018A Costs of Issuance Fund $190,830.16, to be applied in accordance with Section 15.12 hereof. Moneys in the Costs of Issuance Fund shall be held uninvested.

The Trustee may establish temporary funds or accounts to facilitate such transfers.

SECTION 15.12 Establishment and Application of Series 2018A Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series 2018A Costs of Issuance Fund," which fund is hereby created and which fund the Trustee hereby agrees to maintain with the Trustee until October 19, 2018. The Trustee shall deposit to the Series 2018A Costs of Issuance Fund the amounts specified in Section 15.11 hereof. All money in the Series 2018A Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series 2018A Bonds upon receipt of a Requisition of the City filed with the Trustee, each of which shall be sequentially numbered and shall state the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Each such Requisition of the City shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On October 19, 2018 or upon the earlier Request of the City, any remaining balance in the Series 2018A Costs of Issuance Fund shall be transferred to the City.

SECTION 15.13 Use of Depository. Notwithstanding any provision of the Indenture or this Fourth Supplement to the contrary:

(A) The Series 2018A Bonds shall be issued in fully registered form, in authorized denominations and shall be initially registered in the name of "Cede & Co.", as nominee of The Depository Trust Company (the "Securities Depository"), and shall be evidenced by one Series 2018A Bond maturing on each of the maturity dates as set forth in subsection 15.03(C) in a denomination corresponding to the total principal amount of the Series 2018A Bonds of such maturity. Each Series 2018A Bond shall be assigned by the Trustee a distinctive number or letter or letter and number, and a record of the same shall be maintained by the Trustee.

Registered ownership of the Series 2018A Bonds, or any portions thereof, may not thereafter be transferred except:

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

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company or its successor (or any Substitute Depository or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

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

(B) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection 15.13(A), upon receipt of all Outstanding Series 2018A Bonds by the Trustee, together with a Certificate of the City to the Trustee, a single new Series 2018A Bond for each maturity shall be executed and delivered, registered in the name of such successor or such Substitute Depository, or their nominees, as the case may be, all as specified in such Certificate of the City. In the case of any transfer pursuant to clause (iii) of subsection 15.13(A) hereof, upon receipt of all Outstanding Series 2018A Bonds by the Trustee together with a Certificate of the City to the Trustee, new Series 2018A Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the City, subject to the limitations of Section 15.03 hereof; provided the Trustee shall not be required to deliver such new Series 2018A Bonds within a period less than 60 days from the date of receipt of such a Certificate of the City.

(C) In the case of partial redemption, cancellation or an advance refunding of any Series 2018A Bonds evidencing all or a portion of the principal maturing in a particular year, The

Depository Trust Company shall make an appropriate notation on the Series 2018A Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The City and the Trustee shall be entitled to treat the person in whose name any Series 2018A Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Series 2018A Bonds. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any Series 2018A Bond.

(E) So long as all Outstanding Series 2018A Bonds are registered in the name of "Cede & Co." or its registered assign, the City and the Trustee shall cooperate with "Cede & Co.," as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2018A Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

SECTION 15.14 Terms of Series 2018A Bonds Subject to the Indenture. Except as in this Fourth Supplement expressly provided, every term and condition contained in the Indenture shall apply to the Fourth Supplement and to the Series 2018A Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Fourth Supplement.

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

SECTION 15.15 Effective Date of Fourth Supplement. The Fourth Supplement shall take effect upon its execution and delivery.

SECTION 15.16 Execution in Counterparts. The Fourth Supplement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

CITY OF MODESTO, CALIFORNIA

By: _____
Director of Finance

(Seal)

ATTEST:

By: _____
City Clerk

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

By: _____
Authorized Officer

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

CITY OF MODESTO, CALIFORNIA

By: _____
Director of Finance

(Seal)

ATTEST:

By: _____
City Clerk

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

By: _____
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2018A BOND)

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. $_____

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 20__	%	April 19, 2018	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are

payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

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

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

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

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

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

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

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

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

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

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

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

Dated: April 19, 2018

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

By: _____
Authorized Officer

[FORM OF ASSIGNMENT]

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

_____

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

Dated: _____

Signature Guaranteed by:

_____

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

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 9, 2018

NEW ISSUE – BOOK-ENTRY ONLY **RATINGS: See "RATINGS" herein.**

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Series 2018A Bonds and requirements of the Internal Revenue Code of 1986 (the "Code"), as amended, as described herein, interest on the Series 2018A Bonds is not includable in the gross income of the owners of the Series 2018A Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Series 2018A Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Series 2018A Bonds 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 Series 2018A Bonds is exempt from personal income taxes imposed by the State of California. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2018A Bonds. See "TAX MATTERS."

$12,440,000*
CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2018A

Dated: Date of Delivery **Due: November 1, as shown on the inside front cover hereof**

The Wastewater Revenue Refunding Bonds, Series 2018A are being issued by the City of Modesto (the "City") to provide funds to (i) refund all of the City's outstanding Wastewater Revenue Bonds, Series 2006A and (ii) pay the costs of issuance of the Series 2018A Bonds, as more fully described herein. The Series 2018A Bonds are being issued pursuant to Chapter 6 of Title VIII of the Modesto Municipal Code and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented, and amended, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee.

Interest on the Series 2018A Bonds is payable on May 1 and November 1 of each year, commencing on November 1, 2018. Principal of the Series 2018A Bonds is payable on the dates set forth on the inside front cover hereof.

The Series 2018A Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2018A Bonds. Individual purchases of interests in the Series 2018A Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the Series 2018A Bonds. Principal of, redemption premium, if any, and interest on the Series 2018A Bonds are payable directly by The Bank of New York Mellon Trust Company, N. A., San Francisco, California, as successor trustee (the "Trustee"), to DTC, which is obligated in turn to remit such principal, redemption premium, if any, and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2018A Bonds, as described herein.

The Series 2018A Bonds are subject to optional redemption and special mandatory redemption prior to their respective maturities as described herein.*

THE SERIES 2018A BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM THE NET REVENUES DERIVED BY THE CITY FROM THE OPERATION OF THE CITY'S WASTEWATER ENTERPRISE. THE PRINCIPAL OF AND INTEREST ON THE SERIES 2018A BONDS, AND ANY PREMIUMS UPON THE REDEMPTION OF ANY THEREOF, ARE NOT A DEBT OF THE CITY, OR A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY PROPERTY OF THE CITY OR UPON ANY OF ITS INCOME, RECEIPTS OR REVENUES EXCEPT THE NET REVENUES AND OTHER FUNDS PLEDGED TO THE PAYMENT THEREOF AS PROVIDED IN THE INDENTURE.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security for or the terms of the Series 2018A 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.

Maturity Schedule
(See inside cover)

The Series 2018A Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of validity by Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California; for the City by the City Attorney and by Norton Rose Fulbright US LLP, Disclosure Counsel; and for the Trustee by its General Counsel. It is anticipated that the Series 2018A Bonds will be available for delivery in book-entry form to DTC in New York, New York on or about April 19, 2018.

Raymond James

* Preliminary, subject to change.

MATURITY SCHEDULE*

$12,440,000 Series 2018A Serial Bonds

Maturity Date (November 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†
2025	$ 825,000			
2026	860,000			
2027	890,000			
2028	930,000			
2029	970,000			
2030	1,005,000			
2031	1,045,000			
2032	1,090,000			
2033	1,135,000			
2034	1,180,000			
2035	1,230,000			
2036	1,280,000			

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Agency and are included solely for the convenience of the beneficial owners of the applicable Series 2018A Bonds. Neither the City nor the Underwriter is responsible for the selection or uses of the CUSIP number, and no representation is made as to its correctness on the Series 2018A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2018A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2018A Bonds.

CITY OF MODESTO, CALIFORNIA
1010 10th Street
P.O. Box 642
Modesto, California 95353
(209) 577-5369

CITY COUNCIL

Ted Brandvold, Mayor
Tony Madrigal, Vice Mayor
Mani Grewal
Kristi Ah You
Bill Zoslocki
Jenny Kenoyer
Douglas Ridenour

CITY OFFICIALS

Joseph Lopez, Interim City Manager
Adam Lindgren, City Attorney
DeAnna Christensen, Acting Director of Finance
William Wong, Acting Director of Utilities

_____

SPECIAL SERVICES

Bond and Disclosure Counsel

Norton Rose Fulbright US LLP
San Francisco, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

Municipal Advisor

PFM Financial Advisors LLC
San Francisco, California

All the information which the City of Modesto intends to present investors regarding the City and the Series 2018A Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision, or to provide any continuing information, with respect to the Series 2018A Bonds or any other obligations of the City. Moreover, none of the information on the website is incorporated herein by reference. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the 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 Series 2018A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2018A 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 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.

The issuance and sale of the Series 2018A Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included in this Official Statement constitute "Forward- Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" and other similar words and include, but are not limited to, statements that describe possible future connections to and revenues and expenses of the Enterprise.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the City has agreed to provide certain on-going financial and operating data (see "CONTINUING DISCLOSURE" and Appendix E hereto), it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

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$12,440,000*
CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2018A

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Series 2018A Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

Purpose

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the offering by the City of Modesto (the "City") of its Wastewater Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds"). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions thereof.

The Series 2018A Bonds are being issued by the City to provide funds to (i) refund all of the City's outstanding Wastewater Revenue Bonds, Series 2006A (the "Refunded Bonds") and (ii) pay the costs of issuance of the Series 2018A Bonds, as more fully described herein.

See "ESTIMATED SOURCES AND USES OF FUNDS."

Authority for Issuance

The Series 2018A Bonds are being issued pursuant to (a) the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law"), which was enacted by the City Council on October 2, 1984, pursuant to its authority under the Charter of the City of Modesto, and the constitution and laws of the State of California and (b) a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee"), as amended and supplemented (as amended and supplemented, the "Indenture"), including as supplemented by a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, by and between the City and the Trustee, providing for the issuance of the Series 2018A Bonds.

The City

The City, which has a population of approximately 215,080 as of January 1, 2017, is the county seat of Stanislaus County and was incorporated in 1884. It covers approximately 37.4 square miles. The City operates under a council-manager form of government pursuant to a charter adopted in 1963. The City is located in central California, approximately 93 miles east of the City and County of San Francisco. See Appendix A – "CERTAIN INFORMATION REGARDING THE CITY OF MODESTO."

The Wastewater Enterprise

The City's wastewater facilities are comprised of the wastewater collection system and the treatment and disposal facilities located at its water quality control facilities. The City's wastewater collection and treatment system (the "Enterprise") services the entire City and additionally accepts some sewage flow from parts of the City of Ceres and some unincorporated communities in the County of Stanislaus, including Empire. The service outside the City is described in various individual contracts with the individual agencies. The current population of the area

* Preliminary, subject to change.

served by the Enterprise is approximately 200,000, but the City estimates that it could grow to approximately 270,900 by 2035.

Security and Sources of Payment for the Series 2018A Bonds

The payment of the principal of, redemption premium, if any, and interest on the Series 2018A Bonds is secured equally and ratably, along with the payment of any additional Bonds and Parity Debt (as defined herein) issued under the Indenture, by a first lien on and pledge of the Net Revenues (as defined herein) derived from the operation of the facilities comprising the Enterprise and the moneys and securities held by the Trustee in the funds under the Indenture. Moneys held by the Trustee under the Indenture secure the Bonds and any Parity Debt. Following the issuance of the Series 2018A Bonds, the City's outstanding Parity Debt (the "Existing Parity Debt") will include: (i) a revolving fund loan from the State of California, issued in 2011 (the "2011 State Loan"), in the initial principal amount of $127,157,943.06, (ii) the City of Modesto, California, Wastewater Revenue Refunding Bond, Series 2015 (the "Series 2015 Bond"), in the initial principal amount of $19,429,912.56, issued to Capital One Public Funding, LLC, and (iii) a revolving fund loan from the State of California, issued in 2016 (the "2016 State Loan"), in the initial principal amount of $41,862,028. The pledge of Net Revenues to the 2011 State Loan, the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. The Series 2018A Bonds and any other Series of bonds to be issued under the Indenture are sometimes collectively referred to herein as the "Bonds." As of the date of issuance, the Series 2018A Bonds will be the only Bonds issued and outstanding under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS—Net Revenue Pledge; Parity Debt."

Parity Debt

The Series 2018A Bonds are being issued on a parity with the Existing Parity Debt. The City may at any time issue or incur Parity Debt payable from the Net Revenues and other funds as provided in the Indenture and secured by a lien and charge on a parity with the lien and charge securing the Bonds and the Existing Parity Debt, subject to the conditions set forth in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS—Additional Bonds and Parity Debt."

Rate Covenant

The City covenants under the Indenture that so long as any of the Series 2018A Bonds are outstanding, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise which are sufficient to yield Net Revenues in each Fiscal Year equal to at least 1.25 times the Debt Service on the Bonds and Parity Debt becoming due and payable during such Fiscal Year. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." However, the City's ability to increase such rates, fees and charges is subject to the limitations imposed by Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution."

Continuing Disclosure

The City has covenanted for the benefit of the owners and beneficial owners of the Series 2018A Bonds to provide certain financial information and operating data relating to the City by not later than the 31st of March following the end of the City's Fiscal Year (presently June 30), commencing with the report for the Fiscal Year 2017-18, which report shall be due March 31, 2019, and to provide notices of occurrence of certain enumerated events, if material. However, the City made similar disclosure commitments in connection with the issuance of the Refunded Bonds. See "CONTINUING DISCLOSURE" herein and Appendix E – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinion contained herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

All references to and summaries of provisions of the Indenture are qualified in their entirety by reference to the full Indenture, copies of which are available for inspection at the offices of the City in Modesto, California or at the corporate trust office of the Trustee in San Francisco, California.

PLAN OF REFUNDING

The Series 2018A Bonds are being issued by the City to provide funds to refund all of the Refunded Bonds. On the date of delivery of the Series 2018A Bonds, the City will deposit a portion of the proceeds of the Series 2018A Bonds with the Trustee to be held in the Redemption Fund under the Indenture. Pursuant to the City's irrevocable instructions to the Trustee, on or about April 19, 2018, such amounts held in the Redemption Fund will be used to pay the Refunded Bonds at a redemption price equal to the principal amount of Refunded Bonds, plus interest accrued thereon to the redemption date.

The Refunded Bonds consist of the following:

Maturity	*Outstanding Principal Amount*	*Interest Rate*	*CUSIP*	*Principal Amount to be Refunded*
2025	$ 960,000	4.20%	607802AZ8	$ 960,000
2026	1,005,000	4.25	607802BA2	1,005,000
2031(T)	5,710,000	4.25	607802BB0	5,710,000
2036(T)	7,060,000	4.25	607802BC8	7,060,000

(T) Term bond maturity.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Series 2018A Bonds.

Sources of Funds	
Principal Amount of the Series 2018A Bonds	$
[Plus/Less]: [Net] Original Issue [Premium/Discount]	
Less: Underwriter's Discount	
Available Funds(1)	
Total Sources	$
Uses of Funds	
Series 2006A Wastewater Enterprise Redemption Fund	$
Series 2018A Costs of Issuance(2)	
Total Uses	$

(1) Consisting of a release of the prior reserve and debt service funds on hand.
(2) Includes legal and advisory fees, printing costs, rating agency fees and other miscellaneous expenses.

THE SERIES 2018A BONDS

General Description

The Series 2018A Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series 2018A Bonds. Individual purchases of ownership interests in the Series 2018A Bonds will be made in book-entry form only in denominations of $5,000 or any integral multiple thereof. See Appendix F – "BOOK-ENTRY ONLY SYSTEM."

The Series 2018A Bonds will be dated their date of initial delivery, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside front cover page of this Official Statement. Interest on the Series 2018A Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2018, calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal of, redemption premium, if any, and interest on the Series 2018A Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2018A Bonds.

Redemption*

Optional Redemption. The Series 2018A Bonds maturing on or after November 1, 20___ shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 20___, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Series 2018A Bonds are subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of Series 2018A Bonds for Redemption

Pursuant to the Indenture, when less than all of the Series 2018A Bonds of any maturity (and interest rate) is being redeemed, the Trustee selects the Series 2018A Bonds to be redeemed, from all Series 2018A Bonds of the respective maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion deems appropriate

Notice of Redemption

Notice of redemption of any Series 2018A Bonds shall be sent by the Trustee, by approved means, not less than 30 nor more than 60 days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) to the Securities Depositories, and (iii) to the Information Services, which consists of the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System referred to as "EMMA," at www.emma.msrb.org, or in accordance with then current guidelines of the Securities Exchange Commission. Failure by the Trustee to give notice to any one or more of the MSRB or the Securities Depositories or failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

* Preliminary, subject to change.

Effect of Redemption

Notice of redemption having been duly given as described above, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2018A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2018A Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the date fixed for redemption, interest on the Series 2018A Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS

Net Revenue Pledge; Parity Debt

The Series 2018A Bonds are revenue obligations of the City and are payable, as to both principal and interest and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged under the Indenture. All Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds, including the Series 2018A Bonds, and any Parity Debt, including the 2011 State Loan, the Series 2015 Bond and the 2016 State Loan, in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The pledge of Net Revenues to the Series 2018A Bonds and the Existing Parity Debt is on parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS—Additional Bonds and Parity Debt." The Net Revenues are irrevocably pledged to the punctual payment of the principal of and redemption premium, if any, and interest on the Outstanding Bonds, including the Series 2018A Bonds.

"Net Revenues" are defined under the Indenture to mean, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period.

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

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

The Series 2018A Bonds are special, limited obligations of the City. The Series 2018A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the

taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2018A Bonds. The issuance of the Series 2018A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Indenture provides that all funds and accounts created pursuant to the Indenture constitute trust funds in favor of the Owners of the Outstanding Bonds, until so applied for the purpose set forth in the Indenture.

Flow of Funds

The City has covenanted that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City has no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City has covenanted and agreed to maintain the Sewer Enterprise Fund at all times so long as any Bonds are Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited with the Trustee, all as provided in the Indenture, are disbursed, allocated, and applied solely to the uses and purposes described below.

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

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

Principal Fund; Sinking Accounts. The City will transfer to the Trustee and the Trustee shall set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

Parity Reserve Fund. Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to the Indenture, the City will transfer to the Trustee and the Trustee shall set aside in the Parity Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund until there is on deposit in the Parity Reserve Fund an amount equal to the Reserve Fund Requirement. **No deposit into the Parity Reserve Fund will be made upon issuance of the Series 2018A Bonds, and the Series 2018A Bonds will not be secured by the Parity Reserve Fund.** See "—Outstanding Parity Debt" for a description of Parity Debt for which a reserve fund has been established.

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

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

Parity Reserve Fund

The Trustee is required by the Indenture to establish and maintain and hold in trust, so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the "Parity Reserve Fund." **No deposit into the Parity Reserve Fund will be made upon issuance of the Series 2018A Bonds, and the Series 2018A Bonds will not be secured by the Parity Reserve Fund.** Amounts on deposit in the Parity Reserve Fund are pledged to the payment of any Bonds secured thereby (not including the Series 2018A Bonds) and any Parity Debt to be secured by the Parity Reserve Fund and must be applied only for such purposes as permitted in the Indenture. The Trustee is also required to deposit in the Parity Reserve Fund, upon the direction of the City, such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there shall be on deposit therein a sum equal to at least the amount required by the Indenture to be on deposit therein. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement; and such amount shall be increased to the Reserve Fund Requirement as provided for in the Indenture not later than twelve months thereafter. The Trustee must transfer in moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes.

The Trustee will also, from such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

In lieu of a cash deposit, the City may satisfy the Reserve Fund Requirement by depositing to the Parity Reserve Fund a letter of credit, surety bond, or insurance policy as provided in the Indenture.

"Reserve Fund Requirement" means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event shall the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of such Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee. As of the date of delivery of the Series 2018A Bonds (being the only bonds to be outstanding under the Indenture), the Reserve Fund Requirement will be $0.

See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Rate Covenant

The rates for use of the Enterprise are set by the City Council and are not subject to review by any state or local governmental agency. The City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient to pay all Operating Expenses estimated to become due and payable in such Fiscal Year, Debt Service on the Bonds and any Parity Debt becoming due and payable during such Fiscal Year, all other payments required by the Indenture and any Parity Debt instruments and all payments required to meet any obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or Net Revenues. In addition, the City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges so as to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the Debt Service coming due and payable in such Fiscal Year on the Bonds and any Parity Debt. For a further description of the City's rate covenant, see Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Covenants—Rates and Charges." The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but such fees and charges shall not be reduced so as to be insufficient to provide adequate Gross Revenues for such purposes. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution."

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

Additional Bonds and Parity Debt

The City may at any time issue additional Series of Bonds or Parity Debt payable from the Net Revenues and other funds and secured by a lien and charge on a parity with the lien and charge securing the Outstanding Bonds on a parity with the Series 2018A Bonds and the Existing Parity Debt, subject to the following conditions precedent, among others: (a) no Event of Default has occurred and is continuing; (b) there is deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or by no reserve fund; and (c) the Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, shall at least equal 125% of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt under the Indenture are the following:

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

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

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

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

"Debt Service" is defined under the Indenture to mean, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts: (a) the Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period; (b) the minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and (c) the interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding; provided that for purposes of determining compliance with the test for the issuance of additional Bonds or Parity Debt and the rate covenant and the amount of the Reserve Fund Requirement, certain provisions shall be applied as described in Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

Nothing in the Indenture prohibits or impairs the authority of the City to issue (i) Bonds at any time to refund outstanding Bonds or Parity Debt, provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds does not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded; or (ii) bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

Outstanding Parity Debt

Following delivery of the Series 2018A Bonds, which will refund the Series 2006A Bonds, the Existing Parity Debt will consist of the 2011 State Loan, the Series 2015 Bond and the 2016 State Loan. The pledge of Net Revenues to the 2011 State Loan, the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. As of the date of issuance, the Series 2018A Bonds will be the only Bonds issued and outstanding under the Indenture.

The 2011 State Loan is a revolving fund loan from the State of California, in the initial principal amount of $127,157,943.06, and is outstanding in the principal amount of $117,337,522 as of February 1, 2018. Under the terms of the project finance agreement, the City makes approximately equal annual payments of principal and interest each June 1 until maturity in 2035. The 2011 State Loan bears interest at a fixed rate of 2.6% per annum. No further disbursements of the 2011 State Loan will be made. The 2011 State Loan is also secured by a reserve fund, held by the City and funded with cash, equal to one year's annual debt service on the 2011 State Loan. This reserve fund is not security for the Series 2018A Bonds.

The Series 2015 Bond was issued by the City to Capital One Public Funding, LLC in the initial principal amount of $19,429,912.56, and is outstanding in the principal amount of $14,685,381.47 as of February 1, 2018. Under the terms of the related bond purchase agreement, the City makes semi-annual payments of interest on each May 1 and November 1 and annual payments of principal on each November 1 until maturity in 2024. The Series 2015 Bond bears interest at a fixed rate of 2.42% per annum. The purchase agreement for the Series 2015 Bond contains standard covenants and representations, for which a failure by the City to observe or perform will constitute an event of default, and provides for a cross default in an Event of Default under the Indenture. The Series 2015 Bond is not secured by any reserve fund.

The 2016 State Loan is a revolving fund loan from the State of California, available for draw downs in the principal amount up to $41,862,028, with total disbursements of $8,916,161 made as of February 1, 2018. Under

the terms of the installment sale agreement and grant, the City makes approximately equal annual payments of principal and interest each December 31 until maturity in 2047. The 2016 State Loan bears interest at a fixed rate of 1.0% per annum. The final disbursement under the 2016 State Loan must be made by the State no later than July 1, 2018, unless the City and the State agree to an extension. The City is seeking an extension until approximately October 2018 and expects to draw down the full principal amount such that $41,862,028 will be outstanding following the last draw on the 2016 State Loan. The 2016 State Loan is also secured by a reserve fund, held by the City and funded with cash, equal to one year's annual debt service on the 2016 State Loan. This reserve fund is not security for the Series 2018A Bonds.

Debt Service Requirements

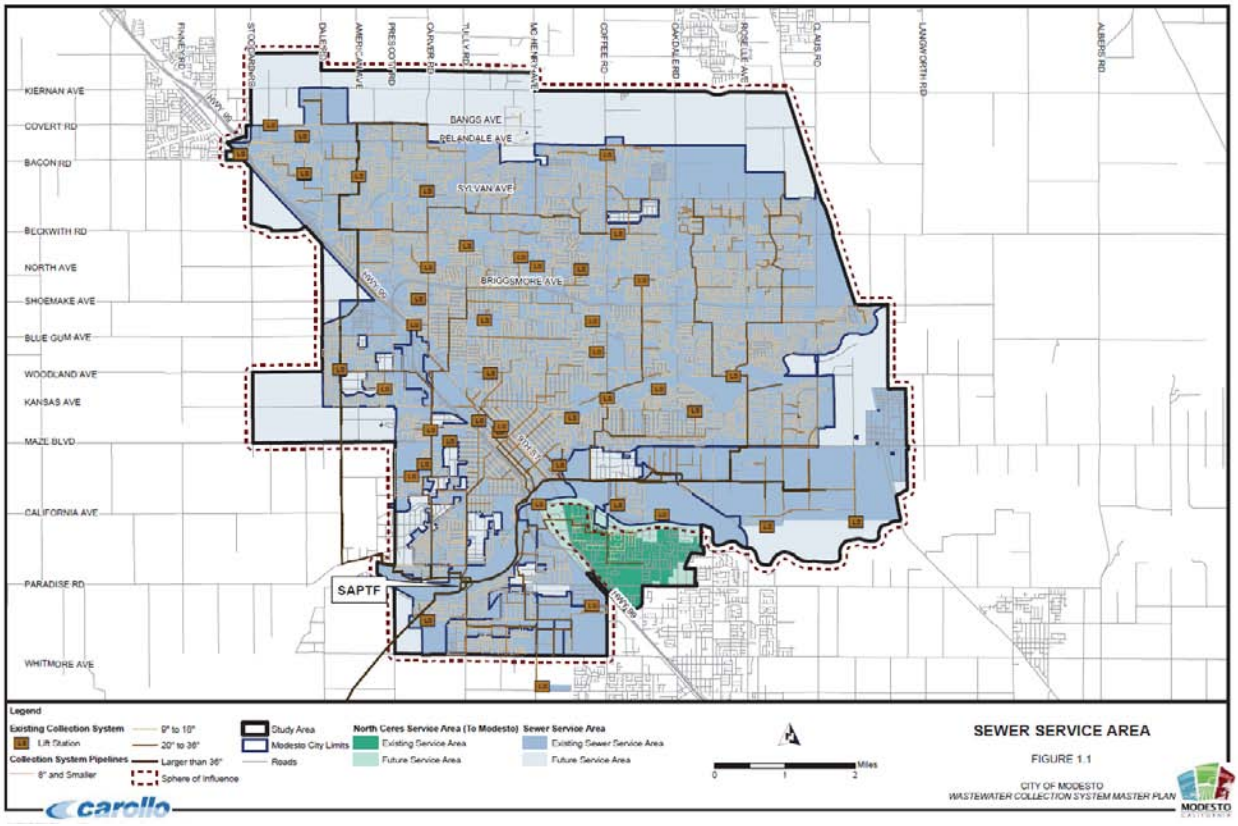
The debt service requirements of the Existing Parity Debt and the Series 2018A Bonds are shown in the following table on a bond year basis, assuming no optional or special mandatory redemption of the Series 2018A Bonds or prepayment of the Existing Parity Debt prior to maturity thereof.

Fiscal Year Ending June 30	*Existing Parity Debt Total*[(1)(2)]	*Series 2018A Principal*	*Series 2018A Interest*	*Total Debt Service*
2019	$12,292,722			
2020	12,538,846			
2021	12,660,289			
2022	12,663,577			
2023	12,663,333			
2024	10,788,105			
2025	10,787,605			
2026	9,878,975			
2027	9,878,975			
2028	9,878,975			
2029	9,878,975			
2030	9,878,975			
2031	9,878,975			
2032	9,878,975			
2033	9,878,975			
2034	9,878,975			
2035	9,878,975			
2036	9,878,975			
2037	1,633,411			
2038	1,633,411			
2039	1,633,411			
2040	1,633,411			
2041	1,633,411			
2042	1,633,411			
2043	1,633,411			
2044	1,633,411			
2045	1,633,411			
2046	1,633,411			
2047	1,633,411			
2048	1,633,411			
Total	$212,664,134			

(1) Existing Parity Debt includes (i) the 2011 State Loan, of which $117,337,522 remains outstanding as of February 1, 2018, and which bears interest at a fixed rate of 2.60% per annum; (ii) the Series 2015 Bond, of which $14,685,381 remains outstanding as of February 1, 2018 and which bears interest at a 2.42% per annum; and the 2016 State Loan, of which $8,916,161 has been disbursed as of February 1, 2018, and which bears interest at a fixed rate of 1.00% per annum.

(2) Assumes full draw down of the 2016 State Loan in the principal amount of $41,862,0280. Final amortization of the 2016 State Loan will depend on the timing and amount of the final draw.

SERVICE AREA MAP



WASTEWATER SYSTEM

Introduction

The City manages, operates, and maintains four utilities. Two of these are wastewater related—water quality control facilities (the "WQC") and the wastewater collection system (the "WWC"). The Enterprise consists of the treatment and disposal facilities located at the WQC and the piping, pump stations and related appurtenances of the WWC.

Service Area

The Enterprise services the current City limits, a portion of north Ceres, the unincorporated community of Empire, and isolated unincorporated Stanislaus County land within the City limits. Wastewater from north Ceres and unincorporated areas is treated by the City under sewer service agreements with such jurisdictions. Consistent with the City's updated Urban Area General Plan, the service area includes the City's Sphere of Influent ("SOI") boundary, Empire, and north Ceres. The City provides wastewater (sewer) service to a population of over 200,000 within the City limits and to about 900 customers within the now-dissolved Empire Sanitary District. The City collects wastewater from north Ceres but does not bill the customers directly. Ceres bills the customers and the City directly charges Ceres as a single customer.

Population and land use projections prepared for the draft 2016 Wastewater Master Plan ("WWMP") indicate that the areas extending to the SOI boundaries will only be partially developed by the end of 2035. Full build-out of the SOI is not expected until the year 2057. By 2035, the number of municipal customers is projected to increase at an average annual growth rate of 1.3 percent to a total service population of 270,900.

In addition to municipal customers, the City serves the industrial customers in the Beard Industrial Park. The industrial customers include seasonal canneries and year-round food processors. The canneries' wastewater during canning season (July through September) is segregated in a different pipeline from the domestic customers. The canneries pay a different rate than municipal customers. While the wastewater load produced by the canneries is significant, the cannery process water is directly land-applied at the Jennings Ranch (described below) instead of undergoing the wastewater treatment process.

History

Prior to 1910, wastes from the City were discharged without treatment into the Tuolumne River. From 1910 through the late 1940s, the City's wastewater system was comprised of a sewage processing tank with ponds. In 1946, plans were made to take industrial waste into the treatment plant. The City, with a population at that time of 20,000, was faced with constructing a treatment facility to accept wastes equivalent to a contributing population of 400,000 persons during the three-month canning season. Sewer service charges were first collected in the late 1940s, and connection charges were first imposed in 1967. The City continues to be home to a number of food processors, and summer food processing sewer discharges are now equivalent to a contributing population of more than 1,000,000 persons.

System Description

General. The current wastewater system consists of a collection system with over 70 miles of trunk sewers (greater than 15") and approximately 620 miles of sanitary sewers. There are 42 wastewater lift stations. Another 32 miles of sewers that are privately owned or are associated with north Ceres are connected to the City's collection system. Aside from localized septic systems, all wastewater generated within the service area receives treatment at the City's wastewater treatment facilities.

The City's treatment facilities treat over 7.6 billion gallons of wastewater annually. The average daily domestic flow into the City's treatment system is currently about 21 million gallons per day (mgd).

Modesto's treatment facilities consist of two treatment plants that operate in series, connected by two 6.5 mile-long outfall pipelines. The Sutter Primary Treatment Facility ("Sutter Facility") is located at the south end of Sutter Avenue adjacent to the Tuolumne River. The Sutter Facility provides primary treatment and solids handling. At the Sutter Facility, settleable and floatable organic and inorganic constituents are removed from the wastewater, through screening, grit removal and primary clarification. Solids from the primary clarifiers are then processed through the anaerobic digesters. Most of the primary treatment and solids handling facilities at the Sutter Facility are aging and nearing their useful life, and as discussed below, are being upgraded. In addition, the facilities are subject to flooding from high river levels in the adjacent Tuolumne River. Primary effluent from the Sutter Facility is pumped through the two 6.5-mile-long outfall pipelines to the Jennings Treatment Facility ("Jennings Facility"), located next to the San Joaquin River on Jennings Road near West Zeering Road for additional treatment. The Jennings Facility includes secondary treatment, tertiary treatment, and a 2,526-acre ranch (the "Jennings Ranch"). The secondary treatment facilities at the Jennings Facility primarily consist of three fixed-film reactor towers, 334 acres of oxidation ponds, and 126 acres of recirculation channels. Secondary effluent from the Jennings Facility is used for irrigation of the City's ranch land, stored in reservoirs, or discharged to the San Joaquin River during the months of October through May. The 2008 National Pollutant Discharge Elimination System permit (the "2008 NPDES Permit") allowed for this seasonal discharge into the San Joaquin River. However, the 2008 NPDES Permit, including prior extensions thereto, expires in May 2018 and discharge requirements will be subject to the 2016 National Pollutant Discharge Elimination System permit (the "2016 NPDES Permit"), which allows to allow discharge into the Delta Mendota Canal, subject to discharge limits on various constituents. The 2016 NPDES Permit expires in March 2021.

Until expiration of the 2008 NPDES Permit, the City will be required to comply with both the 2008 NPDES Permit and the 2016 NPDES Permit.

In response to the pending expiration of the 2008 NPDES Permit, the City began upgrading its wastewater treatment facilities to provide biological nutrient removal ("BNR") and tertiary treatment, which will produce highly treated water that is suitable for year-round discharge to the San Joaquin River by May 2018, as required by the 2008 NPDES Permit. The 2.3 mgd Phase 1 Tertiary Treatment Facility was built in 2010, and the 12.6 mgd Phase 2 BNR/Tertiary Treatment Facilities were completed in 2015. Both facilities are located at the Sutter Facility and consist of fine screens, biological nutrient removal aeration basins, membrane bio-reactor basins, and ultraviolet disinfection. Because the tertiary water is also suitable for recycling, the City is currently completing the construction of a new recycled water pump station, pipelines and appurtenances for the North Valley Regional Recycled Water Program ("NVRRWP"), which, in the near term, will deliver 14.9 mgd of the City's recycled water to the Del Puerto Water District. This $50 million project is funded by the 2016 State Loan and a $15 million State grant under Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014 ("Proposition 1"). The Del Puerto Water District will pay or reimburse the City for: (1) all 2016 State Loan debt service, (2) one-half of the debt service cost savings resulting from the Proposition 1 grant, (3) costs to operate and maintain the recycled water delivery facilities, and (4) $30 per acre-foot for the recycled water. The Del Puerto Water District revenues are included in the projections provided in the table under the heading, "WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage." Sales to the Del Puerto Water District commenced in February 2018. The project is substantially complete, and the City expects to complete the project in July 2018.

During the three-month canning season, between early July through late September, segregated cannery process water is separately piped to the Sutter Facility for preliminary treatment and then pumped directly to the Jennings Facility, where is it blended with secondary effluent from the storage ponds and used for irrigation at the Jennings Ranch.

The Enterprise currently generates approximately 6.0 mgd of secondary treated effluent. It uses low-capital-intensive irrigation as its primary discharge method. Approximately 3.6 billion gallons of both secondary and tertiary treated wastewater is discharged to the City-owned Jennings Ranch annually. The Jennings Ranch is managed in a public/private partnership in which the lessee uses the reclaimed water to grow fodder crops. Water that is not used for irrigation is stored, disinfected, and discharged to the San Joaquin River in the months of October through May. Discharge to the San Joaquin River must meet numerous requirements under the 2008 NPDES Permit and the 2016 NPDES Permit, including a flow ratio of river water to effluent of at least 20:1.

Sixty-four commercial and industrial facilities are currently permitted under the City's mandatory pre-treatment program. Periodic monitoring is performed to ensure compliance with local and federal limits and to confirm that high quality effluent is available for irrigation, discharge to the San Joaquin River, and to minimize impacts to the treatment facilities.

Permitting Issues

The Central Valley Regional Water Quality Control Board (the "RWQCB") regulates water quality in the Central Valley under the authority of the Federal Clean Water Act and California's Porter-Cologne Water Control Act. The RWQCB issues wastewater discharge permits through the National Pollutant Discharge Elimination System ("NPDES"). Wastewater treatment plants are required under the State and federal law to meet various requirements for the operation, treatment, monitoring and disposal/discharge of wastewater.

The City received an updated NPDES Permit in 2017 (Permit No. CA0079103, Order R5-2017-0064, the "2017 NPDES Permit"), with river discharge limits on various constituents. The City expects its recent wastewater treatment upgrades previously described to meet the 2017 NPDES permit requirements, including salinity requirements. In addition, the 2017 NPDES Permit required progress reports detailing the implementation of NVRRWP outfall pipeline to the Delta Mendota Canal with final completion by September 1, 2019. The 2017 NPDES Permit expires in July 2022.

The NVRRWP recycling plant (described above) is currently permitted to discharge 14.9 mgd average daily discharge flow into the San Joaquin River and may be expanded to 19.1 mgd average daily discharge flow to the San Joaquin River upon completion of the Phase 3 upgrades. With the NVRRWP recycling plant, the City established water rights to its tertiary treated (recycled) water and relocated its primary discharge from the San Joaquin River to the Delta Mendota Canal. However, the 2017 NPDES Permit still allows the City to discharge into the San Joaquin River, under certain conditions, whenever discharge into the Delta Mendota Canal is not allowed due to nonoperation while undergoing repairs or temporary outages.

Land discharge is regulated by a separate Waste Discharge Requirement (the "WDR") permit. About 2.0 billion gallons of wastewater are disposed of each year through evaporation and percolation from the treatment system and from application to pastureland. Approximately 3.6 billion gallons per year of treated secondary effluent, plus 1 billion gallons of cannery waste, are discharged to land. Land discharge limitations onto the Jennings Ranch are based on biochemical oxygen demand ("BOD") loading for the combined secondary-treated and cannery process water and are set forth in the table below.

TABLE 1
BOD Loading

Secondary Effluent Only

BOD 30-day Maximum Loading Rate	50 lbs/day
BOD Daily Maximum	300 lbs/day

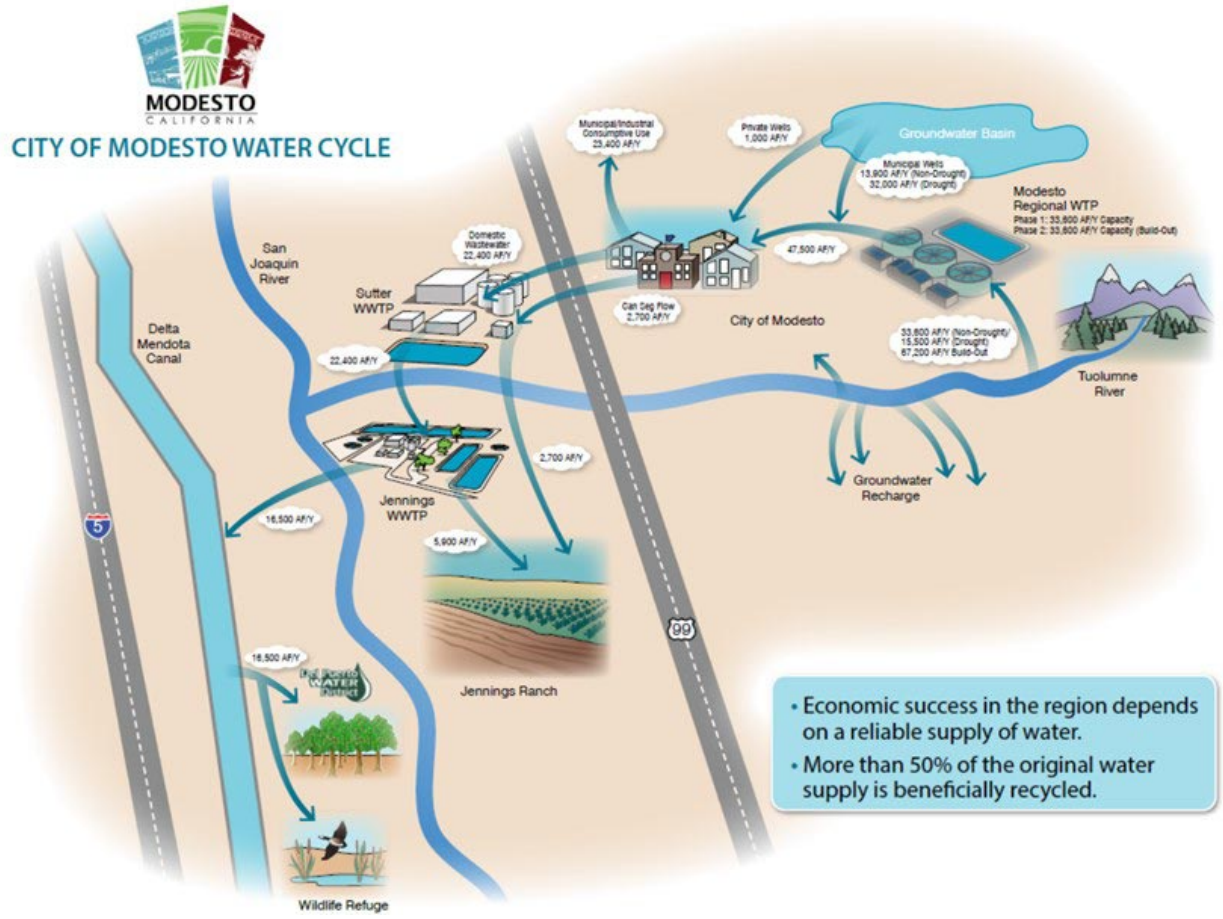
Combined Cannery and Secondary Effluent (During Canning Season Only)

BOD 7-Day Average	400 lbs/day
BOD 30-Day Average	150 lbs/day
BOD Seasonal Average	100 lbs/day

Other reporting requirements include effluent groundwater monitoring and pond monitoring. In addition, the City must ensure that biosolids and other organic residuals are applied in accordance with agronomic rates. This means that the number of tons per hectare or acre is determined based on the amount of nutrients in the

biosolids/residuals and the amount of nutrients needed by the crop being grown which includes salinity. The City closely monitors these requirements and has been in full compliance.

Below is a map of the City's water and wastewater facilities showing the water cycle.



Master Plan Update, Capital Improvement Plan and Future Capital Needs

In 1991, the City recognized that the Enterprise had reached the capacity provided by its last expansion in 1984, which had been funded by a federal Clean Water Grant. The City commenced a wastewater planning process to determine the most cost-effective approach for implementing the next increment of capacity. Based on considerable input from customers, regulators and the community at large, the City developed the 1995 Wastewater Master Plan (the "1995 Master Plan"). As part of its annual budget process, the City prepares a rolling ten-year capital improvement program for the Sewer Enterprise Fund in accordance with the 1995 Master Plan and incorporating current needs which were unknown in 1995. The 1995 Master Plan outlined capital improvements to be undertaken over the ensuing 20 to 40 years. These capital improvements generally fall into two categories: 1) treatment plant improvements and 2) collection system improvements.

The City updates its Master Plan approximately every 5-10 years. The City's Wastewater Treatment Master Plan was most recently updated in 2007 and supplemented in 2008. The 2007 Wastewater Master Plan ("2007 Master Plan") contained several parts: a condition assessment of the existing wastewater treatment facilities, a summary of regulatory requirements, a list of recommended improvements, and a description of the Capital Improvement Plan ("CIP"). Soon after the 2007 Master Plan was adopted, City population growth and corresponding influent wastewater flows dropped with the slowing economy, and the Central Valley Regional Water Quality Control Board ("Regional Board") adopted significantly more restrictive discharge limits. As a result, a

2008 Wastewater Treatment Master Plan Supplement ("2008 Supplement") was prepared to address these changes and revise the CIP for wastewater treatment. Significant system improvements were constructed from the 2007 Master Plan and 2008 Supplement report, including upgrades to the wastewater treatment processes from secondary to tertiary treatment with the Phase 1 and 2 BNR/Tertiary Treatment Plant projects, repair and replacement of deficient pipeline infrastructure with the Emerald Trunk Primary Outfall Rehabilitation projects and recovering pipeline and treatment plant capacity with the Storm Drain Cross Connection Removal at Garrison Park Storm Drain project.

Currently the City's wastewater master plan is being updated. Each wastewater master plan derives its name not from the year of adoption, but from the year in which the initial studies and report are completed. Initial studies and the report for the 2016 Wastewater Master Plan ("2016 Master Plan") began in 2016. The 2016 Master Plan is anticipated to be adopted following completion of the environmental impact report required by the California Environmental Quality Act. The 2016 Master Plan will address current deficiencies and identify improvements that will help the City adapt to changing conditions. Major topics addressed in the 2016 Master Plan include:

- Lower population projections and wastewater flows.
- Changes in the City's Planning Area and General Plan land use.
- Updating the hydraulic model.
- Approach for maximizing production and off-site delivery of recycled water with the Biological Nutrient Removal ("BNR")/Tertiary Treatment Facilities.
- Construction of new primary treatment and solids handling facilities at the Jennings Facility to replace the aging facilities at the Sutter Facility.
- Reliability improvements at the Sutter Plant headworks (screening and grit removal).
- Reduction of domestic wastewater loadings on the existing secondary treatment system resulting from the operation of the BNR/tertiary facilities.
- Improved reliability and expanded capacity for the cannery process water flows.
- Potential regulatory requirements and compliance strategies related to the land application of treated municipal effluent, cannery process water, and biosolids.

In 2016, a cost of service study (the "2016 City of Modesto Sewer Rate and Fee Study") was conducted in order to match projected rate increases to the needed capital improvements for the existing rate base and for new development. The majority of funding for capital wastewater projects is allocated for critical capacity projects and deferred maintenance projects.

Set forth below is a table setting forth projected sources and uses of funds for the Wastewater Master Plan through fiscal year 2024-25, based, in part, on the 2016 Master Plan. City management believes that the capital improvements shown in the table below will maintain the System in compliance with all applicable legal requirements and prudent industry standards. The City continuously re-prioritizes its CIP based on affordability (customer rates), System needs, minimum debt service coverage policy of 1.50x, and a minimum fund balance policy of 25% of operating expenses plus one year of 2016 State Loan debt service. *The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected sources and uses of funds may be material.*

TABLE 2
CITY OF MODESTO
Wastewater System
Capital Improvement Program Projects

Project Detail	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Project Expenditures Included In Pay As You Go (not in Wastewater Master Plan)	$ 3,904,000	$ 5,905,000	$ 8,055,000	$ -	$ -	$ -	$ -	$ -
Project Expenditures Included In Pay As You Go (Included in Wastewater Master Plan) Priority Projects	100,000	30,250,000	15,250,000	15,100,000	15,000,000	-	-	-
Collection System - Capacity	7,689,467	2,450,000	-	1,901,045	3,987,516	2,045,641	5,756,945	4,668,490
Collection System -Rehab	8,236,211	4,035,000	550,461	2,593,093	134,746	11,641,078	-	-
Collection System - Reliability	-	-	-	-	153,660	1,422,340	-	-
Collection System - New Services	2,397,000	2,000,000	-	200,000	147,420	4,085,640	2,898,631	2,904,658
Existing Collections	512,000	-	-	-	-	-	-	-
Existing Wastewater Treatment	2,500,000	-	-	-	-	-	-	-
Cannery Segregation	-	-	-	-	153,383	4,972,913	14,657,126	18,016,046
Reprioritized Wastewater Treatment	5,357,804	16,720,238	0	0	0	11,443,629	32,290,680	56,832,644
Renewal and Replacement Expenditures	1,317,468	2,441,997	1,318,629	1,384,561	1,453,789	3,011,622	2,848,271	2,928,411
Total Capital Improvement Program (excluding Cannery Segregation)[1]	$32,013,950	$63,802,235	$25,174,090	$21,178,699	$20,877,130	$33,649,950	$43,794,527	$67,334,203
Sources of Funding								
- Grants[2]	$ 4,900,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -
- Bonds/Parity Debt[3]	-	20,000,000	20,000,000	-	-	20,000,000	20,000,000	-
- Internally Generated Funds (Wastewater Funds)[4]	27,113,950	43,802,235	5,174,090	21,178,699	20,877,130	13,649,950	23,794,527	67,334,203
Total Sources of Funding	$32,013,950	$63,802,235	$25,174,090	$21,178,699	$20,877,130	$33,649,950	$43,794,527	$67,334,203

(1) Cannery Segregation is funded by the canneries.

(2) Includes a one-time grant of $3,000,000 under State Proposition 84, Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006

(3) The City plans to issue approximately (i) $40 million in new money bonds in late 2018 and (ii) $40 million in new money bonds in 2023

(4) Assumes rate increases of 6% per annum. Rate increases for Fiscal Years ending June 30, 2018 through June 30, 2021 have been approved by the City Council. Rate increases for Fiscal Years ending June 30, 2022 through June 30, 2025 have not yet been approved by the City Council.

Source: City of Modesto Department of Finance.

After conducting a Proposition 218 hearing in April 2016, the City Council adopted a new 5-year sewer rate increase, from Fiscal Year 2016-17 through Fiscal Year 2020-21, and new capacity fees in 2016, reflecting the results and recommendations of the 2016 City of Modesto Sewer Rate and Fee Study. These annual rate increases are capped at approximately 6% per year. The City reviews the rates annually and may revise rates to be lower if excess funds are available. See "WASTEWATER SYSTEM FINANCES—Rates."

Management

The Enterprise is operated under the management and control of the City Council. Currently, day-to-day management is provided by William Wong, Acting Director of Utilities; Laura Anhalt, Water Quality Control Plant Manager; Robert Englent, Wastewater Collection Manager; Thomas Sinclair, Environmental Regulatory Compliance Manager, under the general supervision of Joseph Lopez, Interim City Manager.

Brief resumes of the senior staff of the Enterprise are presented below:

William Wong, P.E. – Acting Utilities Director/Engineering Division Manager. Will Wong has a B.S. in Civil Engineering from University of California at Davis. He has over 23 years of experience working on water and wastewater infrastructure projects, and has been with the City for over 16 years. He is currently the Acting Utilities Director/Engineering Division Manager, overseeing the City's Utilities Department's Engineering Services Division, and Wastewater and Water Operations and Maintenance Divisions.

Laura Anhalt – Wastewater Treatment Plant Manager, Chief Plant Operator. Laura Anhalt has an A.A. degree and over 25 years of experience in Wastewater. She has been with the City of Modesto for approximately 10 years. For the past 10 years, she has managed the Sutter Primary and Jennings Secondary, Tertiary treatment facilities. She has commissioned the Dissolved Air Flotation system, 2.3 mgd Phase I Tertiary MBR, BNR treatment process and is currently managing the commissioning of the 12.6 mgd Phase II Tertiary process. She is assisting in the oversight of the construction project and will manage the NVRRWP station when complete.

Robert Englent – Wastewater Collection System Manager. Robert Englent has been in the wastewater industry for 23 years, holds a California Water Environment Association ("CWEA") wastewater collections Grade IV certification and a California General Engineering Contractors license (inactive). Robert's experience includes management of wastewater collection systems, asset management, computerized maintenance management systems, planning/scheduling, purchasing, and warehouse management. Robert is currently the Wastewater Collection System Manager for the City, overseeing all aspects of operation, maintenance, repair, and replacement of the wastewater and storm water collections systems.

Thomas W. Sinclair – Environmental Regulatory Compliance Manager. Thomas W. Sinclair has a B.S. in Geology and Oceanography from San Jose State University, San Jose, California. He has over 36 years of multi-disciplinary experience in environmental, safety, and regulatory compliance. Thomas's experience includes ISO 14001 certification, laboratory management, hazardous material and waste management, U.S. DOT compliance, groundwater remediation, storm water, and wastewater treatment. He is currently the Environmental Regulatory Compliance Manager of Modesto Utilities Department overseeing safety and regulatory compliance.

The City is in the process of establishing a succession plan for senior management, which includes formal training and lines of succession.

Employees

The Utilities Director has primary responsibility for the management of the water control facilities and wastewater collection system as well as for the water system and streets and storm drains. As of February 5, 2018, the Enterprise has 122 full-time employees. Employees are represented by the Modesto City Employees Association and Modesto Confidential and Management Association whose current Memorandum of Understanding expires in 2019. The City has never experienced a labor strike.

Retirement Programs

Pension Plans. The City's permanent employees, including Enterprise employees, are covered by the California Public Employees Retirement System ("CalPERS") through agent multiple-employer defined benefit plans administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers ca.gov. The foregoing internet address is included for reference only, and the information on the internet site is not incorporated by reference herein.

The City's defined benefit pension plans, the Miscellaneous Plan and the City's Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members (who must be public employees) and beneficiaries. Benefit provisions and all other requirements of the plans are established by State statute, including the Public Employees' Pension Reform Act of 2013 which primarily affects new pension plan members enrolled after 2012, and City resolutions. No employees assigned to the Enterprise participate in the City's Safety Plan.

Set forth below is a table summarizing the funding status of the City's Miscellaneous Plan for the three Fiscal Years ended June 30, 2016:

TABLE 3
CITY OF MODESTO
Funding Status
Fiscal Years 2013-14 through 2015-16

Fiscal Year	*Accrued Liability*	*Market Value of Assets (MVA)*	*Unfunded Liability*	*Funded Ratio*	*Annual Covered Payroll*
2013-14	$391,732,640	$320,028,523	$ 71,704,117	81.7%	$40,352,210
2014-15	403,556,016	314,543,491	89,012,525	77.9	43,890,894
2015-16	421,909,284	304,402,635	117,506,649	72.1	45,374,121

Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016.

The City's required contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Many assumptions are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations. Beginning with the June 30, 2013 valuation, CalPERS no longer uses an actuarial value of assets and instead uses the market value of assets to determine contribution rates per CalPERS' direct rate smoothing policy. Under its direct rate smoothing policy, adopted in April 2013, CalPERS employs an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. In February 2018, CalPERS revised its amortization policy to reduce the amortization period for gains and losses from a 30-year period to a 20-year period. Although CalPERS has not provided the City with revised projected contributions, the reduced amortization period may result in increased required employer contributions.

The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the City's required contributions to CalPERS in future years. One of the most significant factors used in determining the liability and the funding requirements is the rate of return that investments will yield prior to making payments, known as the discount rate. CalPERs has approved an incremental reduction in the discount rate to be used in its actuarial valuation from 7.5% to 7.0% over the three Fiscal Years 2017-18 to 2019-20, which is expected to result in an increase in the unfunded liability and the contributions required to meet those obligations. The City has taken into account future increases in the CalPERS contribution rates in its forecasts of salary and benefit projections shown in the table under the heading, "WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage."

Effective for the Fiscal Year ended June 30, 2015, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, affecting the reporting of pension liabilities for accounting purposes. Under GASB Statement No. 68, the City is required to report the Net Pension Liability (i.e., the difference between the Total Pension Liability and the Pension Plan's Net Position or market value of assets) in its financial statements.

In accordance with applicable State law, the contribution rate for all public employers is determined annually by the actuary and is effective on the July 1 following notice of a change in rate. Funding contribution amounts are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate applied to annual payroll is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the actuarially determined amounts, net of contributions by employees, necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. The cost of the Miscellaneous Plan is funded through bi-weekly contributions from employees and from employer contributions by the City.

The employer contribution rates are established, and may be amended, by CalPERS. Set forth below is a table showing the City's required employer and employee contribution rates for the Miscellaneous Plan (as a percentage of annual covered payroll) for the four Fiscal Years ended June 30, 2017. The City does not pick up any payments on behalf of its employees.

TABLE 4
CITY OF MODESTO
Historical Employer and Employee Contribution Rates
Fiscal Years 2013-14 through 2016-17

Fiscal Year	*Employee Contribution Rate as Percentage of Annual Covered Payroll*	*Employer Contribution Rate as Percentage of Annual Covered Payroll*
2013-14	11.984%	7.0%
2014-15	13.539	7.0
2015-16	15.208	7.0
2016-17	17.290	7.0

Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016.

The Enterprise is allocated its portion of the City's required contribution for the Miscellaneous Plan. This allocation is based on eligible employee wages. Set forth below is a table showing the City's required contributions to its CalPERS Miscellaneous Plan for the four Fiscal Years ended June 30, 2017, 2016, 2015, and 2014 and the amount in each year allocated to the Enterprise:

TABLE 5
CITY OF MODESTO
WASTEWATER SYSTEM
Historical Employer and Employee Contribution Rates
for the City and Enterprise Allocation
Fiscal Years 2013-14 through 2016-17

Fiscal Year	*City Required Contribution*	*Amount Allocated to the Enterprise*
2013-14	$ 7,877,454	$1,155,212
2014-15	8,469,913	1,299,719
2015-16	10,027,256	1,594,033
2016-17	11,664,830	1,836,281

Sources: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016; City of Modesto Finance Department.

The City has made all actuarially required payments to CalPERS for its Pension Plans on a timely basis.

CalPERS provided the City with the following required contribution for Fiscal Year ended June 30, 2019 and projected contributions from Fiscal Year ended June 30, 2020 through June 30, 2025:

TABLE 6
CITY OF MODESTO
Required and Projected Future Employer Contributions[(1)]
Miscellaneous Plan
Fiscal Years 2018-19 through 2024-25

Fiscal Year	*Total Contributions[(2)]*
2018-19	$10,213,795
2019-20	12,052,058
2020-21	13,676,271
2021-22	15,224,320
2022-23	16,629,725
2023-24	17,645,924
2024-25	18,471,316

(1) Assumes 7.375% return for Fiscal Year 2016-17. Does not reflect potential impact of reduced amortization period of 20 years, as described above in "—Retirement Programs—Pension Plans."

(2) Total contribution consists of the normal cost plus the UAL payment. Figures are for the City as a whole for its Miscellaneous Plan only.

Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016.

Approximately 15.74% of these contributions are expected to be allocable to the Wastewater Enterprise and are included in "Total Operating Expenditures, Net of Depreciation" shown in the projected debt service coverage table.

Future increases in required CalPERS contributions will impact the City's reserve levels and require future action to either reduce expenses through service reductions or increase revenues through tax or service rate increases. The City's ability to increase taxes is subject to Constitutional limitations. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES." The City cannot provide any assurances that the City's required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

Retiree Health Benefits. In addition to the defined benefit pension plan described above, the City also maintains its own program providing "other post-employment benefits" ("OPEB") to eligible retirees, including health care and disability coverage and death benefits. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leaves upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion.

Based on eligibility status, retirees may participate in any health plan made available to active City employees. The City has several plans with different contribution levels and benefit provisions. City contributions vary up to 100% of annual premium cost, depending on the employee's Medicare eligibility, year of hire, year of retirement, age and employee group. At June 30, 2016, 313 retirees or surviving spouses met the various eligibility requirements and were receiving medical benefits; 163 retirees are receiving dental benefits.

The City's contributions toward the cost of its OPEB program are generally funded on a pay-as-you-go basis. The City's OPEB plan annual required contributions for the Fiscal Years ended June 30 of 2015, 2016 and 2017 are set forth below:

TABLE 7
CITY OF MODESTO
OPEB Contributions
Fiscal Years 2014-15 through 2016-17

Fiscal Year ended June 30	*Annual Required Contribution (ARC)*	*Interest on Net OPEB Obligations*	*ARC Adjustments*	*Annual OPEB Cost*	*Actual Contribution*	*Net OPEB Obligation*	*Percentage of Annual OPEB Cost Contribution*
2015	$3,189,054	$2,382,790	$(4,383,246)	$1,188,598	$3,806,476	$56,951,862	320.25%
2016	3,189,054	2,382,790	(4,383,246)	1,188,598	1,949,129	56,191,331	163.99
2017	2,806,942	2,247,653	(4,134,656)	919,939	2,611,886	54,499,384	283.92

Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016.

The following table provides a schedule of funding progress for the City's OPEB liability is based on the most recent actuarial valuation as of January 1, 2017.

TABLE 8
CITY OF MODESTO
OPEB Funding Progress
As of January 1, 2017

Actuarial Valuation Date	*Actuarial Value of Assets (A)*	*Entry Age Actuarial Accrued Liability (B)*	*(Underfunded) Actuarial Accrued Liability (A-B)*	*Funded Ratio (A/B)*	*Covered Payroll (C)*	*(Underfunded) Actuarial Liability as Percentage of Covered Payroll ((A-B)/C)*
1/01/2017	$0	$28,645,234	$(28,645,234)	0.00%	$43,842,302	(65.34%)

Source: City of Modesto, Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2017.

Governmental Accounting Standards Board Statement No. 45 has required the City to account for and disclose its OPEB liability since the Fiscal Year ended June 30, 2009.

Additional information regarding the City's retirement plans and OPEB, including information regarding the assumptions used to determine the pension and OPEB liabilities and the funding requirements therefor, can be found in Notes III(F) and III(G) and the Required Supplementary Information to the City's audited financial statements included in the City's comprehensive annual financial report for the Fiscal Year ended June 30, 2017, attached hereto as Appendix B.

The Enterprise is allocated its portion of the City's required contribution for OPEB. This allocation is based on eligible employee wages. Set forth below is a table showing the City's required and actual contributions to its OPEB Plan for the four Fiscal Years ended June 30, 2013 through 2017. Approximately 8.368% of the actual contributions in each year were allocated to the Enterprise.

TABLE 9
CITY OF MODESTO
Other Post-Employment Benefits (OPEB)
Historical Employer and Employee
Contribution Rates for the City
Fiscal Years 2013-14 through 2016-17

Fiscal Year	*City Required Contribution*	*Actual Contribution*	*Actual Amount Allocated to the Enterprise*
2013-14	$8,564,803	$4,818,434	$403,207
2014-15	3,189,054	3,806,476	318,526
2015-16	3,189,054	1,949,129	163,103
2016-17	2,806,942	2,611,886	218,563

Source: City of Modesto Finance Department.

The City projects the following OPEB contributions for calendar years 2018 through 2024:

TABLE 10
CITY OF MODESTO
Projected Future Employer OPEB Contributions
Calendar Years 2018 through 2024

Calendar Year	*Total Contribution*
2018	$3,012,079
2019	3,003,412
2020	2,864,123
2021	2,750,598
2022	2,604,920
2023	2,445,397
2024	2,277,791

Source: City of Modesto Department of Finance.

Approximately 8.368% of these contributions are expected to be allocable to the Wastewater Enterprise and are included in "Total Operating Expenditures, Net of Depreciation" shown in the projected debt service coverage table.

Future increases in OPEB contributions will impact the City's reserve levels and require future action to either reduce expenses through service reductions or increase revenues through tax or service rate increases. The City's ability to increase taxes is subject to Constitutional limitations. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES." The City cannot provide any assurances that the City's required contributions OPEB in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

Insurance

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim/occurrence as follows: workers' compensation $500,000; liability $1,000,000. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts. For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability risk pool. This pool covers City claims between $1 million and $5 million. Commercial insurance covers claims over $5,000,000 in four excess layers, of $10,000,000 each and one additional layer of $5,000,000 above $45,000,000; for additional total coverage of $50,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five Fiscal Years.

The City currently maintains insurance against damage to the Enterprise. Coverage thereunder is covered by a commercial property insurance policy with a blanket limit of $480,302,683 but damage resulting from earthquakes is not covered.

Wastewater System Users

The Enterprise's customer base consists primarily of residential accounts although a portion of revenues comes from industrial customers. The breakdown of accounts by category and percentage of total operating revenues are as follows for Fiscal Year 2016-17:

TABLE 11
CITY OF MODESTO
WASTEWATER SYSTEM
Customer Base by Type of Account

Category	*Number of Accounts*	*Percentage of Total Accounts*	*Percentage of Total Operating Revenues*
Residential	57,947	94.61%	49.56%
Commercial	3,259	5.32	10.45
Industrial	42	0.07	29.80
Total	61,248	100.00%	89.82%

Source: City of Modesto Finance Department.

The 10 largest users of the Enterprise accounted for approximately 19.60% of total service charge revenue in Fiscal Year 2016-17, nine of which are included in the industrial category in the prior table. The largest users, in terms of amounts billed to each during the past Fiscal Year, are listed below:

TABLE 12
CITY OF MODESTO
WASTEWATER SYSTEM
Ten Largest Users of Sewer Facilities
As of June 30, 2017

	Users	*Sewer Fee Operating Revenue*	*% of Sewer Fee Operating Revenue*
1)	Stanislaus Food Products	$ 1,409,172	3.17%
2)	E & J Gallo Winery	1,358,209	3.06
3)	Foster Farms	1,152,448	2.59
4)	Frito Lay, Inc.	1,088,277	2.45
5)	Del Monte Foods	1,062,966	2.39
6)	City Of Ceres	1,020,714	2.30
7)	Seneca	452,282	1.02
8)	Sunopta	430,868	0.97
9)	Nestle Food Company	395,568	0.89
10)	Rizo Lopez Foods	334,130	0.75
	Total (Top Ten Customers)	$ 8,704,634	19.60%
	Total (All Customers)	$ 44,410,464	

Source: City of Modesto Finance Department.

Beginning in Fiscal Year 2017-18, the Del Puerto Water District is expected to provide revenues of approximately $800,000 per year. In addition the Del Puerto Water District will pay or reimburse the City for: (1) all 2016 State Loan debt service, (2) one-half of the debt service cost savings resulting from the Proposition 1 grant, (3) costs to operate and maintain the recycled water delivery facilities, and (4) $30 per acre-foot for the

recycled water. The Del Puerto Water District revenues are included in the projections provided in the table under the heading, "WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage."

PCE Litigation

The City of Modesto Redevelopment Agency brought an action in 1998 against numerous defendants, alleging causes of action for strict liability, negligence, negligence per se, continuing trespass, private and public nuisance, private and public nuisance per se, response costs and declaratory relief under the Carpenter-Presley-Tanner Hazardous Substance Account Act (Health & Safety Code Section 25300 *et seq.*), ultrahazardous activity, and cost recovery under the Polanco Redevelopment Act (Health & Safety Code Section 33459 *et seq.*) (San Francisco County Superior Court Case No. 999345). Because the City had to provide certain related cleanup efforts, simultaneously with the filing of that action, the City, along with the City of Modesto Sewer District No. 1, brought another action against a nearly identical group of defendants seeking damages for solvent contamination under many of the same legal theories; but this action did not include a Polanco Redevelopment Act cause of action (San Francisco County Superior Court Case No. 999643). The defendants included chlorinated solvent manufacturers, distributors of solvents and dry cleaning equipment, chlorinated solvent equipment manufacturers, and dry cleaning retailers.

The complaints alleged that two cleaning solvents, perchloroethylene ("PERC" or "PCE") and trichloroethylene, cause risks to health and the environment, that dry cleaners customarily dumped solvent wastewater into the public sewer systems, and that dry cleaners experienced a habitual problem of chlorinated solvents leaking into the environment. According to the complaints, the defendants who manufactured and supplied solvents and equipment instructed dry cleaners that chlorinated solvents could be discharged into sewers and/or failed to issue recalls or warnings regarding the equipment and solvents.

The plaintiffs tried five "bellweather" suits before a jury from February to June of 2006, and won a verdict for compensatory damages of $3.1 million and a verdict for punitive damages of $175 million, later lowered to $12 million. This result has stalled settlement negotiations while both sides appeal various liability and damage issues. The litigation remains active, but previous settlements and insurance payments have rendered the litigation essentially cost neutral to the City's Water and Sewer Enterprise Funds, which have funded the litigation to date on a roughly equal basis. It is not anticipated that the cost/settlement ratio will change dramatically in the 15 months following the issuance of the Series 2018A Bonds, which is as far as the City believes reasonable forecasting may be done on the cost issue.

WASTEWATER SYSTEM FINANCES

Rate Setting and Budget Process

The City reviews its budgetary progress on a quarterly basis. In accordance with California law, the City Council may, from time to time and at its discretion, fix, alter, change, amend or revise any user fees, connection charges and all other fees related to the Enterprise. Proposition 218, passed by the California electorate in 1996 potentially affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution."

Proposition 218 Process

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218. This amendment changed the process for increasing property-related fees within the state. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution" herein. For the City, sewer rates are treated as a property-related fee and, pursuant to Proposition 218, require a protest hearing by the property owners prior to instituting a rate increase. Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property

owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If a significant number of protests are returned to the City no later than the end of the protest hearing, the City may not approve the proposed rate increase. If the protest fails with 50% or less, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form. The rate increases for the services of the Enterprise which took effect on July 1, 2016 were all approved following the procedures required by Proposition 218. The City expects to undertake its next rate review process in the next two years.

Rates

The Enterprise collects its sewer service charges on the City's monthly utility bill, which includes water, sewer, storm drain and garbage. If charges are not paid, the City begins the process of initiating a lien on the user's property and may discontinue sewer service to the user. Historically, less than 1% of billed amounts for sewer service charges has been written off as bad debt.

For the average single-family residence, the current monthly sewer charge is $33.76 as of July 1, 2017. A schedule of commercial sewer rates is set forth below as of July 1, 2017:

TABLE 13
CITY OF MODESTO
Schedule of Commercial Sewer Rates

Commercial Group	*Monthly Account Charge*	*Additional Charge Per 100 cubic feet (ccf) of Waste*
Group 1[(1)]	$4.40	$2.76
Group 2[(2)]	4.40	3.78
Group 3[(3)]	4.40	4.80
Group 4[(4)]	4.40	6.03

(1) No food, just toilets or working facilities.
(2) Commercial laundromats, service stations, hotels without food.
(3) Industrial laundromats, hotels with food.
(4) Restaurants, bakeries, auto steam, markets.

Source: City of Modesto.

A schedule of industrial sewer rates is set forth below as of July 1, 2017:

TABLE 14
CITY OF MODESTO
Schedule of Industrial Sewer Rates

Flow Per Million Gallons	$2,604
Excess Biochemical Oxygen Demand (BOD) Per 1,000 Pounds	213
Excess Suspended Solids (SS) Per 1000 Pounds	441

Source: City of Modesto.

Residential, commercial and industrial rates have increased during the past five years. Below are the residential rate increases for the last five years, as well as approved increases through 2020-2021. As part of its annual budget process, the City may lower rates if its excess revenues allow the City to maintain its covenants and compliance with its coverage and reserve policies while imposing such lower rates.

TABLE 15
CITY OF MODESTO
Schedule of Residential Sewer Rate Increases

Fiscal Year	*Residential Rate Percent Increase*
2012–13	6.0%
2013–14	6.0
2014–15	2.0
2015–16	3.0
2016–17	5.8
2017-18	6.0
2018-19	5.8
2019-20	6.1
2020-21	5.7

Source: City of Modesto.

Comparative Monthly Wastewater Service Charges. The City's residential charges as of September 1, 2017 are set forth in the table below with a comparison to other Central Valley cities.

TABLE 16
CITY OF MODESTO
WASTEWATER SYSTEM
Monthly Sewer Charge Comparison
Residential Service
As of September 1, 2017

City	*Monthly Residential Charge*
Fresno	$ 25.75
Waterford	31.53
Tracy	34.00
Modesto	**35.78**
Stockton	38.36
Turlock	44.16

Source: City of Modesto.

Connection Fees. The Enterprise imposes connection fees on a one-time basis to new users of the sewer system and to users that significantly expand their usage. The fees have three components:

Connection charge:	$2,643 per Equivalent Dwelling Unit for residential. Commercial and industrial property are charged based on type of business.
Sub-trunk sewer charge:	Approximately $645/acre
Connection (lateral) charge:	$33 per linear foot of lot frontage adjacent to the sewer line

Connection fees are treated as contributed capital and are used only for capital projects, not for operations.

The most recent cost of service study and a connection fee study made recommendations for new rate structures for the next five years to fund the capital improvement program. Such new rate structures were adopted in April 2016.

Comparative Connection Fees. The current Connection Fees and a comparison of the City's Connection Fees to those of other Central Valley and Northern California cities are set forth in the table below.

TABLE 17
CITY OF MODESTO
WASTEWATER SYSTEM
Wastewater Connection Fees Comparison
As of July 1, 2016

City	*Connection Fee*
Fresno[(1)]	$3,438.50
Lodi[(2)]	2,932.00
Modesto	**2,643.00**
Stockton	635.00
Tracy	6,727.00
Turlock	2,636.66

(1) Connection fees are based on the size of the lot & location.
(2) Connection fees are based on the size of the water meter.

Source: City of Modesto.

Financial Information

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into seven generic funds within three broad fund types, and a fourth category of accounting entities, the account groups, as follows:

Governmental Funds	General Fund Special Revenue Funds Capital Project Funds
Proprietary Funds	Debt Service Funds Enterprise Funds Internal Service Funds
Fiduciary Funds	Agency Funds

Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises in that the costs of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges. The City accounts for the operations of the sewer, storm drain, and water systems, airport, golf, community center, parking, compost, and bus service systems on this basis. Enterprise funds are accounted for using the accrual basis of accounting. Unbilled utility services receivables are recorded at year-end. Property and equipment owned by enterprise funds are stated at historical cost where available and at estimated cost when original cost is not available. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets, which are 30 years for buildings, 20 years for improvements, 10 years for furnishings and equipment and 75 years for pipelines.

See Appendix B – "CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2016-17" for the City's comprehensive annual financial report.

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Historical Debt Service Coverage

The following table shows debt service coverage for the Sewer Enterprise Fund for the Fiscal Years ended June 30, 2013 through June 30, 2017.

TABLE 18
CITY OF MODESTO SEWER ENTERPRISE
HISTORICAL DEBT SERVICE COVERAGE
Fiscal Years Ended June 30, 2013 through June 30, 2017
(In Thousands of Dollars)

	2013	*2014*	*2015*	*2016*	*2017*[1]
GROSS REVENUES:					
Operating Revenue					
Connection Charges[2]	$41,529,223	$43,838,996	$43,408,271	$44,796,050	$46,042,925
Interest Income	320,026	583,079	453,271	579,520	609,224
Rental Income	497,700	501,671	501,959	502,627	503,969
Miscellaneous Income	2,591,922	2,309,283	2,489,867	3,086,225	3,764,820
GROSS REVENUES	$44,938,871	$47,233,029	$46,853,368	$48,964,422	$50,920,938
OPERATING EXPENSES:					
Operating Expenditures, Net of Depreciation	$18,311,400	$18,627,002	$20,383,489	$24,115,325	$24,402,900
Allocated Indirect Administration Costs	999,819	681,209	615,916	665,616	642,202
Property Taxes[3]	151,015	144,245	138,980	142,526	136,993
Other Uses (Transfers Out)	89,592	407,975	68,640	68,640	68,640
TOTAL OPERATING EXPENSES[4]	$19,551,826	$19,860,430	$21,207,025	$24,992,107	$25,250,735
NET OPERATING REVENUES	$25,387,045	$27,372,599	$25,646,343	$23,972,315	$25,670,203
DEBT SERVICE[5]:					
Series 2005 Bonds[6]	$3,356,954	3,533,248	$3,539,469	$3,721,135	-
Series 2006A Bonds[7]	712,560	728,732	729,721	849,151	629,476
2011 State Loan	-	-		-	7,894,560
Series 2015 Bond	-	-		-	2,787,062
2016 State Loan[8]	-	-		-	-
TOTAL DEBT SERVICE	$4,069,514	$4,261,980	$4,269,190	$4,570,286	$11,311,098
NET REVENUES AFTER DEBT SERVICES	$21,317,531	$23,110,619	$21,377,153	$19,402,029	$14,359,105
DEBT SERVICE COVERAGE[9] (Net Operating Revenues/ Total Debt Service)	6.24x	6.42x	6.01x	5.25x	2.27x
Fund Balance	$59,973,324	$73,500,856	$78,109,157	$76,416,372	$76,760,080

(1) Reflects estimated, unaudited amounts.
(2) Connection charges include service charges.
(3) Property taxes paid for property outside of City limits.
(4) Increase of approximately 17.8% from Fiscal Year ended June 30, 2015 to Fiscal Year ended June 30, 2016 largely driven by the 12.6 mgd Phase 2 BNR/Tertiary Treatment Facilities completed in 2015. See 'WASTEWATER SYSTEM—System Description—General."
(5) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS—Outstanding Parity Debt."
(6) Refunded.
(7) To be refunded by the Series 2018A Bonds.
(8) Debt service commences when the full loan amount has been drawn. Payments expected to commence in Fiscal Year ended 2018-19 are shown in Table 19 – "CITY OF MODESTO SEWER ENTERPRISE—PROJECTED DEBT SERVICE COVERAGE."
(9) Decline in debt service coverage for Fiscal Year ended June 30, 2017 reflects first payment of 2011 State Loan, which funded the Phase 2 BNR/Tertiary Treatment Facilities. Results differ in minor respects from the summary table in the City's CAFR. See Appendix B – "CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2016-17."

Source: City of Modesto Finance Department.

Projected Debt Service Coverage

The following table sets forth projected operating revenues, Operating Expenses and debt service coverage for the Sewer Enterprise Fund for the Fiscal Years ending June 30, 2018 through June 30, 2022. The projections of amounts, and timing for receipts and disbursements in the table, are updated for growth assumptions and assume projected rate increases (See "—Rates"). The following table also assumes full drawn down of the 2016 State Loan by July 1, 2018 and no optional or special mandatory redemption of the Series 2018A Bonds or prepayment of the Existing Parity Debt. *The following projections are based on the City's current circumstances and currently available information and are believed to be reasonable. The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected operating results may be material.*

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TABLE 19
CITY OF MODESTO WASTEWATER ENTERPRISE
PROJECTED DEBT SERVICE COVERAGE
Fiscal Years Ending June 30, 2018 through June 30, 2022
(In Thousands of Dollars)

	2018	*2019*	*2020*	*2021*	*2022*[1]
GROSS REVENUES:					
Operating Revenue					
Connection Charges[2]	$48,567,750	$51,481,815	$54,570,724	$57,844,967	$57,844,967
Recycled Water Sale/Del Puerto Water District[3]	397,500	2,389,058	2,639,214	2,772,158	2,778,400
Interest Income	330,000	330,000	330,000	330,000	330,000
Rental Income	479,700	479,700	479,700	479,700	479,700
Direct Charges/Cost Distribution	3,580,192	3,641,066	3,713,888	3,788,166	3,863,929
Transfers from Other Funds	378,000	378,000	378,000	378,000	378,000
Developmental Fees	565,500	565,500	565,500	565,500	565,500
GROSS OPERATING REVENUES	$54,298,642	$59,265,140	$62,677,025	$66,158,490	$66,240,496
OPERATING EXPENSES					
Total Operating Expenditures, Net of Depreciation	$32,977,284	$34,272,518	$34,957,968	$35,657,128	$36,370,270
Property Taxes[4]	152,560	155,611	158,723	161,898	165,136
Recycled Water	1,098,042	300,000	306,000	312,120	318,362
Other Uses (Transfers Out)	68,640	68,640	68,640	68,640	68,640
TOTAL OPERATING EXPENSES	$34,296,526	$34,796,769	$35,491,332	$36,199,786	$36,922,409
NET OPERATING REVENUES	$20,002,116	$24,468,371	$27,185,694	$29,958,705	$29,318,088
DEBT SERVICE[5]					
Series 2006A Bonds[6]	$ 625,757	-	-	-	-
2011 State Loan	8,245,564	$8,245,564	$8,245,564	$8,245,564	$8,245,564
Series 2015 Bond	2,778,864	2,784,727	2,786,695	2,781,314	2,784,602
2016 State Loan	-	1,262,431	1,506,587	1,633,411	1,633,411
Series 2018A Bonds	-	522,867	506,000	506,000	506,000
Bonds/Parity Debt	-	905,000	2,335,000	2,335,000	2,335,000
TOTAL DEBT SERVICE	$11,650,185	$13,720,589	$15,379,846	$15,501,289	$15,504,576
NET REVENUES AFTER DEBT SERVICE	$8,351,931	$10,747,781	$11,805,848	$14,457,416	$13,813,511
DEBT SERVICE COVERAGE (Net Operating Revenues/ Total Debt Service)	1.72x	1.78x	1.77x	1.93x	1.89x
Fund Balance Applied to fund Capital Projects	$27,113,950	$43,802,235	$ 5,174,090	$21,178,699	$20,877,130
Projected Ending Fund Balance	$57,998,061	$24,943,607	$31,575,364	$24,854,081	$17,790,462
Minimum Reserve Required by City Policy[7]	$16,819,696	$18,207,188	$18,624,984	$18,928,921	$19,109,577

(1) Rate increases for Fiscal Year ending June 30, 2022 have not yet been approved by the City Council.
(2) Connection charges include service charges.
(3) Includes reimbursement by the Del Puerto Water District for the 2016 State Loan payments and half of the Proposition 1 savings grant. See 'WASTEWATER SYSTEM—System Description—General."
(4) Property taxes paid for property outside of City limits, including north Ceres and the former Empire Sanitation District.
(5) See "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2018A BONDS—Outstanding Parity Debt."
(6) To be refunded by the Series 2018A Bonds.
(7) Per City Policy, the City maintains a minimum reserve of 25% of Operating Expense plus one 2016 State Loan Payment.

Source: City of Modesto Finance Department.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Series 2018A Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Series 2018A Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Series 2018A Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the Series 2018A Bonds is secured solely by a pledge of the Net Revenues and certain funds under the Indenture. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide wastewater services to its users, and the ability of the City to establish and maintain wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Operating Expenses.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City. See "System Demand" below.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could interrupt operation of the Enterprise and cause increased costs and thereby interrupt the ability of the City to realize Net Revenues. The City is not obligated under the Indenture to have earthquake or flood insurance. According to the California Geological Survey website, the City is not one of the 100 incorporated cities within California on an Earthquake Fault Zone. The primary treatment plant site that was impacted by the 1997 Tuolumne River flooding was upgraded in Fiscal Year 1998-99 with a new Headworks and Cannery Segregation Project. This project mitigated the critical functions of the facility and the impact on those critical process and functional units at the facility from a hundred year flood event. Both the City's treatment facilities were affected by both the Tuolumne and San Joaquin Rivers flooding in 2016. A collapsed River Sewer Trunk line increased the hydraulic flows and overloaded the treatment facilities. The River Trunk Realignment project, currently completing design, will mitigate this issue in the future. The City maintains flood insurance for areas surrounding the Toulumne River.

Natural disasters could also adversely affect the service area of the Enterprise, leading to reduced demand for wastewater service.

System Demand/Concentrated Customers

There can be no assurance that the demand for wastewater services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the covenants to fix rates and charges so as to produce Net Revenues equal to 125% of Debt Service. Moreover, although industrial users account for only 43 of the over 61,000 accounts utilizing the Enterprise as of January 2018, they are responsible for approximately 30% of the sewer fee operating revenues of the Enterprise; and the overwhelming majority of the industrial users are associated with the food or beverage industries. Nine of the ten largest customers of the Enterprise in Fiscal Year 2016-17 are in this category and accounted for 17.3% of sewer fee operating revenue as of June 30, 2017. See "WASTEWATER SYSTEM—Wastewater System Users." Thus, any changes in these industries and/or the particular customers who utilize the services of the Enterprise which would reduce their wastewater discharge could adversely affect the revenues of the Enterprise.

The City allocates capacity in the Enterprise to major industrial users through the issuance of Wastewater Discharge Permits. Pursuant to Section 5-6.403 of the City's Municipal Code, whenever the annual flow from a major industrial user for a calendar year falls below 80% of the capacity allocation shown in the applicable Wastewater Discharge Permit, the major industrial user must pay a minimum sewer service charge for such calendar

year based on 80% of such capacity allocation. This requirement is intended to assure that the City will receive at least 80% of the sewer service charges based on the capacity allocated to major industrial users. However, it may limit the ability of the City to reallocate unused allocated capacity in order to maximize the potential sewer fee revenue of the Enterprise.

System Expenses

There can be no assurance that the City's expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require a significant increase in rates or charges in order to pay for City wastewater projects and comply with the rate covenant. The treatment needs are expected to be affected by growth and tightened regulatory requirements in the future. Preliminary cost estimates for capital improvements required to service build out in the City (currently expected in 2035) are in the range of $505.3 million based on current build out and permit requirements assumptions and measured in June 1, 2017 dollars. As stated above, the City is in the process of implementing a plan for capital improvements, including the preparation of a detailed updated Master Plan, which is currently in progress and which will provide a framework for future wastewater discharge permit requirements. See "WASTEWATER SYSTEM—Master Plan Update, Capital Improvement Plan and Future Capital Needs."

Rate Process

The passage of Proposition 218 by the California electorate potentially affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution."

Permits and Regulation

The wastewater operations of the City are subject to discharge permits from the State Water Resources Control Board. A number of these permits will be modified from time to time to show increased capacity. The major sewer permits are two Waste Discharge Requirements, one centered on river discharge and the other on land discharge. See "WASTEWATER SYSTEM—Permitting Issues."

The City-treated effluent discharge to the San Joaquin River is regulated by the State through a NPDES permit. The renewal process includes specific "effluent limitations" that are typically maximum allowable discharge concentrations for certain constituents. Those constituents that require effluent limitations, and the process for determining the effluent limitation concentration are based on water quality objectives on the San Joaquin River, the implementation of these objectives using the State Implementation Plan (SIP), and observed concentrations in the wastewater treatment facility effluent and the San Joaquin River. The SIP also allows the City to perform additional water quality studies related to permit compliance and effluent limitations. These can be considered during the permit renewal process and can be critical to establishing accurate effluent limitations that are protective of the San Joaquin River and based on the best available science. Each permit-adopted effluent limitation violation is subject to a maximum mandatory penalty.

During the last several years, the City has successfully completed several water quality studies that should be considered in the upcoming permit renewal. The completed study list includes a copper translator study, a dilution/mixing zone study, a dissolved oxygen "far-field" modeling study, a dynamic regulatory compliance model study, and continued water quality monitoring using state-of-the-art analytical methods. To provide the best available science to permit renewal process, the City intends to collect data and perform several additional water quality studies. The City will also increase effluent and San Joaquin River monitoring of key constituents that have been identified as ongoing and new permit issues.

In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state agencies, should impose stricter water quality standards upon the Enterprise, the City's expenses could increase accordingly and rates and charges would have to be increased significantly to offset those expenses. It is not possible to predict the

direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs.

See "WASTEWATER SYSTEM—Permitting Issues."

Limitations on Remedies and Bankruptcy

The ability of the City to increase sewer services charges and to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Series 2018A Bonds and Parity Debt may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution." Furthermore, any remedies available to the owners of the Series 2018A Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Series 2018A Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Series 2018A Bonds will be so qualified. In addition, the opinion to be delivered by Norton Rose Fulbright US LLP, Bond Counsel, concurrently with the issuance of the Series 2018A Bonds, will also state that the enforceability of the Indenture is subject to the limitations on the imposition of fees and charges by the City relating to the Enterprise under Article XIIIC and XIIID of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto. In the event the City fails to comply with its covenants under the Indenture or to pay principal of or interest on the Series 2018A Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2018A Bonds.

The enforcement of the remedies provided in the Indenture could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the City were to file a petition under Chapter 9 ("Chapter 9") of the Bankruptcy Code (Title 11, United States Code), the Series 2018A Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture.

Chapter 9 provides certain protections for bonds secured by "special revenues." "Special revenues" includes "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems. "' The City believes that the Net Revenues and other funds pledged under the Indenture constitute "special revenues" under Chapter 9. Section 928(a) of Chapter 9 provides that special revenues received by a municipal debtor after the commencement of a Chapter 9 case remain subject to any lien resulting from the pre-petition pledge provided under the Indenture. Further, Section 922 provides that the automatic stay imposed by Chapter 9 does not stay the application of special revenues to the payment of bonded indebtedness. However, a bankruptcy court may determine that the Net Revenues and other funds pledged under the Indenture are not special revenues, or that the bankruptcy court has no power to control the municipality's use of such special revenues during the pendency of the bankruptcy case.

In a recent bankruptcy court decision, entitled Opinion and Order Granting Motion to Dismiss Plaintiffs' Complaint Pursuant to Fed. R. Civ. P. 12(B)(1) and (B)(6), and filed in U.S.D.C. (Puerto Rico) Case Nos. 17-00155 and 17-00156, respectively, involving instrumentalities of the Commonwealth of Puerto Rico, the bankruptcy court reiterated that the Bankruptcy Code could not be used to invalidate consensual prepetition liens on special revenues acquired by a debtor post-petition. However, the bankruptcy court held that the "special revenue" provisions of the Bankruptcy Code (made applicable to the Commonwealth by provisions of special legislation known as PROMESA) do not require the turnover of those special revenues to bondholders during the course of a bankruptcy

proceeding. Rather, the court found that Section 922(d) of the Bankruptcy Code merely authorized the debtor to permit special revenues to be turned over to bondholders to keep itself in compliance with state law, but did not give bondholders the right to compel such payments. The court further found that bondholders were prohibited by the automatic stay from enforcing their liens against the special revenues. The decision has now been appealed to the U.S. Court of Appeals for the First Circuit.

In addition, Chapter 9 provides that any application of "special revenues" to the payment of the municipality's debt obligations is subject to prior use of such moneys for the payment of "necessary operating expenses" of the municipal enterprise. There can be no assurance that a bankruptcy court would not interpret the term "necessary operating expenses" to be more expansive than the meaning afforded "Operating Costs" under the Indenture, thus potentially reducing Net Revenues available to pay the Series 2018A Bonds.

In order to confirm a plan of adjustment in any bankruptcy proceeding of the City, it must still comply with the requirements of Section 943 of the Bankruptcy. This requires the City to demonstrate, among other things, that it is not prohibited by state law from taking any action necessary to carry out the proposed plan, including with respect its use of special revenues. However, because Section 943 was not likewise amended by Congress when the "special revenues" provisions were enacted, it is possible that, without the consent and over the objection of the Trustee and the Bondholders, the bankruptcy court may permit the alteration of the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources and uses, covenants (including tax-related covenants and call protection), and other terms or provisions of the Indenture as amended and the Series 2018A Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

Limited Obligations

The Series 2018A Bonds are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues of the Enterprise. The obligation of the City to make debt service payments on the Series 2018A Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Indenture to make debt service payments on the Series 2018A Bonds solely from Net Revenues. There is no assurance that the City can succeed in operating the Enterprise such that the Net Revenues in the amounts projected in this Official Statement will be realized.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES

Tax Limitations – Proposition 13

Article XIIIA of the State Constitution, known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, and (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further

provides that each county will levy the maximum tax permitted by Article XIIIA, which is $1.00 per $100 of assessed market value. The legislation further establishes the method for allocating the taxes collected by each county among the taxing agencies in the county.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

The effect of Article XIIIA on the City's finances has been to restrict *ad valorem* tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy *ad valorem* taxes in whatever rate or amount may be required to pay debt service on its outstanding general obligation bonds and unissued bonds authorized prior to July 1, 1978. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Spending Limitations

At the statewide special election of November 6, 1979, the voters approved an initiative entitled "Limitation of Government Appropriations" which added Article XIIIB to the California Constitution. Under Article XIIIB, State and local governmental entities have an annual "appropriations limit" which limits the ability to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations."

Proposition 62

A statutory initiative ("Proposition 62") was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIIIA, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIID. Article XIIID established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by

mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City does not currently impose standby charges or assessments for its Wastewater System.

Article XIIID conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIIID defines "fee" or "charge" to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." One of the requirements of Article XIIID is that before a property-related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and notice must be mailed to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

Article XIIID provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) ("Richmond"), and *Bighorn Desert View Water Agency v. Verjil*, 39 Cal. 4th 206 (2006) ("Bighorn") have clarified uncertainty surrounding the applicability of Section 6 of Article XIIID to service fees and charges. In Richmond, the California Supreme Court upheld a Court of Appeal decision that water connection fees (which included a capacity charge for capital improvements to the water system and a fire suppression charge) imposed by the Shasta Community Services District were not property related fees or charges subject to Article XIIID because a water connection fee results from the property owner's voluntary decision to apply for the connection. In both Richmond and Bighorn, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIIID, rejecting, in Bighorn, the water agency's argument that consumption based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

The City has followed the notice, hearing and protest procedures in Article XIIID in connection with wastewater rate increases since its Fiscal Year 2016–17 rate increases, and plans to follow such notice, hearing and protest procedures in connection with future rate increases.

In addition to the procedural requirements of Article XIIID, under Article XIIID all property-related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

(1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.

(2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.

(3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.

(4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIIID (relating to assessments).

(5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

On April 20, 2015, the California Fourth District Court of Appeal issued a decision in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal.App.4th 1493 (2015), holding that the City of San Juan Capistrano's tiered water rates (or inclining block rates) that were in effect from February 1, 2010 through June 30, 2014 violated the requirement of Proposition 218 that a fee or charge for property-related services, such as water delivery, must be proportional to the cost of providing service. In interpreting Proposition 218, the Court of Appeal emphasized that tiered water rates, or inclining block rates, that go up progressively in relation to usage are compatible with Proposition 218. However, the court concluded that Article XIIID requires that each tier must reflect the actual costs of service for property owners falling in each of the tiers. The court further concluded that the city had the burden of proof to demonstrate compliance with Proposition 218 and that the city failed to meet its burden of proof in demonstrating that its tiered water rates corresponded to the actual costs of providing service to each tier.

It is City policy to conduct periodic cost of service studies and as part of the most recent study, completed in January 2016, the City focused efforts on developing a strong and clear administrative record for its rates and charges. The City believes that its established and proposed rates for wastewater service comply with the substantive standards of Article XIIID. However, due to the uncertainties of evolving case law and potential future judicial interpretations of Proposition 218, the City is unable to predict at this time whether Proposition 218 could be interpreted, for example, to further limit fees and charges for wastewater services and/or to require stricter standards for the allocation of costs among customers and customer classes. See "WASTEWATER SYSTEM FINANCES—Rates."

Article XIIIC. Article XIIIC 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 XIIIC does not define the terms "local tax," "assessment," "fee" or "charge." On July 24, 2006, the California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The City and its City Attorney do not believe that Article XIIIC grants to the voters within the City the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the City.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and the City is unable to predict the outcome of such determinations, or what, if any, further implementing legislation will be enacted. No assurance can be given that that the courts will not further interpret Article XIIIC and Article XIIID to limit the ability of the City to impose, levy, charge and collect increased fees and charges for wastewater services, or the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's wastewater service fees and charges, which are the source of Subordinated Wastewater Revenues pledged to the payment of debt service on the Series 2018A Bonds.

Proposition 26

Proposition 26, which amended Articles XIIIA and XIIIC of the California Constitution, was approved by the electorate at the November 2, 2010 election. Proposition 26 imposes a majority voter approval requirement on local governments such as the City with respect to certain fees and charges for general purposes, and a two-thirds voter approval requirement with respect to certain fees and charges for special purposes, unless the fees and charges are expressly excluded. Proposition 26, according to its supporters, was intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIIIA, XIIIC and XIIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures. Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the local government of providing the service or product" and "assessments and property-related fees imposed in accordance

with the provisions of Article XIIID." The City believes that its wastewater fees and charges meet the criteria for exclusion under Proposition 26 and that the initiative is not intended to, and would not, apply to fees for wastewater services charged by the City. The City is unable to predict, however, how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

Other Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID and Propositions 62 and 26 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the City's revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the City.

TAX MATTERS

General

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel to the City, based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the City with certain covenants in the Indenture and other documents pertaining to the Series 2018A Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Series 2018A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2018A Bonds is not includable in the gross income of the owners of the Series 2018A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2018A Bonds to be included in gross income retroactive to the date of issuance of the Series 2018A Bonds.

In the further opinion of Bond Counsel, interest on the Series 2018A Bonds is not treated as an item of tax preference for purposes of the alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Series 2018A Bonds is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Series 2018A 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 or in other documents pertaining to the Series 2018A Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the Series 2018A Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Bond Counsel or in reliance upon the advice of counsel other than Bond Counsel, with respect to the exclusion from gross income of the interest on the Series 2018A Bonds for federal income tax purposes.

Original Issue Discount

The issue price of certain maturities of the Series 2018A Bonds (the "Discount Series 2018A Bonds") may be less than the principal amount of those maturities. In general, the issue price of a maturity of the Series 2018A Bonds is the first price at which a substantial amount of Series 2018A Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement

agents or wholesalers). The excess of the principal amount of a Discount Series 2018A Bond over its issue price (which may differ from its initial public offering price) is original issue discount. Original issue discount on a Discount Series 2018A Bond accrues over the term of such Discount Series 2018A Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Series 2018A Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount Series 2018A Bond in each year is not an item of tax preference for purposes of the federal alternative minimum tax, but, for corporations with taxable years that began before January 1, 2018, such accrued original issue discount is included as an adjustment in the calculation of federal corporate alternative minimum taxable income. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount Series 2018A Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Series 2018A Bond increases the owner's adjusted basis in such Discount Series 2018A Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount Series 2018A Bond upon the redemption, prepayment, sale or other disposition of such Discount Series 2018A Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, prepayment, sale or other disposition of a Discount Series 2018A Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Series 2018A Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Series 2018A Bonds, other federal income tax consequences of owning and disposing of the Discount Series 2018A Bonds and any state and local tax consequences of owning and disposing of the Discount Series 2018A Bonds.

Original Issue Premium

The excess, if any, of the tax adjusted basis of Series 2018A Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such Series 2018A Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Series 2018A Bonds for federal income tax purposes (or, in the case of a Series 2018A Bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Series 2018A Bond). Owners of Series 2018A Bonds with bond premium are required to decrease their adjusted basis in such Series 2018A Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2018A Bonds are held. The amortizable bond premium on such Series 2018A Bonds attributable to a taxable year is not deductible for federal income tax purposes. Owners of Series 2018A Bonds sold with bond premium should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Series 2018A Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2018A Bonds.

Information Reporting and Backup Withholding

Interest paid on the Series 2018A Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Series 2018A Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Bond Counsel, interest on the Series 2018A Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Series 2018A Bonds to be subject, directly or indirectly, to federal income taxation or to state or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or state tax exemption or the market value of the Series 2018A Bonds. Prospective purchasers of the Series 2018A 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.

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Series 2018A Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the City taken with respect to any of the foregoing. There is no action, suit or proceeding known by the City to be pending or threatened, restraining or enjoining the City in any way which could have a material adverse effect on the Enterprise, the ability of the City to increase rates or to pay scheduled debt service on the Series 2018A Bonds.

FINANCIAL STATEMENTS

The City's Comprehensive Annual Financial Report ("CAFR") for the Fiscal Year ended June 30, 2017, is included in Appendix B to this Official Statement. The CAFR as of and for year ended June 30, 2017 has been audited by Macias Gini & O'Connell LLP, certified public accountants (the "Auditor"), as stated in its report appearing in Appendix B. The Series 2018A Bonds are special, limited obligations of the City payable solely from the Net Revenues and other funds pledged under the Indenture.

The financial statements of the City are public documents and the City has not requested nor did the City obtain permission from the Auditor to include the CAFR and the Auditor's report in an Appendix to this Official Statement. Accordingly, the Auditor has made no representation in connection with inclusion of the audit herein that there has been no material change in the financial condition of the City or the System since the most recent audit was concluded. The Auditor has not been engaged to perform and have not performed, since the date of its report included in Appendix B, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign its rating of "AA" to the Series 2018A Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such rating may be obtained from S&P Global Ratings, a Standard & Poor's Financial Services LLC business, 55 Water Street, New York, New York 10041. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agencies, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2018A Bonds.

UNDERWRITING

The Series 2018A Bonds are being purchased by Raymond James & Associates, Inc. (the "Underwriter") at a price equal to the principal amount of the Series 2018A Bonds, [plus][less] a [net] original issue [premium][discount] of $_____, less an underwriting discount of $_____. The Underwriter will purchase all of the Series 2018A Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the purchase contract related to the Series 2018A Bonds.

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, San Francisco, California, as municipal advisor with respect to the issuance of the Series 2018A Bonds. PFM Financial Advisors LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. PFM Financial Advisors LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

LEGAL PROCEEDINGS

The validity of the Series 2018A Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. A copy of the proposed form of the opinion of Bond Counsel is attached as Appendix D hereto. Bond Counsel has undertaken no responsibility for the accuracy, completeness and fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Jones Hall, A Professional Law Corporation; for the City by the City Attorney and by Norton Rose Fulbright US LLP, San Francisco, California, Disclosure Counsel; and for the Trustee by the Law Offices of Samuel D. Waldman.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the owners of the Series 2018A Bonds to provide certain financial information and operating data and the City by not later than the 31st of March following the end of the City's Fiscal Year (presently June 30) commencing with the report for the City's Fiscal Year 2017-18 (the "Annual Reports"), which shall be due March 31, 2019, and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. The Annual Reports will be filed by Digital Assurance Certification, L.L.C. ("DAC"), as Dissemination Agent on behalf of the City, with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access System ("EMMA"). The notices of material events will be filed by DAC, as Dissemination Agent on behalf of the City, with the MSRB through EMMA with copies to the City and the Underwriter. The specific nature of the information to be contained in the Annual Reports or the notices of material events is set forth in Appendix E – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule"). The City's Department of Finance has taken responsibility for ongoing compliance with the Rule.

In Fiscal Years 2011-12 through 2013-14, the City failed to file timely its annual budget as part of its annual reports for such Fiscal Years. Such annual budgets have since been filed on EMMA.

MISCELLANEOUS

Reference is made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and complete statement of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holder of any Series 2018A Bonds.

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

CITY OF MODESTO, CALIFORNIA

By: _____
Finance Director

APPENDIX A

CERTAIN INFORMATION REGARDING THE CITY OF MODESTO

The following information with respect to the City is presented for information purposes only. The Series 2018A Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter limitations and the City is not obligated to levy any *ad valorem* taxes therefor or to use any other funds of the City to pay debt service on the Series 2018A Bonds.

General Description

The City, which is the county seat of Stanislaus County, was incorporated in 1884. It covers approximately 37.4 square miles. The City operates under a council-manager form of government pursuant to a charter adopted in 1963. The City is located in central California approximately 93 miles east of the City and County of San Francisco.

The City Council (the "Council") appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements Council directives and policies, and manages the administrative and operational functions through the various department heads who are appointed by the City Manager.

The City provides the full range of services normally associated with a municipality, including public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. The City also provides parking and airport facilities and water, sewer and bus service. The school districts in the City are separate governmental entities which receive no funding from the City.

Population

The following table represents historical population statistics for the City, the County and the State.

TABLE A-1
CITY OF MODESTO
Population Estimate[(1)]

Calendar Year	*City of Modesto*	*Stanislaus County*	*State of California*
2017	215,080	548,057	39,523,613
2016	212,287	541,466	39,189,035
2015	210,147	535,125	38,915,880
2014	208,542	529,994	38,572,211
2013	206,844	525,845	38,238,492

(1) As of January 1.

Source: California State Department of Finance, Population Estimates for City, County and State Population, 2011-2017 with 2010 Benchmark.

Employment

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2012 through 2016. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

TABLE A-2
MODESTO METROPOLITAN STATISTICAL AREA
Industry Employment and Labor Force
(Annual Averages)

	2016	*2015*	*2014*	*2013*	*2012*
Civilian Labor Force					
Employment	223,700	218,700	214,100	209,800	205,900
Unemployment	20,800	22,800	26,900	31,200	36,000
Unemployment Rate	8.5%	9.5%	11.2%	12.9%	14.9%
Wage and Salary Employment:					
Total Farm	14,900	14,600	14,100	14,100	13,400
Total Nonfarm	172,100	166,400	161,700	157,100	153,000
Natural Resources, Mining and Construction	8,900	8,500	7,500	7,000	6,300
Manufacturing	21,700	21,300	21,200	20,900	20,700
Wholesale Trade	6,200	5,900	5,900	5,900	5,800
Retail Trade	23,000	22,400	21,800	21,500	20,800
Transport., Warehousing, Utilities	8,200	7,500	7,200	7,100	6,800
Information	1,000	900	900	900	1,000
Financial Activities	5,300	5,200	5,300	5,400	5,400
Professional and Business Services	14,700	14,200	13,800	13,400	12,800
Educational and Health Services	31,600	30,700	29,800	28,800	28,100
Leisure and Hospitality	18,600	17,800	16,900	15,800	14,900
Other Services	5,500	5,300	5,200	5,000	4,900
Federal Government	800	800	800	800	900
State Government	2,000	1,900	1,900	1,800	1,800
Local Government	24,700	23,900	23,400	22,900	22,700
Total All Industries	187,000	181,000	175,800	171,800	166,300

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department. March 2016 benchmark.

Major Employees

The following table summarizes the largest employers in the County of Stanislaus as of June 30, 2017.

TABLE A-3
COUNTY OF STANISLAUS
Largest Employers
as of June 30, 2017

No.	*Company Name*	*No. Employees*
1.	Gallo Vineyards, Inc	3,000
2.	Doctors Medical Center	2,260
3.	Memorial Medical Center	2,056
4.	Carlo Rossi Winery	2,000
5.	E & J Gallo	2,000
6.	Ecco Domani Winery	2,000
7.	Peter Vella Winery	2,000
8.	Zabaco Winery	2,000
9.	DelMonte Foods, Inc	1,500
10.	City of Modesto	1,219
11.	Modesto Junior College	1,007
12.	Copperidge Winery	1,001
13.	Community Services Agency	1,000
14.	Modesto Bee	651

Source: City of Modesto.

Commercial Activity

The following table shows the dollar volume of taxable transactions in the City of Modesto from 2011 through 2015.

TABLE A-4
CITY OF MODESTO
Taxable Transactions
Calendar Years 2011 through 2015
(in Thousands of Dollars)

Retail Outlets	***2015***	***2014***	***2013***	***2012***	***2011***
Motor Vehicle and Parts Dealers	$246,567	$206,465	$192,196	$168,412	$141,665
Home Furnishings and Appliance Stores	137,561	129,571	122,936	115,499	104,938
Building Material And Garden Equip. and Supplies	154,052	140,928	140,599	132,773	123,509
Food and Beverage Stores	149,024	145,982	148,237	153,584	152,366
Gasoline Stations	200,713	233,089	229,962	219,847	205,418
Clothing and Clothing Accessories Stores	260,777	248,965	244,711	233,542	212,019
General Merchandise Stores	398,374	420,149	411,823	404,660	399,048
Food Services and Drinking Places	366,841	335,853	310,919	296.436	283,815
Other Retail Group	239,830	234,558	235,937	227,963	226,031
Total Retail and Food Services	**$2,153,739**	**$2,095,560**	**$2,037,320**	**$1,952,716**	**$1,848,808**
All Other Outlets	552,799	658,558	688,859	661,903	686,264
Totals All Outlets	**$2,706,538**	**$2,754,118**	**$2,726,179**	**$2,614,619**	**$2,535,072**

Source: State of California, Board of Equalization.

The following table shows the dollar volume of taxable transactions in the County of Construction Trends Stanislaus from 2011 through 2015.

TABLE A-5
COUNTY OF STANISLAUS
Taxable Transactions
Calendar Years 2011 through 2015
(in Thousands of Dollars)

Retail Outlets	***2015***	***2014***	***2013***	***2012***	***2011***
Motor Vehicle and Parts Dealers	1,284,466	1,123,975	1,000,000	889,642	$759,797
Furniture and Home Furnishings Stores	240,145	90,637	88,925	83,035	80,300
Electronics and Appliance Stores	-	132,505	123,608	116,625	107,390
Building Material and Garden Equip. and Supplies	550,161	512,589	508,131	448,514	408,346
Food and Beverage Stores	319,287	310,157	308,161	315,747	307,077
Health and Personal Care Stores	-	121,041	120,984	118,762	110,367
Gasoline Stations	612,070	717,834	724,159	743,890	714,239
Clothing and Clothing Accessories Stores	384,484	352,475	333,964	309,278	275,708
Sporting Goods, Hobby, Book, and Music Stores	-	123,420	125,989	120,748	118,191
General Merchandise Stores	809,500	847,521	828,653	787,196	772,310
Miscellaneous Store Retailers	-	192,785	189,961	178,912	177,496
Nonstore Retailers	-	62,651	56,487	39,072	35,001
Food Services and Drinking Places	702,234	638,703	589,606	558,223	527,790
Other Retail Group	531,071	-	-	-	-
Total Retail and Food Services	**5,433,420**	**5,226,290**	**4,998,626**	**4,709,642**	**$4,394,011**
All Other Outlets		2,677,318	2,641,366	2,468,630	$2,268,455
Totals All Outlets		**7,903,608**	**7,639,992**	**7,178,273**	**$6,662,466**

Source: State of California, Board of Equalization.

Construction Trends

"Single Family Housing," includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. "Multi-Family Housing," includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multifamily housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. "Residential Alterations and Additions," means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

"New Commercial," includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. "New Industrial," includes manufacturing plants and affiliated buildings. "Other New Nonresidential," includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works

and utilities buildings, and miscellaneous nonresidential structures. "Nonresidential Alterations and Additions," means alterations, additions, and conversions to nonresidential structures, excluding special installation permits for electrical, plumbing, healing, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

Provided below are the building permits and valuations for the City of Modesto for calendar years 2012 through 2016.

TABLE A-6
CITY OF MODESTO
Residential and Nonresidential Building Permit Valuations
and Total Residential Building Permits

	2016	*2015*	*2014*	*2013*	*2012*
Permit Valuation					
New Single-family	$16,336,546	$9,237,773	$3,519,048	$706,530	$2,041,348
New Multi-family	$1,500,000	$50,000	$8,020,000	$1,500,000	$6,470,002
Res. Alterations & Additions	$12,867,524	$9,876,377	$11,084,255	$9,362,550	$11,474,393
Total Residential	$30,704,070	$19,164,150	$22,623,303	$11,569,080	$19,985,743
New Commercial	$5,353,755	$1,450,810	$62,551,899	$2,978,136	$11,119,857
New Industrial	0	0	0	$460,000	$2,124,739
New Other	0	0	0	0	0
Non-Res. Alterations & Additions	$21,427,842	$13,512,391	$14,435,997	$15,266,616	$20,213,654
Total Nonresidential	$88,189,737	$53,291,501	$122,234,502	$41,842,912	$73,429,736
Total All Building					
New Dwelling Units					
Single Family	158	79	20	6	19
Multiple Family	5	1	3	1	9
Total	163	80	23	7	28

Note: Totals may not add up because of rounding.

Source: Building Permit Summary, Construction Industry Research Board and City of Modesto.

Agriculture

The following table summarizes historical agricultural production within the County for calendar years 2011 through 2015.

TABLE A-7
STANISLAUS COUNTY
Agricultural Production
2011-2015

Commodity	*2015*	*2014*	*2013*	*2012*	*2011*
Apiary	$ 74,794,900	$ 70,490,000	$ 64,506,000	$ 58,122,000	$ 50,643,000
Field Crops	256,892,000	342,084,000	267,929,000	297,856,000	319,359,000
Fruit and Nut Crops	1,647,390,000	1,889,943,000	1,645,446,000	1,249,413,000	1,061,047,000
Livestock & Poultry	731,506,000	752,301,000	510,204,000	541,401,000	500,480,000
Livestock & Poultry Products	729,031,000	1,022,212,000	848,178,000	778,652,000	807,321,000
Nursery Products	169,887,000	138,884,000	141,801,000	109,432,000	95,645,000
Organic Products	89,413,000	30,301,000	25,243,000	14,572,000	41,244,000
Other Agriculture	22,019,000	17,116,000	16,435,000	25,801,000	26,194,000
Seed Crops	740,000	1,113,000	774,000	1,266,000	1,470,000
Vegetable Crops	157,659,000	132,842,000	142,484,000	186,907,000	166,420,000
TOTALS	**$3,879,331,900**	**$4,397,286,000**	**$3,663,000,000**	**$3,263,422,000**	**$3,069,823,000**

Source: Stanislaus County Department of Agriculture.

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APPENDIX B

CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2016-17

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City of Modesto

Comprehensive Annual Financial Report

FY 2016-2017 | Fiscal Year Ended June 30, 2017

CITY OF MODESTO CALIFORNIA

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CITY OF

Modesto, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2017

Prepared by
Finance Department

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CITY OF MODESTO
June 30, 2017
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City of Modesto
1010 Tenth Street
P.O. Box 642
Modesto, CA 95353
209/577-5369

Hearing and Speech
Impaired Only
TDD 209/526-9211

December 18, 2017

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Modesto:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto (City). The City of Modesto City Charter and Municipal Code require that a complete CAFR, which is comprised of financial statements and reports on the finances of the City, be submitted to the City Council at the end of each fiscal year. This report fulfills that requirement for the year ended June 30, 2017.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represents the financial position and results of operations of the City. The disclosures necessary to enable the reader to understand the City's financial affairs have been included. The City's accounting system has been developed and maintained with due consideration given to the adequacy of internal controls. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The evaluation of the costs and benefits of a particular control requires estimates and judgments by management.

The Modesto City Charter also requires an annual audit be performed by an independent certified public accountant selected by the Modesto City Council. The accounting firm of Macias Gini & O'Connell LLP was selected in 2015 to perform the City's annual financial audits. The auditors have issued an unmodified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2017, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The 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 follow the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A is designed to be read in conjunction with this transmittal letter.

City of Modesto Profile

Modesto is located in the heart of California's San Joaquin Valley and is the County Seat of Stanislaus County. It is also the retail, service and financial center of Stanislaus County. The City currently occupies a land area of 37.4 square miles and serves a population of 212,287. The City has a diverse economy and population with a strong sense of community pride.

Incorporated as a municipal city in 1884, the City adopted its City Charter on March 12, 1951, with a Council-Manager form of government. The Modesto City Council (Council) is the City's legislative body and is made up of seven elected officials serving overlapping 4-year terms. The Mayor is elected at-large by the entire City; while the six Councilmembers are elected by district and are limited to two terms.

The Council sets policy and tax rates, approves budgets, and passes ordinances and resolutions, which govern the City. The Council also appoints citizens to advisory boards, committees and commissions as well as appoints the City Manager, City Attorney, City Clerk and City Auditor. The City Manager is responsible for carrying out Council policy and managing the day-to-day affairs of the City.

The City is a "full-service" city including police and fire; public works; water and sewer; community and economic development; parks, recreation and neighborhoods; public transportation; and cultural and convention visitor services.

The City's financial reporting entity includes all funds and activities of the City as the primary government and its component units, which are legally separate entities that operate under the auspices of the City and provide services that supplement City services. The City's component units are blended into the City's funds because there is a financial benefit/burden relationship with the City or management has operational responsibility over the component unit. These component units are the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for City's financial planning and control. The proposed budget is adopted annually prior to July 1, by City Council ordinance. The Council's legally adopted budget level is at the fund level. Throughout the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delineate the delegated budget control authority to the following parties: the City Council, the City Manager and the Director of Finance.

Local Economy

Modesto is the county seat for fast-growing Stanislaus County. A major center for local commerce, the City attracts thousands to its environs for work, shopping and entertainment. Major employment sectors include manufacturing, healthcare, education and retail. Modesto and its surrounding communities contain canneries, packing plants and warehouses which ship agricultural products across the nation and the world. An active farm to table movement has been spearheaded by the area's large production of nuts, dairy, poultry and other locally grown products.

The unemployment rate within the county-wide Modesto Statistical Area decreased during the 2016-2017 fiscal year. As of June 30, 2017, the MSA's unemployment rate was recorded at 7.8%, which is down from the 9.1% rate of a year ago. The total non-farm employment in the MSA is projected to reach 190,600 jobs by 2024. The industry sector consisting of construction and extraction occupations has the highest percentage increase at 36.5% adding 369 jobs to the area. The following three top industry sectors are expected to grow by almost 30 percent, adding 1,741 jobs to the area. These include: Personal Care and Service occupations, Food Preparation and Serving Related occupations, and Healthcare Support occupations.

The 2017-18 Stanislaus County assessment roll, on which property taxes are based, is $46.8 billion, which is an increase of nearly 6 percent over the previous year. The 2017 median home sales price in Stanislaus County is approximately $289,000 or $180 per square foot, up from a square foot price of $166 a year ago. Modesto building permit activity during fiscal year 2016-2017 ended with a total of 4,973 permits issued with a valuation of $118,527,812.

Modesto is a prime and central location for business, and has attracted both start-ups and expanding firms. Specialized health care facilities like HealthSouth and Central Valley Specialty Hospital have chosen to expand their services and operations in Modesto. There is also a strong culture of entrepreneurship and innovation. Datapath, a technology management company with headquarters in Modesto, has been recognized by Inc. Magazine as one of the fastest-growing private companies in America. E&J Gallo Winery, also based in Modesto, is the world's largest privately owned winery and the leading US exporter of California wines. The Gallo Glass Company is a state of the art glass manufacturer and a leading producer of wine and spirits glass bottles in the US.

Entertainment and Tourism

Modesto features vibrant arts, entertainment, sports and cultural expression. Downtown Modesto is home to the world-class Gallo Center that brings national and international entertainment, arts and multicultural programming to the Central Valley region. Downtown, you can experience the Historic Graffiti Cruise Route, the Legends of the Cruise Walk of Fame, and the Classic Community Mural Series celebrating the cruising culture phenomenon born in Modesto and immortalized by native son George Lucas in American Graffiti. Live entertainment is a prominent feature in the Civic Plaza and nearby clubs, and a busy calendar of entertaining and educational events can be experienced just across the street at the Modesto Centre Plaza.

Baseball with the Modesto Nuts baseball team is just minutes from city center, and golfers enjoy two-highly rated 18-hole courses and a municipal course year-round. Modesto is gaining recognition for its bike routes and trails, and is a frequent host city for the Tour-de-France rated Amgen Tour of California bicycle race. Water lovers have river parks and kayaking.

The McHenry Mansion and McHenry Museum anchor the city's loving preservation of its historical heritage, drawing visitors from all over the world. The city's annual Architectural Festival offers free tours, exhibits, workshops and films in the iconic State Theatre featuring one of the best collections of mid-century modernism in the nation. Arts live year round with monthly Art Walks, and seasonal activities including the Graffiti Cruise, parades, the Modesto on Ice downtown skating rink, the Dickens Faire, ModShop arts and crafts walk, and PorchFest community music stroll bring joy to residents and visitors. Modesto truly offers something great for everyone.

Our Strategic Priorities

During 2017, the City updated its 2015-2018 Strategic Plan to incorporate input from newly elected Councilmembers and to reaffirm our strategic priorities. Our priorities bring the City's vision and values to life in our community and define our overall direction as a city. It also confirms our commitment to our citizens. While the priorities are individually important, they are also interconnected and cannot be addressed in isolation. In addition, they are the basis of our scorecard that measures success and upon which our performance metrics are built.

- **Healthy Economy and Great Quality of Life:** Increase the City's proactive economic development efforts by creating and preserving jobs, strengthening our economic base and enhancing the City's revenue base.

- **Vibrant Infrastructure and Sustainable Environment:** Strengthen and maintain a safe infrastructure of City roads, water supply, storm sewers, transit and airport needs for residents, businesses and visitors.

- **Great Safe Neighborhoods:** Explore new approaches to public safety, working in partnership with the community to reduce crime and maintain a safe and inviting community in which to live, work and play. Increase collaboration with neighborhoods and school districts to achieve quality of life improvements, and safe neighborhoods through supporting community self-reliance, problem solving and public/private partnerships.

- **Effective, Responsive and Transparent Government:** Enhance the organization's commitment to develop new and creative methods to leverage technology, market organization strengths and remain dedicated to seeking efficiencies and continuous improvement.

Long-Term Financial Planning

The City continues to refine its 10-year forecasting model and update estimates and assumptions used to project future operations. At the end of fiscal year 2016-17, General Fund Balance was as follows:

Restricted and Nonspendable - $4.5 million; Committed - $15.8 million; Assigned - $4.9 million; and Unassigned $4.5 million. The Committed Fund Balance allows the City to respond to unplanned circumstances and maintain adequate working capital to meet its cash flow needs.

The City's long-term maintenance of a stable fund balance is a direct reflection of the Mayor and Council's leadership and prudent fiscal management.

SIGNIFICANT EVENTS and ACCOMPLISHMENTS

Local Initiatives and Accomplishments

Healthy Economy & Great Quality Of Life

- In its second year, over 40,000 visitors attended Modesto On Ice skating rink
- The return of the Amgen Tour of California, a world-class cycling road race and largest annual spectator sporting event in California
- Facilitated the UCMerced Venture Lab at the Centre Plaza to assist with entrepreneurship in the City
- Relocated a minor league basketball team from Yuba to Modesto now named The Modesto SuperKats
- The City will be administering the Continuum of Care component of the Stanislaus Community System of Care Collaborative/Continuum of Care to focus on prevention and homelessness bringing in $3 million of regional HUD funding
- Comprehensive Fee Study Task Force is meeting and reviewing development fees and assumptions
- Over 150,000 participants were served through Modesto's recreation and neighborhood programming
- More than 26,000 participants were served through the Modesto Senior Citizen Center's health and wellness programming as well as over 5,000 others who enjoyed free services such as meals, tax-preparation and special events
- Modesto Senior Citizens Center leveraged over $21,000 in in-kind donations and services in the pursuit of Active Aging opportunities for Modesto's Seniors
- Developed Tenant Improvement Tuesdays ("TI Tuesdays") to streamline certain interior development to issue permits same-day
- Completed the State Housing Update Requirement
- Completed the 2016 General Plan Annual Report for submittal to State.
- Successfully completed all land entitlements for the Valley Children's Hospital project on Pelandale
- Redefined the Opportunity Map to show available land and level of infrastructure/entitlements and make the information available online

Great Safe Neighborhoods

- Increased Neighborhood Watch Groups by 10%
- Increased Crime Free Multi-Housing properties by 1% along with the number of properties inspected
- Ranked 1st in California and 5th in the nation for areas with a population of 100,000 to 299,000 for participation in National Night Out with a total of 181 parties hosted in 2017
- Modesto Police Department (MPD) hosted 5 Town Hall Meetings, one for each area command as well as multiple Coffee with Cops events throughout the City
- Stanislaus County is ranked number 30 out of 3111 counties in the United States for "Natural aspects of attractiveness" according to the USDA
- Americans with Disabilities Act Plan was adopted by City Council
- MOU made with the County for tagging abatement along highway 99 approved by Council
- Council approved relocation expenses to multiple legal tenants of condemned building at 624 9th Street. City partnered with County and EOS to find solutions for residents and remove them from building
- After School Program staff partner with Modesto City Schools to motivate, encourage, and empower over 760 youth daily to recognize and achieve their full individual potential and become productive community members
- REACH Summer Camp (Recreation, Education, Arts, Culture and Health for youth 6 - 13 years old) offers games, sports, community service and other high-interest activities to over 140 unduplicated participants sparking a life-long appreciation of positive leisure activities and provide opportunities for leadership
- Eight firefighter paramedics completed their probation at the end of 2016. An additional 16 firefighters were hired to fill current vacancies and grant funded positions to reinstate Engine 11 which returned to service in April after being eliminated during the economic downturn
- The City Council approved the purchase of five engines and two ladder trucks at the end of 2016 – when the apparatus arrive in late 2017, they will provide much needed replacement of the oldest apparatus in the MFD fleet – some of which are 27 years old
- MFD crews assisted numerous communities throughout the State during the wildfires of 2016. Modesto Fire crews responded to 12 different fires through the State Wide Mutual Aid System where they provided fire suppression and filled leadership positions
- Our Public Education Program coincides each year with Fire Prevention Week in October – this educational characterization program featured 20 shows over a two-week period reaching 6,200 students
- A partnership with Modesto City Schools and American Medical Response enabled MFD crews to train more than 2,000 junior high students in "hands-only" CPR
- In late 2016, MFD teamed up with the American Red Cross to provide and install smoke alarms in one and two-family dwellings. This program is intended to target the "at risk" population in Modesto – the elderly and persons of a low socioeconomic status

Vibrant Infrastructure & Sustainable Environment

- Successfully obtained a commitment for up to $10 million of Measure L funding from StanCog towards the Route 132 project
- Started workshops, and design concept(s) for the design of J Street/Implementation to be presented to Council Committee
- Construction is nearly complete on the Tuolumne River Regional Park (TRRP) Gateway Parcel Phase 2 project which will complete the habitat restoration along the Tuolumne River at the Gateway Parcel and will add to the current trail system in TRRP
- Worked with various neighborhood groups in the City to provide park improvements throughout Modesto through the City's Park Partners Program (such as Native Gardens, Soccer Fields, Pickleball Courts, Fitness Equipment, Benches and Park Signs)
- Received a $1 million grant for development of three soccer fields adjacent to Bellenita Park to support the volunteer efforts started by the Stanislaus Youth Soccer League
- The City is partnering with a local irrigation district interested in purchasing recycled water from the City, as part of the North Valley Regional Recycled Water Program. Construction is expected to be complete by February 2018
- Construction of the 6 million gallon North Tank is complete. This is the largest tank in the City's water system
- Construction of the 4 million gallon Industrial Tank is underway and expected to be complete in 2018
- Partnered with other local water agencies to form a regional Groundwater Sustainability Agency to collaboratively manage groundwater resources
- The Water and Wastewater Master Plans and supporting environmental documents are almost complete

Effective Responsive & Transparent Government

- Provided staff support to the Mayor's 100 Day Review Committee as they examined City process for efficiencies and cost-saving reductions
- Continue to prepare Action Plans to achieve recommendations from the Mayor's 100 Day Review Committee and updated the 2015-2018 Strategic Plan
- Council approved the purchase of new Business License software
- Finance Customer Services launched the online payment and appeals module for Parking Citations which will allow customers to pay and submit appeals online
- Business License increased collection and code enforcement efforts resulting in an increase in revenue for the General Fund
- The City went live with the new budget software was part of the budget preparation for Fiscal Year 2017-2018 budget

Awards / Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the 34th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Comprehensive Annual Financial Report (CAFR) is the result of the cooperative work of many people. We wish to convey our appreciation to all of the City departments and members of the Finance Department team who prepared and contributed to its successful completion. Without their hard work, this report would not be possible.

In addition, the City submitted and received an award from the GFOA for its second year for the Popular Annual Financial Report (PAFR) for fiscal year ended June 30, 2016. A PAFR presents financial information in a manner that appeals to the reader, is understandable and shows creativity and usefulness. The PAFR award is valid for one year and the City intends to submit its 2017 PAFR to the GFOA for consideration.

Finally, we would like to express our appreciation to the City Council, City employees, and community for their leadership and support. We look forward to the next year's challenges and opportunities.

Respectfully submitted,

Joseph P. Lopez
Interim City Manager

DeAnna Christensen
Acting Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto

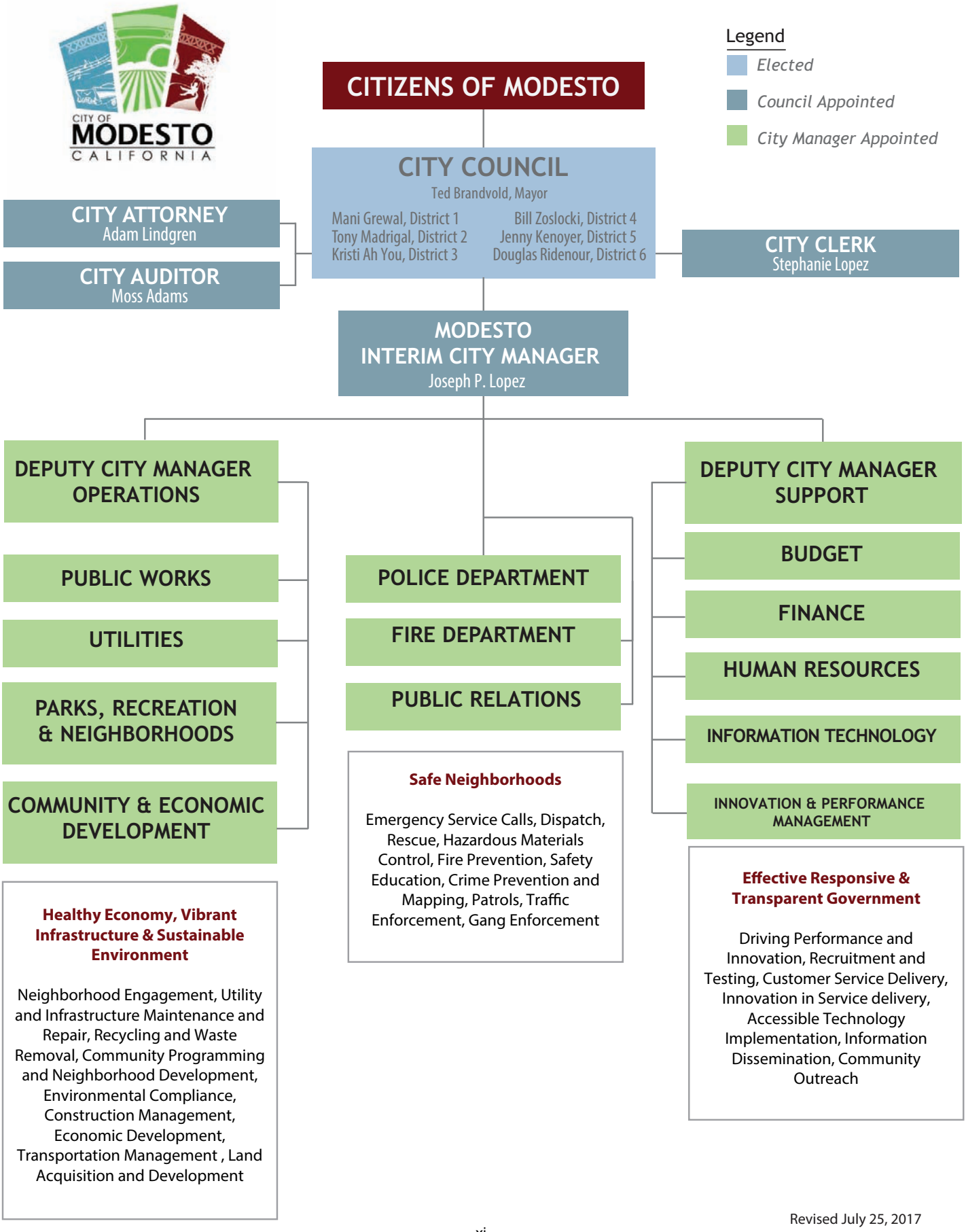
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

CITY OF MODESTO ORGANIZATIONAL CHART



Revised July 25, 2017

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FINANCIAL SECTION

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Independent Auditor's Report

City Council of the City of Modesto
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (City), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of plan contributions, schedule of funding progress for OPEB, schedule of revenues – budget (GAAP basis) and actual – General Fund, schedule of expenditures by function – budget (GAAP basis) and actual – General Fund, and schedule of revenues, expenditures, and changes in fund balance – budget (GAAP basis) and actual – Housing and Community Development special revenue fund, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

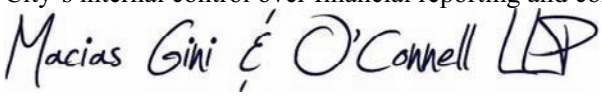
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining and individual fund statements and schedules, the statistical section, and the continuing disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, statistical, and continuing disclosure sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Walnut Creek, California
December 18, 2017

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, 2017. 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 2017 fiscal year by $999,396,169 (*total net position)*. Of this amount, $145,377,043 is restricted for a specific purpose (*restricted net position*), $931,906,773 is invested in capital assets, net of related debt and ($77,887.647) is unrestricted (*unrestricted net position)*.
- The City's total net position increased by $20,966,047 compared to the prior year. This increase is attributed to additions made to the City's infrastructure and improvements.
- As of June 30, 2017, the City's governmental funds reported combined fund balances of $120,081,372, an increase of $3,027,618 in comparison with the prior year.
- As of June 30, 2017, 15.2% of the General fund balance of $4,509,693 is available to meet the City's current and future needs (*General Fund unassigned fund balance).*
- At the end of the fiscal year, the General Fund balance was $29,649,768 or 25.4% of total General Fund expenditures. Of this, $1,970,622 is the restricted fund balances. The unassigned fund balance of $4,509,693 represents 3.8% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unassigned fund balance amount based on General Fund outflows.
- The City's total long-term liabilities showed a net decrease of $1,539,278 in comparison with the prior year. This decrease was attributed to the principal payments made during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all City assets and liabilities, deferred outflows of resources and deferred inflow of resources, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities).* The governmental activities of the City include general government, community development, highways and streets, public works, parks and recreation, and public safety. The business-type activities of the City include the Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance operations.

Component units are included in our basic financial statements and consist of legally separate entities for which the City is financially accountable and that have substantially the same board as the City Council, or provide services entirely to the City or the City has operational responsibility for the entities. Examples are the Community Facilities Districts, Redevelopment Successor Agency of the City of Modesto and the Modesto Public Financing Authority.

The government-wide financial statements can be found on pages 19-21 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: *governmental funds, proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City reports 16 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 and Housing and Community Development Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental funds financial statements can be found on pages 22-25 of this report

Proprietary funds are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements with the exception of portions of the net OPEB obligation and compensated absences that have been included within business-type activities. The rest of internal services benefiting business-type functions have been allocated as "internal balances".

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water, Sewer and Bus funds are considered to be major funds of the City. The City's six internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The proprietary funds financial statements can be found on pages 26-29 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds.

The fiduciary fund financial statements can be found on page 30-31 of this report.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on **pages 32-74** of this report.

Required Supplementary Information is also presented. The City adopts an annual appropriated budget. Budgetary comparison schedules for the major governmental funds have been provided to demonstrate compliance with this budget. This section also includes the schedules for net pension liability and OPEB.

Required supplementary information can be found on pages 77-85 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 90-123** of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $999,396,169 at the close of the most recent fiscal year.

Net Position

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	$234,821,516	$242,284,397	$244,685,705	$243,332,330	$479,507,221	$485,616,727
Capital assets	419,668,957	421,005,457	870,561,610	854,078,506	1,290,230,567	1,275,083,963
Total assets	654,490,473	663,289,854	1,115,247,315	1,097,410,836	1,769,737,788	1,760,700,690
Deferred outflows of resources	56,076,070	29,527,963	44,831,198	49,190,388	100,907,268	78,718,351
Current and other liabilities	292,651,623	260,520,365	132,908,806	144,402,121	425,560,429	$404,922,486
Long-term liabilities	98,300,219	90,656,679	334,536,847	343,719,665	432,837,066	434,376,344
Total liabilities	390,951,842	351,177,044	467,445,653	488,121,786	858,397,495	839,298,830
Deferred inflows of resources	10,503,691	17,408,971	2,347,701	4,281,118	12,851,392	21,690,089
Net position:						
Net investment in capital assets	376,743,556	381,887,289	555,163,217	539,821,175	931,906,773	921,708,464
Restricted net position	123,851,082	115,619,807	21,525,961	22,052,595	145,377,043	137,672,402
Unrestricted net position	(191,483,628)	(173,275,294)	113,595,981	92,324,550	(77,887,647)	(80,950,744)
Total net position	$309,111,010	$324,231,802	$690,285,159	$654,198,320	$999,396,169	$978,430,122

The largest portion of the City's net position, $931,906,773 (93.2 percent), reflects its investment in capital assets (e.g. land, water rights, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of debt and related deferred outflows and inflows, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City's net position represents *unrestricted net position* of ($77,887,647) (-7.8 percent).

The remaining balance of the City's net position of $145,377,043 (14.6 percent) represents resources that are subject to external restrictions on how they may be used.

The City's net position increased by $20,966,047 during the current fiscal year was largely due to the additions associated with the City's infrastructure and reduction on the City's long-term liabilities.

The long-term liabilities decrease was attributed to the principal payments of about $14.8 million made during the fiscal year.

The following table indicates the changes in net position for governmental and business-type activities, as well as comparative data for the prior year:

Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$28,933,906	$24,689,546	$141,588,536	$124,982,742	$170,522,442	$149,672,288
Operating grants and contributions	5,050,771	3,630,185	15,975,703	14,153,568	21,026,474	17,783,753
Capital grants and contributions	2,117,867	1,708,602	19,617,513	4,753,223	21,735,380	6,461,825
General revenues:						
Taxes	57,045,850	54,965,459	199,124	206,854	57,244,974	55,172,313
Intergovernment revenue not restricted for specific purposes	68,415,868	65,234,052	-	-	68,415,868	65,234,052
Unrestricted investment earnings	362,856	582,565	872,935	2,247,061	1,235,791	2,829,626
Settlements and recoveries	-	-	-		-	
Miscellaneous	515,206	2,440,696	1,316,801	1,368,761	1,832,007	3,809,457
Total revenues	162,442,324	153,251,105	179,570,612	147,712,209	342,012,936	300,963,314
Expenses:						
General government	13,945,824	12,838,583	-	-	13,945,824	12,838,583
Community development	15,419,529	12,552,115	-	-	15,419,529	12,552,115
Highw ays and streets	22,481,002	20,149,011	-	-	22,481,002	20,149,011
Public w orks	13,169,149	10,749,465	-	-	13,169,149	10,749,465
Parks and recreation	3,947,898	3,493,743	-	-	3,947,898	3,493,743
Public safety	104,348,464	86,907,876	-	-	104,348,464	86,907,876
Interest on long-term debt	2,500,849	2,691,894	-	-	2,500,849	2,691,894
Water	-	-	63,008,231	59,127,625	63,008,231	59,127,625
Sew er	-	-	36,248,877	33,093,921	36,248,877	33,093,921
Bus	-	-	21,979,360	19,709,745	21,979,360	19,709,745
Parking	-	-	1,628,226	1,625,943	1,628,226	1,625,943
Storm drain	-	-	6,119,472	5,312,896	6,119,472	5,312,896
Compost	-	-	9,648,481	11,998,345	9,648,481	11,998,345
Airport	-	-	1,744,557	1,787,081	1,744,557	1,787,081
Golf	-	-	2,871,167	3,130,536	2,871,167	3,130,536
Community center	-	-	1,934,179	1,981,307	1,934,179	1,981,307
Abatement and Pubic Nuisance	-	-	51,624	84,152	51,624	84,152
Total expenses	175,812,715	149,382,687	145,234,174	137,851,551	321,046,889	287,234,238
Increase in net position before transfers	(13,370,391)	3,868,418	34,336,438	9,860,658	20,966,047	13,729,076
Transfers	(1,750,401)	(567,177)	1,750,401	567,177	-	-
Total transfers	(1,750,401)	(567,177)	1,750,401	567,177	-	-
Change in net position	(15,120,792)	3,301,241	36,086,839	10,427,835	20,966,047	13,729,076
Net position - beginning, as previously reported	324,231,802	319,680,597	654,198,320	647,857,327	978,430,122	967,537,924
Adjustment to capital assets	-	256,569	-	(4,086,842)	-	(3,830,273)
Adjustment to unearned revenue and accruals	-	(190,305)	-		-	(190,305)
Adjustment to loans payable	-	1,183,700	-	-	-	1,183,700
Net position - beginning, as restated	324,231,802	320,930,561	654,198,320	643,770,485	978,430,122	964,701,046
Net position - ending	$309,111,010	$324,231,802	$690,285,159	$654,198,320	$999,396,169	$978,430,122

Governmental activities. Governmental activities decreased the City's net position by $15,120,792. This decrease was mainly due an increase in the Workers Comp unfunded liability in the amount of $4.1 million and the claims for the Insurance Fund increasing compared to the prior year. Miscellaneous revenue decreased by $1.9 million due to one-time revenue settlements received in 2016. Charges for service revenues increased by $4.2 million mainly due to on-going efforts to promote the City of Modesto program. Operating and capital grants contributions increased by $1.8 million due to receiving additional Department of Transportation grants, Fire Staffing for Adequate Fire and Emergency Response grants and a 2016 Community Oriented Policing Services grant.

Expenses in total were higher compared to the prior year by $26,430,028, or 17.7%, due to increase claim payments made for our Insurance funds. Additionally, the volume of grant expense activity was significantly higher compared to the prior year due to new grant funded projects and construction phase projects started in 2017.

Business-type activities. Business-type activities increased the City's net position by $36,086,839. This increase is attributed to a healthy net position in our Water and Sewer Fund which generated an increase in net position by $34.3 million and increase in our business-type capital assets. The Sewer fund has been able to manage their operational revenues due to rate increases to ensure they meet the debt ratio requirements set by Council. In addition, the Water Fund implemented a rate increase of 25.0% in FY 16-17 to manage their debit ratio requirements and their capital needs for the City's water infrastructure.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses ***fund accounting*** to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The general government functions are contained in the general, special revenue, capital projects, and debt service funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2017, the City's governmental funds reported combined fund balances of $120,081,372 an increase of $3,027,618 from the prior year. The total unassigned fund balance for the governmental funds was $1,353,014, which includes a positive $4,509,693, which represents the General Fund unassigned fund balance that is available to meet the City's current and future needs. The remainder of fund balance is *nonspendable, restricted, committed and assigned* to indicate that it is *not* available for new spending because certain constraints have been placed on the use of the balances. The unassigned fund balance for the General Fund decreased due to the Council approving $12.8 million being accounted for as emergency reserves which required Council authority to utilize these funds.

The General Fund is the chief operating fund of the City. At June 30, 2017, unassigned fund balance of the General Fund was $4,509,693 while total fund balance was $29,649,768. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 2.8% of total General Fund expenditures, while total fund balance represents 25.4% of that same amount. The prior year ratios were 11.6% and 24.5%, respectively.

The Housing and Community Development fund accounts for the grants and funds received to disburse for projects developed and administered under the Housing and Community Development Act. At June 30, 2017, total fund balance was $27,231,611, an increase of $1,698,378 from prior year. This increase is attributed to new program income received to fund future low income project activity.

Revenues of governmental funds totaled $159,396,110 in fiscal year 2016-17, which represents a decrease of $262,877 from fiscal year 2015-16.

Expenditures of governmental funds totaled $161,183,448 in fiscal year 2016-17, representing an increase of $5,111,612 from fiscal year 2015-16.

The following table presents governmental fund revenues from various sources, with comparisons to the prior year:

Revenues Classified by Source – Governmental Funds

	FY 2017		FY 2016		
Revenues by Source	Amount	Percent	Amount	Percent	% Change
Taxes	$57,045,850	35.8%	$54,965,459	34.3%	3.8%
Licenses and permits	201,445	0.1%	186,624	0.1%	7.9%
Intergovernmental	72,069,739	45.2%	76,317,229	47.8%	-5.6%
Charges for services	24,454,286	15.3%	20,429,860	12.8%	19.7%
Special assessments	3,014,768	1.9%	3,168,260	2.0%	-4.8%
Interest and rent	1,402,387	0.9%	1,297,734	0.8%	8.1%
Net increase (decrease) in fair value	(572,616)	-0.4%	102,422	0.1%	-659.1%
Fines and forfeits	1,263,407	0.8%	904,802	0.6%	39.6%
Miscellaneous	516,844	0.4%	2,286,597	1.5%	-77.4%
Total	$159,396,110	100.0%	$159,658,987	100.0%	-0.2%

- Taxes – Revenues for property and business license taxes came in higher than the prior year due to an ongoing positive upturn in the economy and increased collection and compliance efforts by City staff.

- Intergovernmental – Revenues decreased by $4.2 million due to a decrease in funding from the various Housing and Urban Development programs. Additionally, in our Capital Grants the Pelandale Interchange project continued to decrease in grant funding by $3.2 million due to the project approaching the completion.

- Charges for Services – Revenues increased by $4.0 million due to the Capital Facility Funds collecting an increase in revenue for the building permits issued for all new construction or additional square footage built within the City of Modesto.

- Interest and rent – Revenues increased due to increases to our interest earnings based on on-going improvements to the City's investment strategy which has increased our return on investment in the City's portfolio.

The following table presents expenditures by function compared to prior year amounts.

Expenditures by Function – Governmental Funds

	FY 2017		FY 2016		
Exp by Function	Amount	Percent	Amount	Percent	% Change
General government	$11,542,131	7.2%	$12,414,982	8.0%	-7.0%
Community development	13,264,050	8.2%	12,453,678	8.0%	6.5%
Highways and streets	9,240,654	5.7%	8,498,783	5.4%	8.7%
Public works	10,919,102	6.8%	10,393,169	6.7%	5.1%
Parks and recreation	3,269,360	2.0%	3,385,484	2.2%	-3.4%
Public safety	86,475,891	53.7%	84,022,670	53.8%	2.9%
Capital outlay	21,431,186	13.3%	19,817,025	12.7%	8.1%
Debt Service-principal retirement	2,535,093	1.6%	2,345,362	1.5%	8.1%
Debt Service-interest charges	2,075,202	1.3%	2,043,278	1.3%	1.6%
Debt Service-other	430,779	0.3%	697,405	0.4%	-38.2%
Total	$161,183,448	100.0%	$156,071,836	100.0%	3.3%

The following provides an explanation of the expenditures by function that changed significantly over the prior year:

- Public Works – Expenditures increased by $525,933 or 5.1% due to increase cost related to the park maintenance services contract for landscaping services. Personnel cost increased due to pay increase and employer retirement cost.

- Highways and Streets – Expenditures increased by $741,871 or 8.7% over the prior year, due to staff pay increases and employer retirement cost.

- Public safety – Expenditures increased by $2,453,221 or 2.9% over the prior year, due to an increase of expenses for police services. These increases were attributed to continuous increases to workers' compensation cost for police, information technology and police equipment and salary and benefit increase for the police department.

- Capital outlay – Expenditures increased by $1,614,161 or 8.1% reflects an increase for the General Fund due to a new capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers in the amount of $5,883,756.

Other financing sources and uses are presented below to illustrate changes from the prior year:

			Increase/(Decrease)	
	FY 2017	FY 2016	Amount	Percent
Transfers in	$5,559,720	$6,960,425	($1,400,705)	-20.1%
Transfers out	(6,659,759)	(10,572,346)	3,912,587	-37.0%
Capital leases	5,883,756	330,947	5,552,809	1678%
Sale of assets	31,239	106,582	(75,343)	-70.7%
Net financing (uses)	$4,814,956	($3,174,392)	$7,989,348	-251.7%

Transfers - The City uses interfund transfers to: (1) move resources from a fund to other funds that will utilize them in accordance with statutory and budgetary requirements, (2) utilize unrestricted resources collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to pay debt service to the funds that are responsible for payment as those payments become due.

- The net financing (uses) *from* governmental funds for 2017 were $4,814,956 compared to $(3,174,392) in the prior year. This net transfer is *to* various City funds including transferring funds from the General Fund, Capital Facility Fee funds, Fleet Fund and the Public Financing Authority to cover the debt service payments, fleet replacement and various transfers to cover City grant matches.

Debt transactions – A lease was issued in 2017 for the purchase of five Velocity Pumpers and two Velocity Tillers in the amount of $5,883,756.

The fund balance of the City's General Fund increased by $2,584,047 during the fiscal year. This result is consistent with the City Council's budgetary direction to reduce spending and identify additional revenue sources that would allow the General Fund to retain an unrestricted reserve that meets the City Council's adopted 8% unassigned fund balance amount based on General Fund outflows.

Proprietary funds. The City's proprietary fund disclosures provide the same type of information found in the government-wide financial statements, but in more detail.

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds			Nonmajor Funds	
	Water	Sewer	Bus	Other	Total
Operating revenues	$69,075,873	$48,560,533	$3,253,046	$19,354,539	$140,243,991
Operating expenses	(54,702,478)	(31,487,425)	(20,980,818)	(24,109,645)	(131,280,366)
Operating income (loss)	14,373,395	17,073,108	(17,727,772)	(4,755,106)	8,963,625
Nonoperating revenues (expenses), net	(7,922,243)	(2,782,442)	13,896,138	1,381,648	4,573,101
Income (loss) before capital contributions and transfers	6,451,152	14,290,666	(3,831,634)	(3,373,458)	13,536,726
Contributions and transfers	(491,672)	14,034,751	4,021,589	3,803,246	21,367,914
Changes in net position	$5,959,480	$28,325,417	$189,955	$429,788	$34,904,640

The Water fund had a 25.0% rate increase in September 2016 and the Sewer fund had a rate increase of 6.0% in fiscal year 2016-17. Based on these rate increases the Water and Sewer funds had an increase in their operating revenue which increased their net position.

A pollution remediation liability was reported for the Water and Sewer fund in the amounts of $8,677,433 and $7,495,053, respectively based on net recoveries the City has received from various settlements. Additional information regarding these liabilities can be found under Note II-M.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the General Fund is presented as Required Supplementary Information, beginning on **page 81-82** of this report.

While the City Council amended the budget several times through the year, the differences between the original budget and the final amended budget for the General Fund were increased overall mainly due to an increase in intergovernmental revenue, charges for services and fines and forfeit revenue. The estimated revenues increased about $351,897 while total appropriations were increased $6,459,381. These amendments were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in $3,716,114 more than final estimates. Variances in Property Taxes $939,277, Business License Taxes $775,834, Other Intergovernmental $724,586 and Charges for Services Revenue $1,005,197 were due to an increase in collection and compliance efforts and increases in property values.

Expenditures, overall, were $6,269,336 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, 2017, amounted to $1,290,230,567 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2016 was 1.0%.

Capital assets net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year.

	Governmental		Business-type		Total		Increase (decrease) Percent	
	2017	2016	2017	2016	2017	2016	Change	$ Change
Land	$28,267,446	$33,219,069	$33,854,403	$33,515,655	$62,121,849	$66,734,724	-7%	($4,612,875)
Capitalized interest	-	-	8,248,418	9,223,227	8,248,418	9,223,227	-11%	(974,809)
Buildings	12,940,877	14,603,828	37,386,768	40,330,338	50,327,645	54,934,166	-8%	(4,606,521)
Improvements	54,172,467	57,067,075	144,507,172	143,743,848	198,679,639	200,810,923	-1%	(2,131,284)
Furnishings and equipment	3,095,376	3,330,779	5,139,465	5,204,484	8,234,841	8,535,263	-4%	(300,422)
Intangible assets	3,583,041	4,022,157	118,222	155,976	3,701,263	4,178,133	-11%	(476,870)
Equipment pool	13,980,519	13,053,646	-	-	13,980,519	13,053,646	7%	926,873
Service animals	17,334	25,844	-	-	17,334	25,844	-33%	(8,510)
Water rights	-	-	274,640,462	286,581,352	274,640,462	286,581,352	-4%	(11,940,890)
Streets	203,598,507	211,616,811	-	-	203,598,507	211,616,811	-4%	(8,018,304)
Signalization	4,630,398	5,043,639	-	-	4,630,398	5,043,639	-8%	(413,241)
Bridges	29,213,408	29,947,394	-	-	29,213,408	29,947,394	-3%	(733,986)
Buses & fareboxes	25,103	25,103	16,298,419	14,192,976	16,323,522	14,218,079	15%	2,105,443
Pipelines	-	-	118,596,803	119,208,492	118,596,803	119,208,492	-1%	(611,689)
Construction in progress	66,144,481	49,050,112	231,771,478	201,922,158	297,915,959	250,972,270	19%	46,943,689
Total	$419,668,957	$421,005,457	$870,561,610	$854,078,506	$1,290,230,567	$1,275,083,963	1%	$15,146,604

Major capital asset events during the current fiscal year included the following:

- Equipment Pool – Over 80 equipment vehicles were purchased or placed in service in fiscal year 2016-17 in the amount of $2.7 million.
- Buses and fareboxes – 11 new buses or refurbish buses were purchased or placed in service in fiscal year 2016-17.
- Construction in progress – On-going water and wastewater construction projects related to improvements to our water and wastewater system were made in fiscal year 2016-17. Additionally, the Pelandale Interchange project is close to completion and continually cost increased by $10.2 million.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City's capital assets can be found in note II-B on pages **45-46** of this report.

The City had major capital commitments for contracts awarded for various construction projects. As of June 30, 2017, there were major contracts awarded for water, sewer system improvements, State Route 132 Project, and major street improvements throughout the City in the amount of $32.4 million for both governmental and business-type funds. Additional information on the City's commitments can be found in note III-D on page **64** of this report.

Long-term debt

At June 30, 2017, the City had total long-term liabilities outstanding of $432,837,066 net of unamortized discounts and premiums, as compared to $434,376,344 in the prior year. This amount was comprised of $54,470,000 of lease revenue bonds, $47,630,552 of certificates of participation, $31,605,936 of revenue bonds payable, $127,484,358 of reimbursement agreement related to Modesto Irrigation District bonds, $9,141,881 of estimated compensated absences, $27,884,781 of claims liability, $124,780,500 of loans payable, $1,145,338 of developer advances, $6,358,720 of capital leases, and $2,335,000 of notes payable.

Overall, the long-term debt decreased was mainly due to the principal payments made during the fiscal year. Additional information on the City's long-term debt can be found in Note II-C on pages **47-57** of this report.

The City maintains a current bond rating for the various bonds listed below.

BONDS	Moody's Rating	S & P Rating	Fitch Rating
1993 Golf Certificates of Participation		AA-	
Wastewater Revenue Bonds, Series 2006A	A2	AA	AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa3	AA+/A-1	

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. As of June 30, 2017, the net OPEB obligation amounts to approximately $54.5 million. This contributes significantly to the Employee Benefit Fund's $55.0 million deficit net position. Additional information on the City's EBF can be found in Notes II-H, III-F and III-G.

Economic Factors and Next Year's Budget and Rates

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past ten years and serves as a measure for the growth in the cost for supplies and services used by the City. In the fiscal year ended June 30, 2017, the CPI-Western Urban Index increased by 2.6%.
- *Utility Service Charges* - Water and Sewer utility rates have a 25.0% and 6.0% scheduled rate increase for fiscal year 2016-17. For the Water and Sewer utility rates, these planned rate increases was effective on

July 2016 for Sewer and September 2016 for Water. These rate increases will be used to assist with maintaining the debt coverage ratio requirements and related capital improvements for the utility funds.

All of these factors were considered in preparing the City's budget for fiscal year 2017-18.

During the current fiscal year, fund balance in the General Fund increased by $2,584,047, to $29,649,768, which represents 24.1% of total General Fund outflows which exceeds the City Council's target value of 8% unassigned fund balance amount based on General Fund outflows. The budget adopted for fiscal year 2017-18 reflects the Council policy reserve level of 8% of the fund's total operating expenditures. This amount is reported as part of the unassigned fund balance.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353.

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BASIC FINANCIAL STATEMENTS

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CITY OF MODESTO
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 54,015,114	$ 177,408,853	$ 231,423,967
Accounts receivable, net	2,395,270	1,457,094	3,852,364
Interest receivable	397,988	514,820	912,808
Utility billings receivable, net	786,504	13,210,981	13,997,485
Taxes receivable	11,912,425	1,752	11,914,177
Due from governments, net	11,028,508	17,968,968	28,997,476
Prepaid expenses	547,337	2,633,422	3,180,759
Internal balances	7,251,572	(7,251,572)	-
Inventories	19,142	34,616	53,758
Investments in joint ventures	9,508,617	-	9,508,617
Restricted assets:			
Cash and cash equivalents	61,097,903	24,044,617	85,142,520
Cash and cash equivalents with fiscal agent	5,744,571	14,662,154	20,406,725
Due from governments, net	111,743	-	111,743
Reimbursement agreement	15,796,300	-	15,796,300
Notes and loan receivable, net	54,208,522	-	54,208,522
Capital assets:			
Land and construction in progress	94,411,927	265,625,881	360,037,808
Other capital assets, net of accumulated depreciation	325,257,030	604,935,729	930,192,759
Total assets	654,490,473	1,115,247,315	1,769,737,788
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	46,619,235	10,683,150	57,302,385
Loss on refunding	-	940,799	940,799
Accumulated decrease in fair value of hedging derivatives	9,456,835	33,207,249	42,664,084
Total deferred outflows of resources	56,076,070	44,831,198	100,907,268
Total assets and deferred outflows of resources	710,566,543	1,160,078,513	1,870,645,056
LIABILITIES			
Accounts payable	5,634,080	10,589,858	16,223,938
Accrued salaries and benefits	2,024,650	597,281	2,621,931
Approved loans payable	246,654	-	246,654
Interest payable	29,239	223,592	252,831
Unearned revenue	2,081,389	7,538,904	9,620,293
Refundable deposits	3,664,085	2,518,656	6,182,741
Derivative instrument - interest swap	9,456,835	33,207,249	42,664,084
Pollution remediation liability	-	18,772,486	18,772,486
Long-term liabilities:			
Due within one year	11,378,420	13,682,442	25,060,862
Due in more than one year	86,921,799	320,854,405	407,776,204
Net OPEB obligation	40,250,410	14,248,974	54,499,384
Net pension liability	229,264,281	45,211,806	274,476,087
Total liabilities	390,951,842	467,445,653	858,397,495
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	10,503,691	2,347,701	12,851,392
Total liabilities and deferred inflows of resources	401,455,533	469,793,354	871,248,887
NET POSITION			
Net investment in capital assets	376,743,556	555,163,217	931,906,773
Restricted for:			
Capital projects	49,191,971	-	49,191,971
Housing and community development	55,297,487	-	55,297,487
Other purposes	19,361,624	21,525,961	40,887,585
Unrestricted	(191,483,628)	113,595,981	(77,887,647)
Total net position	$ 309,111,010	$ 690,285,159	$ 999,396,169

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2017

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Governmental activities:				
General government	$ 13,945,824	$ 5,082,405	$ -	$ -
Community development	15,419,529	10,378,999	4,293,247	-
Highways and streets	22,481,002	1,101,813	-	2,096,237
Public works	13,169,149	5,908,332	-	-
Parks and recreation	3,947,898	1,614,443	-	21,630
Public safety	104,348,464	4,847,914	757,524	-
Interest on long-term debt	2,500,849	-	-	-
Total governmental activities	175,812,715	28,933,906	5,050,771	2,117,867
Business-type activities:				
Water	63,008,231	69,075,873	80,920	-
Sewer	36,248,877	49,905,078	245,540	13,823,598
Bus	21,979,360	3,253,046	15,020,647	4,020,089
Parking	1,628,226	1,284,269	-	-
Storm drain	6,119,472	5,910,988	-	-
Compost	9,648,481	8,903,917	325,147	-
Airport	1,744,557	596,152	303,449	1,773,826
Golf	2,871,167	2,236,100	-	-
Community center	1,934,179	305,436	-	-
Abatement and public nuisance	51,624	117,677	-	-
Total business-type activities	145,234,174	141,588,536	15,975,703	19,617,513
Total	$ 321,046,889	$ 170,522,442	$ 21,026,474	$ 21,735,380
General revenues:				
Taxes:				
Utility users tax				
Property taxes, levied for general purposes				
Property taxes, generated by and allocated to the airport				
Transient occupancy tax				
Franchise tax				
Business license tax, levied for general purposes				
Business license tax, levied for downtown improvement district				
Intergovernmental revenue:				
Sales tax (state appropriation)				
Motor vehicle license fee				
Gas tax funding				
Community facilities district fees				
Special assessments, levied				
Other				
Unrestricted investment earnings				
Miscellaneous				
Transfers, net				
Total general revenues and transfers				
Changes in net position				
Net position, July 1				
Net position, June 30				

The notes to basic financial statements are an integral part of this statement.

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
	$ (8,863,419)	$ -	$ (8,863,419)
	(747,283)	-	(747,283)
	(19,282,952)	-	(19,282,952)
	(7,260,817)	-	(7,260,817)
	(2,311,825)	-	(2,311,825)
	(98,743,026)	-	(98,743,026)
	(2,500,849)	-	(2,500,849)
	(139,710,171)	-	(139,710,171)
	-	6,148,562	6,148,562
	-	27,725,339	27,725,339
	-	314,422	314,422
	-	(343,957)	(343,957)
	-	(208,484)	(208,484)
	-	(419,417)	(419,417)
	-	928,870	928,870
	-	(635,067)	(635,067)
	-	(1,628,743)	(1,628,743)
	-	66,053	66,053
	-	31,947,578	31,947,578
	(139,710,171)	31,947,578	(107,762,593)
	20,113,023	-	20,113,023
	15,384,518	-	15,384,518
	-	199,124	199,124
	2,669,484	-	2,669,484
	6,431,223	-	6,431,223
	12,255,062	-	12,255,062
	192,540	-	192,540
	30,204,125	-	30,204,125
	15,385,069	-	15,385,069
	3,968,029	-	3,968,029
	1,830	-	1,830
	3,014,768	-	3,014,768
	15,842,047	-	15,842,047
	362,856	872,935	1,235,791
	515,206	1,316,801	1,832,007
	(1,750,401)	1,750,401	-
	124,589,379	4,139,261	128,728,640
	(15,120,792)	36,086,839	20,966,047
	324,231,802	654,198,320	978,430,122
	$ 309,111,010	$ 690,285,159	$ 999,396,169

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Housing and Community Development	Other Governmental	Total Governmental
ASSETS				
Cash and cash equivalents	$ 13,137,675	$ 3,657,936	$ 9,218,022	$ 26,013,633
Receivables:				
Accounts, net	622,180	22,331	436,094	1,080,605
Interest	91,031	7,447	127,939	226,417
Utilities, net	786,504	-	-	786,504
Taxes	11,508,097	-	404,328	11,912,425
Due from governments	1,612,050	778,929	8,592,238	10,983,217
Due from other funds	5,212,884	-	-	5,212,884
Prepaid expenditures	54,842	-	1,007	55,849
Restricted assets:				
Cash and cash equivalents	1,970,622	-	50,312,569	52,283,191
Cash and cash equivalents with fiscal agent	-	-	5,594,309	5,594,309
Due from governments	-	-	111,743	111,743
Notes receivable, net	-	51,927,343	2,281,179	54,208,522
Advances to other funds	2,460,304	-	80,000	2,540,304
Total assets	$ 37,456,189	$ 56,393,986	$ 77,159,428	$ 171,009,603
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 1,737,760	$ 832,327	$ 1,982,116	$ 4,552,203
Accrued salaries and benefits	1,647,546	10,740	239,313	1,897,599
Accrued interest payable	-	6,778	1,634	8,412
Approved loans payable	-	246,654	-	246,654
Due to other funds	-	-	4,682,858	4,682,858
Unearned revenue	425,631	-	1,559,372	1,985,003
Refundable deposits	3,643,905	-	20,180	3,664,085
Advances from other funds	188,647	-	1,226,414	1,415,061
Total liabilities	7,643,489	1,096,499	9,711,887	18,451,875
Deferred inflows of resources:				
Unavailable revenue	162,932	28,065,876	4,247,548	32,476,356
Fund balances:				
Nonspendable	2,515,146	-	81,007	2,596,153
Restricted	1,970,622	27,231,611	58,299,800	87,502,033
Committed	15,800,000	-	-	15,800,000
Assigned	4,854,307	-	7,975,865	12,830,172
Unassigned	4,509,693	-	(3,156,679)	1,353,014
Total fund balances	29,649,768	27,231,611	63,199,993	120,081,372
Total liabilities, deferred inflows of resources, and fund balances	$ 37,456,189	$ 56,393,986	$ 77,159,428	$ 171,009,603

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total fund balances - total governmental funds		$ 120,081,372
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
General capital assets:		
Nondepreciable	$ 91,923,693	
Depreciable	154,317,507	
Accumulated depreciation on general capital assets	(83,253,824)	
Infrastructure:		
Depreciable	569,094,750	
Accumulated depreciation on infrastructure	(331,652,437)	400,429,689
Other long-term assets are not available to pay for current-period expenditures and, therefore, are:		
Deferred in the governmental funds	$ 32,476,356	
Reimbursement agreement with Successor Agency	15,796,300	
Investments in joint ventures	9,508,617	57,781,273
Derivative instruments:		
Rate swaps are not reported in governmental funds.	$ (9,456,835)	
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivatives also are not reported in governmental funds.	9,456,835	-
Internal service funds are used by management to charge the costs of activities to individual funds. The assets, liabilities, and deferred inflows of resources of internal service funds are included in governmental activities in the statement of net position.		(20,971,112)
Deferred outflows and inflows of resources for pension items in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Deferred outflows of resources	$ 44,238,755	
Deferred inflows of resources	(9,833,502)	34,405,253
Some liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
Net pension liability	$ (218,930,918)	
Bonds payable, and other long-term debt	(63,663,720)	
Accrued interest	(20,827)	(282,615,465)
Net position of governmental activities		$ 309,111,010

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	General	Housing and Community Development	Other Governmental	Total Governmental
REVENUES:				
Taxes	$ 55,259,431	$ -	$ 1,786,419	$ 57,045,850
Licenses and permits	109,784	-	91,661	201,445
Intergovernmental	48,821,026	4,277,482	18,971,231	72,069,739
Charges for services	13,362,353	-	11,091,933	24,454,286
Special assessments levied	-	-	3,014,768	3,014,768
Interest and rent	819,908	-	582,479	1,402,387
Net decrease in fair value of investments	(206,156)	-	(366,460)	(572,616)
Fines and forfeits	560,250	-	703,157	1,263,407
Miscellaneous	85,573	3,242	428,029	516,844
Total revenues	118,812,169	4,280,724	36,303,217	159,396,110
EXPENDITURES:				
Current:				
General government	11,269,221	-	272,910	11,542,131
Community development	6,355,248	2,120,560	4,788,242	13,264,050
Highways and streets	-	-	9,240,654	9,240,654
Public works	6,516,710	-	4,402,392	10,919,102
Parks and recreation	3,203,519	-	65,841	3,269,360
Public safety	82,664,376	-	3,811,515	86,475,891
Capital outlay	6,438,534	-	14,992,652	21,431,186
Debt service:				
Principal retirement	467,093	233,000	1,835,000	2,535,093
Interest	15,884	50,951	2,008,367	2,075,202
Other	-	-	430,779	430,779
Total expenditures	116,930,585	2,404,511	41,848,352	161,183,448
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,881,584	1,876,213	(5,545,135)	(1,787,338)
OTHER FINANCING SOURCES (USES):				
Transfers in	836,204	-	4,723,516	5,559,720
Transfers out	(6,021,176)	(177,835)	(460,748)	(6,659,759)
Capital leases	5,883,756	-	-	5,883,756
Sale of assets	3,679	-	27,560	31,239
TOTAL OTHER FINANCING SOURCES (USES)	702,463	(177,835)	4,290,328	4,814,956
CHANGES IN FUND BALANCES	2,584,047	1,698,378	(1,254,807)	3,027,618
FUND BALANCES, JULY 1	27,065,721	25,533,233	64,454,800	117,053,754
FUND BALANCES, JUNE 30	$ 29,649,768	$ 27,231,611	$ 63,199,993	$ 120,081,372

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds		$ 3,027,618
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	$ 21,431,186	
Depreciation expense	(17,811,385)	3,619,801
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 position differs from the change in fund balances by the cost of the assets sold.		(5,678,850)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unearned revenues	$ 4,046,917	
Change in investments in joint ventures	(697,409)	3,349,508
Recognition of Successor Agency annual payment for their Reimbursement Agreement receivable associated with long-term debt.		(532,150)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Principal retirement	$ 2,535,093	
Proceeds of long-term debt	(5,883,756)	(3,348,663)
Some expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest	$ 5,132	
Approved loan payable disbursement	575,000	
Pension expense associated with net pension liability	(3,481,394)	(2,901,262)
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.		(12,656,794)
Change in net position of governmental activities		$ (15,120,792)

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
ASSETS						
Current assets:						
Cash and cash equivalents	$ 76,319,916	$ 77,052,149	$ 6,612,999	$ 17,423,789	$ 177,408,853	$ 28,001,481
Receivables:						
Accounts, net	6,793	39,013	93,013	1,318,275	1,457,094	1,314,665
Interest	213,480	232,073	14,809	54,458	514,820	171,571
Taxes	-	-	-	1,752	1,752	-
Utilities, net	7,819,393	4,582,431	-	809,157	13,210,981	-
Prepaid expenses	2,539,751	27,072	42,339	24,260	2,633,422	491,488
Due from governments	803,454	12,426,232	4,441,449	297,833	17,968,968	45,291
Inventories	-	95	-	34,521	34,616	19,142
Total current assets	87,702,787	94,359,065	11,204,609	19,964,045	213,230,506	30,043,638
Noncurrent assets:						
Advances to other funds	110,814	889,200	-	-	1,000,014	88,647
Restricted cash and cash equivalents	9,770,756	14,273,861	-	-	24,044,617	8,814,712
Restricted cash and cash equivalents with fiscal agent	12,502,170	1,474,998	-	684,986	14,662,154	150,262
Land and construction in progress	64,869,479	182,252,098	4,283,145	14,221,159	265,625,881	2,488,234
Other capital assets, net of accumulated depreciation	381,369,510	156,163,134	34,879,740	32,523,345	604,935,729	16,751,034
Total noncurrent assets	468,622,729	355,053,291	39,162,885	47,429,490	910,268,395	28,292,889
Total assets	556,325,516	449,412,356	50,367,494	67,393,535	1,123,498,901	58,336,527
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pensions	3,913,247	3,901,518	675,680	2,192,705	10,683,150	2,380,480
Loss on refunding	452,045	488,754	-	-	940,799	-
Accumulated decrease in fair value of hedging derivatives	33,207,249	-	-	-	33,207,249	-
Total deferred outflows of resources	37,572,541	4,390,272	675,680	2,192,705	44,831,198	2,380,480
Total assets and deferred outflows of resources	$ 593,898,057	$ 453,802,628	$ 51,043,174	$ 69,586,240	$ 1,168,330,099	$ 60,717,007
LIABILITIES						
Current liabilities:						
Accounts payable	$ 2,886,278	$ 2,905,953	$ 2,694,636	$ 2,102,991	$ 10,589,858	$ 1,081,877
Accrued salaries and benefits	209,281	216,882	37,515	133,603	597,281	127,051
Interest payable	3,765	185,937	-	33,890	223,592	-
Due to other funds	-	-	-	530,026	530,026	-
Current portion - compensated absences	-	-	-	-	-	3,176,739
Current portion - claims liability	-	-	-	-	-	5,682,904
Current portion - long-term debt	4,925,149	7,478,616	-	355,000	12,758,765	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Unearned revenue	4,635	737,926	6,337,253	459,090	7,538,904	96,386
Total current liabilities	8,122,220	11,525,314	9,069,404	3,614,600	32,331,538	10,164,957
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,408,341	1,110,315	-	-	2,518,656	-
Advances from other funds	-	-	-	2,213,904	2,213,904	-
Compensated absences	-	-	-	-	-	5,965,142
Claims liability	-	-	-	-	-	22,201,877
Derivative instrument - interest swap	33,207,249	-	-	-	33,207,249	-
Pollution remediation liability	8,677,433	7,495,053	-	2,600,000	18,772,486	-
Long-term debt:						
Reimbursement agreement related to MID debt	122,949,358	-	-	-	122,949,358	-
Revenue bonds payable	-	29,211,432	-	-	29,211,432	-
Loans payable	426,398	118,744,841	-	-	119,171,239	-
Certificates of participation	44,345,552	-	-	2,565,000	46,910,552	-
Developer advances	1,052,226	-	-	-	1,052,226	-
Net OPEB obligation	-	-	-	-	-	54,499,384
Net pension liability	16,822,777	16,367,801	2,759,942	9,261,286	45,211,806	10,333,363
Total noncurrent liabilities	228,889,334	172,929,442	2,759,942	16,640,190	421,218,908	92,999,766
Total liabilities	237,011,554	184,454,756	11,829,346	20,254,790	453,550,446	103,164,723
DEFERRED INFLOWS OF RESOURCES						
Deferred pensions	971,135	815,014	124,743	436,809	2,347,701	670,189
NET POSITION						
Net investment in capital assets	286,546,747	184,944,095	39,162,885	44,509,490	555,163,217	19,239,268
Restricted for other purposes	8,362,415	13,163,546	-	-	21,525,961	8,814,712
Unrestricted	61,006,206	70,425,217	(73,800)	4,385,151	135,742,774	(71,171,885)
Total net position	355,915,368	268,532,858	39,089,085	48,894,641	712,431,952	(43,117,905)
Total liabilities, deferred inflows of resources, and net position	$ 593,898,057	$ 453,802,628	$ 51,043,174	$ 69,586,240		$ 60,717,007
Adjustment to reflect the consolidation of internal service fund activities					(22,146,793)	
Net position of business-type activities					$ 690,285,159	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
OPERATING REVENUES:						
Charges for services	$ 68,896,549	$ 48,559,686	$ 2,777,228	$ 19,330,481	$ 139,563,944	$ 39,780,791
Sales	-	-	-	-	-	1,486,322
Miscellaneous	179,324	847	475,818	24,058	680,047	-
Total operating revenues	69,075,873	48,560,533	3,253,046	19,354,539	140,243,991	41,267,113
OPERATING EXPENSES:						
Salaries and wages	8,377,197	8,304,335	1,430,275	5,234,975	23,346,782	4,582,141
Cost of sales	-	-	-	-	-	1,111,541
Contractual services	8,223,537	2,117,430	12,873,108	5,164,224	28,378,299	5,576,258
Utilities	2,012,949	3,092,743	160,043	605,763	5,871,498	260,957
Maintenance and supplies	2,869,316	2,605,825	2,046,094	4,559,210	12,080,445	2,683,893
Water purchases	10,436,459	-	-	-	10,436,459	-
Insurance	183,037	420,836	34,319	264,086	902,278	16,355,662
Claims	-	-	-	-	-	13,619,346
Employee benefits	3,226,818	2,063,081	569,719	2,004,893	7,864,511	4,244,621
Administration services	985,297	3,185,779	839,572	3,173,510	8,184,158	643,735
Allocated indirect administrative costs	1,193,621	642,202	265,638	440,394	2,541,855	274,466
Depreciation	17,194,247	9,055,194	2,762,050	2,662,590	31,674,081	3,028,262
Total operating expenses	54,702,478	31,487,425	20,980,818	24,109,645	131,280,366	52,380,882
OPERATING INCOME (LOSS)	14,373,395	17,073,108	(17,727,772)	(4,755,106)	8,963,625	(11,113,769)
NONOPERATING REVENUES (EXPENSES)						
Operating grants	80,920	245,540	15,020,647	628,596	15,975,703	-
Gain (loss) on disposition of capital assets	33,239	14,247	(1,155,602)	42,248	(1,065,868)	36,800
Tax revenue	-	-	-	199,124	199,124	-
Tax expense	(79,795)	(136,993)	-	(20,649)	(237,437)	-
Interest income	678,239	791,151	(18,507)	114,069	1,564,952	660,080
Net increase (decrease) in fair value of investments	77,762	(618,319)	(41,433)	(110,027)	(692,017)	(429,586)
Connection fees	-	1,344,545	-	-	1,344,545	-
Rental income	38,208	503,969	91,033	683,591	1,316,801	-
Interest expense and amortization	(8,306,138)	(4,922,906)	-	(151,666)	(13,380,710)	-
Trustee and letter of credit fees	(444,678)	(3,676)	-	(3,638)	(451,992)	-
Total nonoperating revenues (expenses)	(7,922,243)	(2,782,442)	13,896,138	1,381,648	4,573,101	267,294
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	6,451,152	14,290,666	(3,831,634)	(3,373,458)	13,536,726	(10,846,475)
Capital contributions	-	13,823,598	4,020,089	1,773,826	19,617,513	22,242
Transfers in	315,500	286,441	1,500	2,143,776	2,747,217	280,937
Transfers out	(807,172)	(75,288)	-	(114,356)	(996,816)	(931,299)
CHANGES IN NET POSITION	5,959,480	28,325,417	189,955	429,788	34,904,640	(11,474,595)
NET POSITION, JULY 1	349,955,888	240,207,441	38,899,130	48,464,853		(31,643,310)
NET POSITION, JUNE 30	$ 355,915,368	$ 268,532,858	$ 39,089,085	$ 48,894,641		$ (43,117,905)
Adjustment to reflect the consolidation of internal service funds					1,182,199	
Change in net position of business-type activities					$ 36,086,839	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	$ 66,561,254	$ 40,502,227	$ 3,205,164	$ 20,524,381	$ 130,793,026	$ 1,488,493
Receipts from interfund services provided	56,852	592,985	-	50,277	700,114	39,960,356
Payments to suppliers	(20,264,040)	(8,348,014)	(15,892,986)	(7,919,492)	(52,424,532)	(27,113,476)
Payment of insurance claims	-	-	-	-	-	(9,331,096)
Payments to employees	(11,714,198)	(10,455,703)	(2,013,527)	(7,303,167)	(31,486,595)	(10,228,381)
Payments for interfund services used	(5,808,557)	(6,521,778)		(7,117,090)	(19,447,425)	(1,878,025)
Net cash provided (used) by operating activities	28,831,311	15,769,717	(14,701,349)	(1,765,091)	28,134,588	(7,102,129)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	80,920	245,540	15,024,531	628,596	15,979,587	-
Taxes received	-	-	-	199,124	199,124	-
Transfers in	315,500	131,719	1,500	2,143,776	2,592,495	279,785
Transfers out	(807,172)	(75,288)	-	(114,356)	(996,816)	(157,334)
Payments on advances from other funds	-	-	-	(34,200)	(34,200)	-
Receipts on advances to other funds	60,846	34,200	-	-	95,046	75,000
Net cash provided (used) by noncapital financing activities	(349,906)	336,171	15,026,031	2,822,940	17,835,236	197,451
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(15,132,918)	(27,899,450)	(3,699,403)	(2,630,145)	(49,361,916)	(4,045,577)
Proceeds from sale of capital assets	40,996	767,271	45,245	45,073	898,585	199,087
Proceeds of debt issues	-	3,254,000	-	-	3,254,000	-
Principal repayments	(4,802,643)	(7,086,336)	-	(340,000)	(12,228,979)	-
Interest paid	(7,904,142)	(4,213,149)	-	(117,776)	(12,235,067)	-
Trustee and letter of credit fees	(444,678)	(3,676)	-	(3,638)	(451,992)	-
Capital contributions	-	11,618,005	1,165,053	1,773,826	14,556,884	-
Connection fees for capital purposes	-	1,344,545	-	-	1,344,545	-
Net cash provided (used) by capital and related financing activities	(28,243,385)	(22,218,790)	(2,489,105)	(1,272,660)	(54,223,940)	(3,846,490)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	644,253	782,312	(57,338)	75,344	1,444,571	636,149
Net increase (decrease) in the fair value of investments	77,762	(618,319)	-	(110,027)	(650,584)	(429,586)
Rental income received	38,208	503,969	91,033	683,591	1,316,801	-
Net cash provided (used) by investing activities	760,223	667,962	33,695	648,908	2,110,788	206,563
Net increase (decrease) in cash and cash equivalents	998,243	(5,444,940)	(2,130,728)	434,097	(6,143,328)	(10,544,605)
CASH AND CASH EQUIVALENTS, JULY 1	97,594,599	98,245,948	8,743,727	17,674,678	222,258,952	47,511,060
CASH AND CASH EQUIVALENTS, JUNE 30	$ 98,592,842	$ 92,801,008	$ 6,612,999	$ 18,108,775	$ 216,115,624	$ 36,966,455
RECONCILIATION TO STATEMENT OF NET POSITION:						
Cash and cash equivalents	$ 76,319,916	$ 77,052,149	$ 6,612,999	$ 17,423,789	$ 177,408,853	$ 28,001,481
Restricted cash and cash equivalents	9,770,756	14,273,861	-	-	24,044,617	8,814,712
Restricted cash and cash equivalents with fiscal agent	12,502,170	1,474,998	-	684,986	14,662,154	150,262
TOTAL CASH AND CASH EQUIVALENTS	$ 98,592,842	$ 92,801,008	$ 6,612,999	$ 18,108,775	$ 216,115,624	$ 36,966,455

(continued)

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2017

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	$ 14,373,395	$ 17,073,108	$ (17,727,772)	$ (4,755,106)	$ 8,963,625	$ (11,113,769)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,194,247	9,055,194	2,762,050	2,662,590	31,674,081	3,028,262
Taxes paid	(79,795)	(136,993)	-	(20,649)	(237,437)	-
Change in assets, liabilities, and deferred resources:						
(Increase) decrease in accounts receivable	6,853	36,392	(22,353)	(34,634)	(13,742)	168,916
Increase in taxes receivable	-	-	-	(1,752)	(1,752)	-
Increase in utilities receivable	(1,890,496)	(576,954)	-	(32,383)	(2,499,833)	-
(Increase) decrease in due from governments	(675,090)	(6,766,127)	-	1,063,602	(6,377,615)	(26,448)
(Increase) decrease in prepaid expenses	(52,906)	9,077	(25,529)	40,018	(29,340)	(208,984)
Decrease in inventories	-	-	-	1,804	1,804	314,097
Increase (decrease) in accounts payable	285,294	38,884	325,788	(850,568)	(200,602)	(2,190,102)
Decrease in accrued salaries and benefits	(47,138)	(24,687)	(2,369)	(27,715)	(101,909)	(23,394)
Increase in compensated absences	-	-	-	-	-	351,931
Decrease in net OPEB obligation	-	-	-	-	-	(1,691,947)
Decrease in net pension liability and deferred resources	(63,045)	(63,600)	(11,164)	(35,584)	(173,393)	(38,209)
Increase in claims liability	-	-	-	-	-	4,288,250
Decrease in pollution remediation liability	(320,975)	(2,715,946)	-	-	(3,036,921)	-
Increase in due to other funds	-	-	-	187,646	187,646	-
Increase (decrease) in unearned revenue	4,635	(239,022)	-	37,640	(196,747)	39,268
Increase in refundable deposits	96,332	80,391	-	-	176,723	-
Total adjustments	14,457,916	(1,303,391)	3,026,423	2,990,015	19,170,963	4,011,640
Net cash provided (used) by operating activities	$ 28,831,311	$ 15,769,717	(14,701,349)	$ (1,765,091)	$ 28,134,588	$ (7,102,129)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Capital asset transfers	$ -	$ 154,722	$ -	$ -	$ 154,722	$ (154,722)
Capital contribution from transfer of Empire Sanitary District	-	2,205,593	-	-	2,205,593	-
Interfund loan transfer correction	-	-	-	-	-	(618,091)
Amortization of debt items	600,014	10,447	-	-	610,461	-

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2017

	Private-Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	$ 3,213,643	$ 3,050,868
Cash and cash equivalents held with fiscal agent	1,977,938	2,942,479
Interest receivable	14,816	-
Other assets	9,924	-
Total assets	5,216,321	$ 5,993,347
LIABILITIES		
Due to special district bondholders	$ -	$ 3,408,080
Deposits held as agent for others	-	2,585,267
Other payables	168,936	-
Due to other agencies	1,192,004	-
Loans payable:		
Due within one year	2,091,550	-
Due in more than one year	23,869,750	-
Total liabilities	27,322,240	$ 5,993,347
NET POSITION		
Unrestricted	$ (22,105,919)	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUND
FISCAL YEAR ENDED JUNE 30, 2017

		Private-Purpose Trust
ADDITIONS:		
Redevelopment Agency Property Tax Trust Fund	$	3,271,733
Gain on capital assets		568,950
Interest and Investment Revenue:		
Use of money and property		233,683
Total additions		4,074,366
DEDUCTIONS:		
Distribution of property taxes to other taxing entities		768,933
Obligation retirements:		
Interest on note payable		597,708
Administrative expenses:		
City administrative expenses		215,560
Depreciation expense		43,729
Total administrative expenses		259,289
Total deductions		1,625,930
Change in net position		2,448,436
Net position, July 1		(24,554,355)
Net position, June 30	$	(22,105,919)

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

The City of Modesto (the City) was incorporated in 1884 and operates under a Council-Manager form of government as authorized by its charter adopted in 1951. The City Council consists of seven elected members. The following services are provided by the City to its citizens: public safety (fire and police), highways and streets, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation, public improvements, community development, planning and zoning, and general administrative services.

These financial statements present the financial status of the City and its component units. The component units discussed in the following paragraphs are included in the City's reporting entity because the City is financially accountable for their operations.

1. The MPFA (Modesto Public Financing Authority) was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.

2. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently nine active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

The Redevelopment Successor Agency (Successor Agency) operates under the auspices of a legislatively formed Oversight Board comprised of representatives of the local agencies that serve the development project area. The Oversight Board, in its fiduciary capacity, has authority over the operations and the timely dissolution of the former Redevelopment Agency (RDA). It is tasked with fulfilling the obligations of the former RDA, and is also responsible for revenue collection, maintaining necessary loan reserves and disposing of excess property. This agency is reported as a private-purpose trust fund based on the generally accepted accounting standards requirement.

Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of all seven members of the City Council and operational responsibility. There is an operational responsibility for the City related to these component units and for the MPFA it provides services solely for the City. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organizations described in Note III-E are not considered part of the reporting entity because the City is not financially accountable for their operations.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. For grant revenues, the City considers this type of revenue to be available if collected within 180 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest, compensated absences, claims and judgement expenditures are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees, and gas taxes), interest, special assessments levied, state and federal grants, and charges for current services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Revenues from licenses, permits, and fines and forfeits are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Housing and Community Development Fund accounts for various grant funds received from Federal Community Development Block grants to be used for a variety of housing related programs primarily targeted at low-income housing. Additionally, this fund accounts for the City's revolving fund, which provides housing loans to low-income individuals and accounts for emergency shelter grant revenue received from the Housing and Urban Development Department.

The City reports the following major proprietary funds:

The Water Fund accounts for all revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City water distribution system. Revenues are derived from water service charges and various installation fees.

The Sewer Fund accounts for revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City sewer system. Revenues include, but are not limited to, sewer service charges and sewer lateral charges.

The Bus Fund accounts for operations, maintenance, and capital expenditures of the City's mass transportation service. This system operates pursuant to the terms of a Federal grant agreement. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract provides Dial-a-Ride service for the elderly and handicapped.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, information and technology services, insurance, employee benefits management, and building services provided to other departments or agencies of

the City on a cost-reimbursement basis.

Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

Private-purpose Trust Fund accounts as the fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. The fund reports the assets, liabilities, and net position of the Successor Agency.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The Sewer Fund also recognize as non-operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including the note disclosures. Actual results could differ from those estimates.

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

1. Cash and Cash Equivalents

Cash and investments (including restricted assets) held in the City's investment pool are reported as cash and cash equivalents on the statement of net position and balance sheet because funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid and have maturities of 3 months or less at the time of purchase. Investments are stated at fair value. Valuations are obtained based on various levels identified further under Note II-A – Fair value measurements.

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Legal or contractual obligations associated with the nonmajor governmental funds have been reported as restricted assets due to the restrictions identified on the revenue sources generated from these funds. Refundable deposits in the Water and Sewer funds are also reported as restricted assets on the proprietary funds statement of net position. In addition, certain proceeds of Water certificates of participation and Sewer revenue bonds are considered restricted assets because their use is limited by applicable debt covenants. These proceeds are reported as part of "restricted assets – cash and cash equivalents" on the proprietary funds statement of net position. The Employee Benefits Management Fund collects funds which are restricted for future payouts for leave balances due to employees who terminate or retire from the City as well as any severance payouts. These assets are restricted due to management's designation of assets for future payments for employee uses.

3. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due from/due to other funds" (amounts due within one year), or "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Advances to other funds and prepaid items are offset by a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources to indicate that they are not in spendable form.

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. Property taxes are recognized in governmental funds when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end; therefore, revenue from taxpayer-assessed taxes is accrued if it is received by August 31.

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred inflow of resources. The corresponding proprietary fund revenues are recorded as nonoperating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received. The total amount due from governments for grants, entitlements, and shared receivables and revenues at June 30, 2017 is $29,109,219.

Utility service accounts receivable are $13,997,485 net of an allowance for doubtful collections of $735,430 and include unbilled receivables using actual amounts billed in July for June services for all City funds. City accounts receivable of $3,852,364 are reported net of an allowance for doubtful collections of $1,079,037, and are based on miscellaneous receivables from the City’s invoice system as well as other receivables accrued at year-end.

4. Inventories and Prepaid Expenses/Expenditures

Inventories of material and supplies held by governmental and proprietary funds are stated at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

5. Capital Assets

Capital assets, which include property, plant and equipment, intangible assets and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets received in a service concession agreement and all other types are recorded at acquisition value rather than fair value.

In the case of the initial capitalization of infrastructure assets reported by governmental activities, the City chose to include them regardless of their acquisition date or amount. Historical values were estimated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and enterprise funds are included as part of the capitalized value of the assets constructed. The amount of interest capitalized is determined by offsetting interest expense incurred from the date of borrowing until completion of the project, against interest earned on invested proceeds of tax-exempted debt over the same period.

Depreciation is recorded using the straight line method over the estimated useful lives of the assets, which are 75 years for pipelines, 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, 2 to 10 years for vehicles, 5 to 15 years for intangible assets, 30 to 50 years for streets, 20 years for signalization, 30 years for water rights, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

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

6. Deferred Outflows and Inflows of Resources

The Governmental Accounting Standards Board (GASB) establishes criteria for recognizing deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note II. N for a detail listing of the deferred outflows and inflows of resources the City has recognized.

7. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the GASB Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination. As of June 30, 2017, the total estimated liability for all compensated absences, including vacation and sick leave, is $9,141,881.

8. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

- *Assigned fund balance* – amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, which includes City Council or by an official designated such as the City Manager for such purpose.

- *Unassigned fund balance* – the residual classification for the City's General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or

assigned to those purposes.

The City establishes and modifies or rescinds fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the City through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

9. Fund Balance Policy

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its City funds sufficient to fund cash flows of the City and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The City has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of a flat $7 million for fiscal year 2016-2017.

E. OTHER SIGNIFICANT ACCOUNTING POLICIES

1. Employee Benefits

The City established the Employee Benefits Management Internal Service Fund to account for all compensated absences and non-insurance benefits. Insurance benefits for current employees are paid from the Insurance Internal Service Fund. The Employee Benefits Management Fund is reimbursed based on actual benefits paid and leave taken, through payroll charges to the City's operating funds. Leave earned but not taken is being funded over a reasonable period of time.

2. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) Safety (police and fire) and Miscellaneous (all other) Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB 68 requires that the reported results must pertain to the liability and asset information within certain defined timeframes. For this report, the following:

Valuation Date: June 30, 2015
Measurement Date: June 30, 2016
Measurement Period: June 30, 2015 to June 30, 2016

3. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund services provided and used, such as equipment pool rental, are accounted for as revenues and expenditures or expenses. Transactions to reimburse a fund for expenditures/expenses initially made from it that are applicable to another fund are recorded as expenditures/expenses in the correct fund and as reductions of expenditures/expenses in the original fund. All other interfund transactions are reported as transfers.

F. NEW ACCOUNTING STANDARDS

During the fiscal year ended June 30, 2017, the City implemented the following GASB standards:

In June 2015, GASB issued **Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**. This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement did not have any impacts to the City's financial statements.

In August 2015, GASB issued **Statement No. 77, Tax Abatement Disclosures**. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (i) brief descriptive information; (ii) the gross dollar amount of taxes abated during the period; and (iii) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This Statement did not have a significant impact to the City's financial statements.

In December 2015, the GASB issued **Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans**. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68 associated with pensions provided through certain cost-sharing multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Such plans are not considered a state or local government pension plan and are used to provide benefits to both employees of state and local governments and employees of employers that are not state or local governments. This statement did not have any impacts to the City's financial statements.

In January 2016, the GASB issued **Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.** The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in GASB Statement No. 14, The Financial Reporting Entity, as amended. This Statement did not have a significant impact to the City's financial statements.

In March 2016, the GASB issued **Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73,** to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practices for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement did not have a significant impact to the City's financial statements.

The City is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2015, GASB issued **Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement is effective for the City's fiscal year ending June 30, 2018.

In March 2016, the GASB issued **Statement No. 81, Irrevocable Split-Interest Agreements**. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This Statement is effective for the City's fiscal year ending June 30, 2018.

In November 2016, the GASB issued **Statement No. 83, Certain Asset Retirement Obligations**, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement is effective for the City's fiscal year ending June 30, 2019

In January 2017, the GASB issued **Statement No. 84, Fiduciary Activities**, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective for the City's fiscal year ending June 30, 2020.

In March 2017, the GASB issued **Statement No. 85, Omnibus 2017**, which addresses practical issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and other postemployment benefits. This Statement is effective for the City's fiscal year ending June 30, 2018.

In May 2017, the GASB issued **Statement No. 86, Certain Debt Extinguishment Issues**, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for the City's fiscal year ending June 30,
2018.

In June 2017, the GASB issued **Statement No. 87, Leases**, which increases the usefulness of government' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the City's fiscal year ending June 30, 2021.

II. DETAILED NOTES

A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the City's cash and investment pool is displayed on the balance sheet and proprietary and fiduciary fund statements of net position as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net position as "restricted assets – cash and cash equivalents." The City also maintains "cash and cash equivalents with fiscal agent", which represent monies held by fiscal agents for payment of various City debt and capital projects costs.

The City's cash and investments are reported as follows:

Primary government:		
Cash and cash equivalents	$	231,423,967
Restricted cash and cash equivalents		85,142,520
Restricted cash and cash equivalents with fiscal agent		20,406,725
Sucessor Agency Private-Purpose Trust Fund		
Cash and cash equivalents		3,213,643
Cash and cash equivalents held with fiscal agent		1,977,938
Agency funds		
Cash and cash equivalents		3,050,868
Cash and cash equivalents held with fiscal agent		2,942,479
Total cash and investments	$	348,158,140

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment policy and the California Government Code allow the City to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Maximum Percentage Of Issuer	Maximum Quality Requirements
Local Agency Bonds	5 years	None	None	None
Treasury Obligations	5 years	None	None	None
State Obligations	5 years	None	None	A rating
CA Local Agency Obligations	5 years	None	None	A rating
Federal Agencies	5 years	None	None	None
Banker's Acceptances	180 days	40 %	5 %	Federal Reserve eligible
Commercial Paper	270 days	25 %	5 %	A1/P1 rating
Negotiable Certificates of Deposit	5 years	30 %	5 %	A rating
Certificates of Deposit	1 year	20 %	5 %	FDIC insured or collateralized
Repurchase Agreements	90 days	None	5 %	None
Reverse Repurchase Agreements	92 days	20 % of combined base value	5 %	None
Medium Term Notes	5 years	30 %	5 %	A rating
Money Market Mutual Funds	N/A	15 %	10 %	Multiple
Mortgage and Asset-backed Securities	5 years	20 %	5 %	AA Rating
CAMP	N/A	None	None	N/A
LAIF	N/A	N/A	None	N/A

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. Security types prohibited include, but are not limited to: Investments in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. At June 30, 2017, the fair value approximated the City's cost. At June 30, 2017, these investments range from a maximum maturity of 5 years to some maturity limits of 180 days or less. The City reports its investments in CAMP at the fair value amounts provided by CAMP.

Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All current bond indentures authorize the same investments as the City's investment policy.

Custodial Credit Risk – Deposits

The Custodial Credit Risk for Deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The City does not, currently, have a Custodial Credit Risk – Deposits Policy. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 110% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in custody at the Bank of New York Trust Company N.A. under the name of the California Local Agency Collateral Pool as administered by the California Department of Business Oversight (Pool Administrator).

The City of Modesto has 10 deposit accounts at Bank of America that are monitored for deposit collateral purposes. As per the CA Government Code, the bank must provide collateral for the collected deposit balances at 110% coverage. The City is collateralized as part of the California Local Agency Collateral Pool Program. As of June 30, 2017 the City had collected deposit balances of $16,574,956. On this amount, the FDIC insurance coverage was $500,000. ($250,000 for their time and savings accounts and $250,000 for their demand accounts). The remainder of their balances were collateralized as part of the California Local Agency Pool Program.

For further information, on June 30, 2017, the total collected deposit balances at Bank of America from California Local Agency Pool Program participants was $1,851,155,231 of which $84,735,990 was FDIC insured. The remaining uninsured balances, $1,766,419,241 were collateralized by securities pledged by Bank of America that had a market value of $2,228,055,232. This results in collateral margin coverage of 124% far in excess of the 110% required by the California Government Code.

Custodial Credit Risk – Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

The City's investments consist of pooled investments, dedicated investments, and other funds held by trustees. The dedicated investment funds represent restricted funds and relate to bond proceeds of the Water and Sewer Enterprise Funds, assessment districts (reported under Agency Funds) and the Successor Agency. The other funds held by trustees are made either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust agreements. All investments held by a custodian are in the City's name excluding the Successor Agency.

Interest Rate Risk

Interest Rate Risk is the risk that interest rates will rise and reduce the fair value of an investment. Long-term fixed-income securities have the greatest amount of interest rate risk, due to their duration, or sensitivity to interest rate changes, being greater.

As of June 30, 2017, the City owned two callable bonds. There were no Federal Agency callables in the portfolio. Information on those bonds has been provided as follows:

Corporate Notes			
Amount	Maturity Date	Call Date	Call Terms
$1,095,000	11/5/2018	10/5/2018	Callable on and any time after 10/05/18
$5,475,000	5/22/2018	4/22/2018	Callable on and any time after 4/22/18

Disclosures Related to Credit Risk

Generally, Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City may from time to time be invested in a security whose rating is downgraded subsequent to the date of purchase. In the event a rating drops below the minimum allowed rating category for that given investment type, the investment advisor shall notify the Finance Director and recommend a plan of action. The City will limit investments in any one non-government issuers, except investment pools to no more than 5% regardless of security type.

The following table summarizes the City's investments based on maturity dates of various investments:

	Credit Rating		Remaining Time to Maturity				
Investment Type	Standard & Poor's	Moody's Investors Service	Total	Less Than 1 Year	1-2 Years	2-3 Years	3-18 years
U.S. Treasury Notes	AA+	Aaa	$ 20,187,552	$ -	$ 6,691,262	$ -	$ 13,496,290
Federal Agencies:							
Collateralized Mortgage Obligation	AA+	Aaa	7,564,435	1,641,979	4,039,694	1,882,762	-
Federal Agency Bond/Notes	AA+	Aaa	117,812,611	-	60,079,004	57,733,607	-
Corporate Notes	See Below	See Below	38,806,370	9,398,506	16,063,570	13,344,294	-
Negotiable Certificates of Deposit	See Below	See Below	45,931,235	14,876,079	31,055,156	-	-
CAMP Pool	AAAm	N/A	79,653,435	79,653,435	-	-	-
Total			$ 309,955,638	$ 105,569,999	$ 117,928,686	$ 72,960,663	$ 13,496,290
Held By Fiscal Agent							
Money Market Funds	AAAm	Aaa-mf	5,709,055	5,709,055	-	-	-
CAMP	AAAm	N/A	9,609,203	9,609,203	-	-	-
MID – Collateral Agreement	A+	Aa3	10,008,884	10,008,884	-	-	-
Fiscal Agent Total			$ 25,327,142	$ 25,327,142	$ -	$ -	$ -
City of Modesto Banking Accts & Cash on Hand	A/A-1	A1/P1	12,735,527				
Timing Differences for Deposit & Electronic Vendor Payments			139,833				
Total Cash and Investments			$ 348,158,140				

The following is a table indicating the credit ratings for the City's investment in Corporate Notes:

Amount	Standard & Poors	Moody's Investors Service
$ 3,513,804	AA+	Aaa
1,854,881	AA	Aa2
680,475	AA-	Aa2
3,717,716	AA-	Aa3
5,477,875	A	A1
6,966,283	A+	A1
2,997,141	AA	A1
7,254,704	A	A2
3,527,207	A-	A2
2,816,284	A-	A3
$ 38,806,370		

The following is a table indicating the credit ratings for the City's investment in Negotiable Certificates of Deposit:

	Amount	Standard & Poors	Moody's Investors Service
$	11,461,716	AA-	Aa2
	8,095,669	AA-	Aa3
	4,506,840	A	A1
	16,155,376	A+	Aa3
	5,711,634	A+	A1
$	45,931,235		

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, 2017:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	$59,148,971	16.99%
Federal Home Loan Banks	Federal agency securities	27,185,443	7.81%
Freddie Mac (FHLMC)	Federal agency securities	39,042,632	11.21%

Fair Value measurements

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, of which levels 1 & 2 apply to the City as follows:

- Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement. Examples would be securities with prices derived from the major exchanges.

- Level 2: Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data. Examples would be securities with prices derived from market corroborated sources such as indices and yield curves; and matrix pricing, such as for most debt securities.

Union Bank is the custodian of the City's investments. Union Bank utilizes pricing services that deliver current market values and security information which is input into their trust accounting systems. A security will be valued on the basis of valuations provided by a pricing service vendor if it has a substantial public market (i.e. is not thinly traded), and is freely tradable without restriction, has a valid CUSIP or SEDOL and resides on one of the depositories. Based on their direction, Union Bank will continue to obtain valuations for all other securities and assets, for which they do not receive a pricing feed and/or descriptive information from their pricing service vendors, from various sources independent of Union Bank. If no current market value price is available from their pricing service vendors and their agents have provided Union Bank with pricing information, Union Bank will show the value of the asset at such value as Union Bank shall determine, such value to be for administrative purposes only and not be any indication of any market value.

The Pool has the following recurring fair value measurements as of June 30, 2017:

Investments by Fair Value Level		Fair Value Measurements Using	
Investment Type		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S Treasury Notes	$ 20,187,552	$ 20,187,552	$ -
Corporate Notes	38,806,370	-	38,806,370
Negotiable Certificates of Deposit	45,931,235	-	45,931,235
Collateralized Mortgage Obligation	7,564,435	-	7,564,435
Federal Agency Bond/Notes	117,812,611	-	117,812,611
Total Investments measured at fair value	230,302,203	20,187,552	210,114,651
Investments not subject to Fair Value hierarchy			
CAMP	79,653,435		
	$ 309,955,638		
Investments by Fair Value for Fiscal Agents			
Money Market Funds	$ 5,709,055	$ -	$ 5,709,055
Total Fiscal Agent investments measured at fair value	5,709,055	-	5,709,055
Investments not subject to Fair Value hierarchy			
CAMP	9,609,203		
MID Collateral Agreement	10,008,884		
	$ 25,327,142		

B. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 33,219,069	$ -	$ (4,951,623)	$ 28,267,446
Construction in progress	49,050,112	21,133,342	(4,038,973)	66,144,481
Total capital assets, not being depreciated:	82,269,181	21,133,342	(8,990,596)	94,411,927
Capital assets being depreciated:				
Buildings	34,507,293	20,921	(1,668,446)	32,859,768
Improvements other than buildings	107,637,168	1,542,230	(3,383)	109,176,015
Furnishings & equipment	16,195,762	484,315	(720,239)	15,959,838
Buses and fareboxes	278,852	-	-	278,852
Service animals	42,549	-	-	42,549
Intangible assets	8,513,126	-	-	8,513,126
Equipment pool	34,722,836	4,004,320	(2,040,939)	36,686,217
Infrastructure				
Streets	508,430,143	2,174,963	-	510,605,106
Signals	21,789,400	923	-	21,790,323
Bridges	36,699,321	-	-	36,699,321
Total capital assets, being depreciated:	768,816,450	8,227,672	(4,433,007)	772,611,115
Less accumulated depreciation for:				
Buildings	(19,903,465)	(937,534)	922,108	(19,918,891)
Improvements	(50,570,093)	(4,436,500)	3,045	(55,003,548)
Furnishings & equipment	(12,864,983)	(769,264)	769,785	(12,864,462)
Buses and fareboxes	(253,749)	-	-	(253,749)
Service animals	(16,705)	(8,510)	-	(25,215)
Intangible assets	(4,490,969)	(439,116)	-	(4,930,085)
Equipment pool	(21,669,190)	(2,907,305)	1,870,797	(22,705,698)
Infrastructure				
Streets	(296,813,332)	(10,193,267)	-	(307,006,599)
Signals	(16,745,761)	(414,164)	-	(17,159,925)
Bridges	(6,751,927)	(733,986)	-	(7,485,913)
Total accumulated depreciation	(430,080,174)	(20,839,646)	3,565,735	(447,354,085)
Total capital assets being depreciated, net	338,736,276	(12,611,974)	(867,272)	325,257,030
Governmental activities capital assets, net	$ 421,005,457	$ 8,521,368	$ (9,857,868)	$ 419,668,957

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	$ 554,326
Community development	637,311
Highways and streets	11,785,211
Public works	524,404
Parks and recreation	157,015
Public safety	4,153,117
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	3,028,262
Total depreciation expense – Governmental activities	$20,839,646

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 33,515,655	$ 338,748	$ -	$ 33,854,403
Construction in progress	201,922,158	46,435,022	(16,585,702)	231,771,478
Total capital assets, not being depreciated:	235,437,813	46,773,770	(16,585,702)	265,625,881
Capital assets being depreciated:				
Capitalized interest	19,496,181	-	-	19,496,181
Buildings	101,856,550	88,649	-	101,945,199
Improvements other than buildings	306,732,308	12,797,744	(1,525,990)	318,004,062
Furnishings and equipment	12,497,442	891,441	(272,018)	13,116,865
Intangible assets	416,557	41,215	(2,390)	455,382
Water rights	358,226,691	-	-	358,226,691
Buses and fareboxes	28,487,802	4,039,188	(2,573,883)	29,953,107
Pipelines	159,600,921	1,470,313	-	161,071,234
Total capital assets, being depreciated:	987,314,452	19,328,550	(4,374,281)	1,002,268,721
Less accumulated depreciation for:				
Capitalized interest	(10,272,954)	(974,809)	-	(11,247,763)
Buildings	(61,526,212)	(3,032,219)	-	(64,558,431)
Improvements other than buildings	(162,988,460)	(10,924,341)	415,911	(173,496,890)
Furnishings and equipment	(7,292,958)	(938,092)	253,650	(7,977,400)
Intangible assets	(260,581)	(78,969)	2,390	(337,160)
Water rights	(71,645,339)	(11,940,890)	-	(83,586,229)
Buses and fareboxes	(14,294,826)	(1,702,759)	2,342,897	(13,654,688)
Pipelines	(40,392,429)	(2,082,002)	-	(42,474,431)
Total accumulated depreciation	(368,673,759)	(31,674,081)	3,014,848	(397,332,992)
Total capital assets being depreciated, net	618,640,693	(12,345,531)	(1,359,433)	604,935,729
Business-type activities capital assets, net	$ 854,078,506	$ 34,428,239	(17,945,135)	$ 870,561,610

Business-type activities:

Water	$17,194,247
Sewer	9,055,194
Bus	2,762,050
Parking	448,424
Storm drain	521,532
Compost	149,997
Airport	738,580
Golf	51,227
Community center	752,830
Total depreciation expense – Business-type activities	$31,674,081

C. LONG-TERM DEBT

Loans Payable

Governmental Activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid when the financing mechanism is established. As of June 30, 2017, no payments have been made to the Stanislaus County Economic Development Bank. According to the agreement, the Project will be completed as of the date the City first issues building permits within the Kiernan Business Park East area. To date, no building permits have been issued.	500,000
Total Principal Balance – Governmental-Type Activities	$ 500,000

Business-Type Activities:

Water Enterprise Fund:

Loan payable to State of California Department of Public Health, also known as ARRA Water Grant. This Agreement constitutes funding in the form of a loan with forgiveness of principal made by the State under the provisions of California Safe Drinking Water State Revolving Fund Law of 1997, and the American Recovery and Reinvestment Act of 2009 (ARRA) Public Law 11 1-5. The purpose of the funding is to assist in financing construction of a project, which will enable the City to meet safe drinking water standards or to address other health concerns, herein referred to as the "Project". The total amount for the project was $1,136,656, of which 50% was to be repaid as a loan. This original loan amount of $568,328 has a payment term of 20 years at 2.5017% interest rate.	451,547

Sewer Enterprise Fund:

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as Tertiary Treatment Phase 1B Project generally consists of constructing a 12.6 million gallon per day tertiary treatment plant. Completion of construction date is established as June 1, 2016. Project completion date is established as December 1, 2016. The City agrees to repay all project funds at an interest rate of two and six-tenths percent (2.6%) per annum and an administrative service charge of zero percent (0%) per annum. The total loan approved by the State Water Resources Control Board is $121,829,278, plus $5,328,665 in Accrued Construction Period Interest. The loan repayment term is 20 years (final payment due on December 1, 2035) and after an initial annual payment of $7,891,411 in the fiscal year ending June 30, 2017, the annual principal and interest payment is $8,245,564 beginning in the fiscal year ending June 30, 2018.	122,421,633
Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as North Valley Regional Recycled Water Program generally consists of constructing improvements to the City's existing pump station. The City will then distribute the recycled water to the Del Puerto Water District for agricultural use increasing recycled water supplies by 5.4 billion gallons per year within the first 5 years of operation and 9.9 billion gallons per year at build out. Completion of construction date is established as June 30, 2018. Project completion date is established as December 31, 2018. The City agrees to repay all project funds at an interest rate of one percent (1%) per annum and an administrative service charge of zero percent (0%) per annum. The total loan approved by the State Water Resources Control Board is $41,862,028, plus	

$6,642,487 in Accrued Construction Period Interest. The loan repayment term is 30 years (final payment due on June 30, 2048) and after an initial and secondary annual payment of $1,262,431 and $1,506,587, respectively, in the fiscal year ending June 30, 2019 and June 30, 2020, the annual principal and interest payment is $1,633,411 beginning in the fiscal year ending June 30, 2021. The current reported balance includes only the disbursements received as of June 30, 2017.	1,407,320
Total Principal Balances – Business-Type Activities	$124,280,500

Annual debt service requirements to maturity for loans payable are as follows:

	Governmental-Type Activities		Business-Type Activities	
Year Ending June 30,	Principal	Interest	Principal	Interest
2018	$500,000	$-	$5,109,261	$3,172,593
2019	-	-	6,197,547	3,075,356
2020	-	-	5,786,629	2,929,872
2021	-	-	5,495,526	2,786,327
2022	-	-	5,638,388	2,643,466
2023-2027	-	-	30,468,273	10,940,995
2028-2032	-	-	34,639,855	6,769,414
2033-2036	-	-	30,945,021	2,037,236
Total	$500,000	$-	$124,280,500	$34,355,259

Certificates of Participation:

Business-Type Activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; serial certificates with annual maturities on November 1, in amounts from $225,000 to $235,000; interest rate of 5.5%; term certificates at 5.6% due November 1, 2016, 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. The certificates are repayable from any source of available funds of the City. However, the City has elected to repay the certificates from revenues of the Golf Enterprise Fund. $2,920,000

Water Enterprise Fund:

2008 Water Refunding Revenue Certificates of Participation issued to refund the 2006 issue, to provide funding for construction of new downstream water facilities and various water distribution system improvements in connection with Modesto Irrigation District's expansion of the regional water treatment plant; variable rate securities maturing October 1, 2036, with interest initially calculated weekly, fluctuating according to market conditions. The Certificates may be converted to a daily, term, flexible, or fixed rate.

While the 2008 COPs are in the Weekly Mode, they are subject to optional tender and mandatory tender for purchase. Funds for the payment of the purchase price of 2008 COPs that are tendered for purchase and that are not remarketed by the Remarketing Agent will be available (subject to certain conditions) under a Standby Certificate Purchase Agreement, dated May 1, 2008 (the "Liquidity Facility"). The Liquidity Facility does not support, secure or guaranty the payments of the

principal or interest with respect to the 2008 COPs. Subject to the terms and conditions of the Liquidity Facility, the Liquidity Facility Provider is to provide funds for the payment of the purchase price on each purchase of 2008 COPS up to $47,625,000 in principal amount (the "Available Principal Commitment") and $548,014 an amount equal to 35 days' interest on the Available Principal Commitment at an assumed rate of 12% and accrued interest on 2008 COPs subject to the Weekly Rate tendered or deemed tendered for purchase in the event that remarketing proceeds are not sufficient to pay the purchase price of such 2008 COPs.

The Liquidity Facility will not provide for the payment of principal and interest on any 2008 COPs other than with respect to the purchase price of the 2008 COPs tendered or deemed tendered and not remarketed. Barring an event of default, any such draws on the Letter of Credit will be repaid under the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in ten equal semi-annual installments of principal, plus monthly interest at the Bank Rate, over a 5 year period. However, the entire balance of the amount drawn shall become due immediately if the 2008 COPs are cancelled or prepaid, are remarketed, or converted to bear interest at a rate other than a daily rate or weekly rate; an alternate credit facility is secured; or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired May 29, 2011, and were subsequently extended to July 14, 2017 at a commitment fee of 0.875%, then again to June 15, 2020 at a commitment fee of 0.7%.

The City entered into a 30-year interest rate swap agreement as discussed below. The combination of the variable rate 2008 COPs and the floating rate swap creates a synthetic fixed-rate debt for the City. The synthetic fixed-rate was 3.47% at June 30, 2017.	44,815,000
Total Principal Balances – Business-Type Activities	47,735,000
Less:	
Unamortized Bond Discount – 2008 Water Refunding Certificates of Participation	(104,448)
Total Business-Type Activities – Certificates of Participation	$47,630,552

The City has pledged future Water Enterprise Fund revenues, net of specified operating expenses, to repay the 2008 Certificates of Participation. The City has pledged future Golf Enterprise Fund revenues to pay the 1993 Certificates of Participation for the Golf Course Refinancing project. The Water and Golf Funds total principal and interest remaining to be paid on the certificates is $56,977,331. The Water Fund's principal, interest and other debt service cost paid on certificates for the current year, along with payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled $12,706,785, and net operating revenues of the Fund were $32,583,358, which represented coverage of 256%. The Golf Fund's principal and interest paid on certificates totaled $491,666, and net operating revenues of the Fund were $314,029, which represented coverage of 64%.

Annual debt service requirements to maturity for Certificates of Participation, for 2008 Water and 1993 Golf, are as follows:

Year Ending June 30,	Business-Type Activities Principal	Interest
2018	$720,000	$809,519
2019	775,000	785,331
2020	795,000	759,906
2021	805,000	733,731
2022	860,000	706,344
2023-2027	11,210,000	2,925,812
2028-2032	14,700,000	1,875,825
2033-2037	17,870,000	645,863
Total	$47,735,000	$9,242,331

Lease Revenue Bonds – Governmental Activities:

2008 Lease Revenue Refunding Bonds in the amount of $65,170,000 issued to refund the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds; variable rate securities maturing September 1, 2033, with interest initially calculated weekly, fluctuating according to market conditions. The bonds may be converted to a daily, term, flexible, or fixed rate. The combination of the variable rate bonds and a floating swap rate creates a synthetic fixed-rate debt for the City. The synthetic fixed-rate was 3.61% at June 30, 2017.

Regularly scheduled payments of principal and interest are supported by an irrevocable, direct pay Letter of Credit (the "Credit Facility") issued by Bank of America, N. A. The Trustee can draw funds under the Credit Facility to pay the purchase price of tendered bonds that are not remarketed. Barring an event of default, any such draws on the Letter of Credit will be paid under the terms of the Reimbursable Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in equal semi-annual installments of principal plus monthly interest, at the Bank Rate, over a 5 year amortization period. However, the entire balance of the amount drawn shall become due immediately if the tendered bonds are remarketed or defeased, or an alternate credit facility is secured, or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired August 1, 2011, but were subsequently extended to June 22, 2019 at a commitment fee of 0.60%. $54,470,000

Annual debt service requirements to maturity for Lease Revenue Bonds are as follows:

Year Ending June 30,	Governmental-Type Activities Principal	Interest
2018	$1,695,000	$797,981
2019	1,860,000	770,700
2020	2,000,000	741,225
2021	2,170,000	709,313
2022	2,390,000	674,287
2023-2027	15,070,000	2,738,363
2028-2032	20,010,000	1,394,363
2033-2034	9,275,000	105,956
Total	$54,470,000	$7,932,188

Revenue Bonds – Business-Type Activities:

Sewer Enterprise Fund:

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. There was a Partial Refunding of 2006A, in the amount of $1,800,000, with the Private Placement of the Wastewater Revenue Refunding Bond Series 2015.	14,735,000
Wastewater Revenue Refunding Bond Series 2015; interest payable on November 1 and May 1, commencing May 1, 2016. Principal is payable in annual installments on each November 1, commencing November 1, 2016 and ending November 1, 2024. The Series 2015 Bond shall bear interest at a rate equal to 2.42% per annum; Payment of principal and interest on the Series 2015 Bond is secured by a pledge of Net Revenues; The Series 2015 Bond constitutes "Parity Debt" under the Indenture. On October 30, 2015, the City issued the Series 2015 Bond, as a Parity Debt to fully refund the 2005A and partially refund the 2006A Wastewater Revenue Bonds. The proceeds were used to: 1) Refund the Wastewater Revenue Refunding Bonds, Series 2005A, which refinanced the acquisition and construction of improvements to the City's wastewater enterprise, 2) refund a portion of the Wastewater Revenue Bonds, Series 2006A, and 3) pay cost of issuance in connection with the financing. The Series 2005A Bonds have been fully redeemed and the 2023 and 2024 maturities of Series 2006A Bonds were redeemed. The City will realize significant savings from the refunding of the 2005A and 2006A Bonds, bearing an interest rate of 2.42%.	17,079,886
Total Principal Balances – Business-Type Activities	31,814,886
Less: Unamortized Bond Discount – 2006 Bonds	(208,950)
Total Business-Type Activities Revenue Bonds	$ 31,605,936

The 2005 and 2006 bonds were issued to fund a variety of Sewer Enterprise Fund wastewater capital improvements. The City has pledged future Sewer Enterprise Fund revenues, net of specified operating expenses, to repay the 2005 and 2006 bonds through 2036. On October 30, 2015, the Wastewater Revenue Bonds, Series 2005A were Fully Refunded and the 2006A were Partially Refunded with the Private Placement of the Wastewater Revenue Refunding Bond Series 2015, in the amount of $19,429,913. The Sewer Fund's total principal and interest remaining to be paid on the bonds is $43,371,571. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were $11,311,098 and $25,695,014, respectively.

Annual debt service requirements to maturity for Revenue Bonds are as follows:

Year Ending June 30,	Business-Type Activities Principal	Interest
2018	$2,394,504	$1,010,118
2019	2,459,096	951,389
2020	2,521,327	891,124
2021	2,577,644	829,428
2022	2,644,114	766,245
2023-2027	6,448,201	3,165,866
2028-2032	5,710,000	2,592,290
2033-2037	7,060,000	1,350,225
Total	$31,814,886	$11,556,685

Notes Payable – Governmental Activities:

On March 26, 2015, the City received notice of a public offering to refinance the existing note, with an outstanding balance of $2,789,000. The City agreed to refinance the note, as it reduced the interest on the HUD Section 108 Loan, a net savings of approximately $502,908. The public offering date was May 28, 2015. The terms of the new promissory note include semi-annual payments on August and February through the maturity date of August 1, 2024. The interest rates range from 0.28% through 2.85%. No new security provisions were required, as the Contract for Fixed Rate Note incorporates the previous additional security provisions.	$2,335,000
Total Notes Payable	$2,335,000

Annual debt service requirements to maturity for this Notes Payable are as follows:

Year Ending June 30,	Governmental-Type Activities Principal	Interest
2018	$245,000	$48,845
2019	256,000	46,003
2020	269,000	41,773
2021	283,000	36,442
2022	297,000	30,150
2023-2025	985,000	42,178
Total	$2,335,000	$245,391

Reimbursement Agreement - Business-Type Activities:

Water Enterprise Fund:

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant

on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 2008 Water Revenue Certificates of Participation and the California Safe Drinking Water Act loan (as described previously). The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations.

The City and MID have agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("mgd") to a design capacity of 72 mgd. In June 2007, the MID issued $93,190,000 Domestic Water Project revenue bonds pursuant to the terms of the existing treatment and delivery agreement. On August 14, 2013, Modesto Irrigation District Financing Authority refunded the 1998 D Bonds, with 2013 G Bonds. As of June 30, 2017, the total outstanding on the MID bonds is: $30,870,000 for the 2013 G Bonds and $93,190,000 for the 2007 F Bonds, for a total of $124,060,000. For the 2013 G Bonds, the annual principal payments began on September 1, 2014 and mature on September 1, 2022, in amounts from $3,970,000 to $5,795,000, with interest rates from 2% to 5%. For the 2007F Bonds, the annual principal payments begin on September 1, 2023 and mature on September 1, 2037 in amounts from $4,275,000 to $11,870,000, with variable interest rates fluctuating according to market conditions. The City has entered into interest-rate swap agreements for the 2007F bonds to synthetically fix the rates that the City pays at 4.38% and 4.44%. Refer to the Interest Rate Swap agreement section below with more information about the debt schedule.

Annual debt service payments to maturity for the Reimbursement Agreement are as follows:

	Business-Type Activities	
Year Ending June 30,	Principal	Interest
2018	$4,535,000	$2,165,127
2019	4,760,000	1,932,751
2020	5,005,000	1,688,627
2021	5,260,000	1,432,002
2022	5,515,000	1,162,626
2023-2027	24,060,000	3,387,452
2028-2032	27,955,000	2,206,239
2033-2037	35,100,000	884,741
2038	11,870,000	-
Total	$124,060,000	$14,859,565

Interest Rate Swap Agreements:

Objective of the swaps – The primary objective of the swaps is to mitigate the effect of fluctuations in variable interest rates by paying a fixed-rate and receiving a floating rate on the swap. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed "synthetic" fixed-rate debt. It is called synthetic because the economics are similar to fixed-rate debt, but another instrument is involved unlike regular fixed-rate debt. Each time the City created synthetic fixed-rate debt a comparison and determination was made that the fixed-rate on regular debt would have been higher than the fixed rate on the swap.

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction was updated due to the refunding of the 2006 Certificates by the 2008 Water Refunding Revenue Certificates of Participation (COPs). The swap agreement allows the City to create a synthetic fixed-rate on the COPs, protecting it against increases in short-term interest rates.

During fiscal year 2008, the City entered into an interest swap agreement in connection with the 1998 and 2007 Lease Revenue Bonds. The swap agreement allows the City to create a synthetic fixed rate on the Lease Revenue Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of these swap agreements are disclosed below.

Additionally, in May 2007, the City approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Domestic Water Treatment and Delivery System of the Modesto Irrigation District. The MID Water Refunding Bonds were issued with an interest swap feature with Bear Sterns, which was subsequently acquired by JP Morgan. Under the agreement between MID and JP Morgan, the City must post collateral when our negative position exceeds the Pledgor's Threshold of $20 million. This negative position represents the present value of declining interest rates to date from issuance of bonds. In June 2010, the City Council authorized the City to post collateral up to $18 million, which would support a negative position of $38 million. In July 2010, the City Council increased the City's authorization to post collateral from $18 million to up to $20 million. At the end of fiscal year 2017, the City had posted a cumulative total of $10,008,884 million of collateral posting, which is reported in the Water Enterprise Fund cash with fiscal agent.

Terms – The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2017 are shown in the table below. The swap agreements contain scheduled reductions to the outstanding notional amounts that are expected to follow scheduled principal reductions in the associated debt issues.

Related Debt Issue	Current Notional Amount	Effective Date	Counterparty	Credit Rating (S&P)	Fixed Rate Paid	Variable Rate Received	Termination Date
2008 Water Refunding Revenue COPs	$44,815,000	5/30/2008	Bank of America	A+	3.47%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	54,470,000	8/28/2008	Bank of America	A+	3.61%	63.7% of USD-LIBOR, plus .154%	9/1/2033
2007 MID Domestic Water Revenue Bonds Series 2007F	23,370,000	6/26/2007	JP Morgan Chase Bank	A+	4.38%	67% of 3 Month LIBOR + 0.58%	9/1/2027
2007 MID Domestic Water Revenue Bonds Series 2007F	69,820,000	6/26/2007	JP Morgan Chase Bank	A+	4.44%	67% of 3 Month LIBOR + 0.63%	9/1/2037

Based on the swap agreement the City owes interest calculated at a fixed rate to the counterparty (Bank of America and JP Morgan). In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and lease revenue bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

GASB Statement 53 (GASB 53) addresses the recognition measurement and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net position at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net position as a deferral or in the statement of activities as investment revenue or loss.

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2017, the fair value of the swaps was in favor of the counterparty as shown in the following table:

Bond Issue	Fair Value
2008 Water Refunding Rev. Certificates of Participation	($8,939,766)
2008 Lease Revenue Bonds	($9,456,835)
2007 MID Domestic Water Revenue Bonds	($24,267,483)

Credit risk - As of June 30, 2017, the City was not exposed to credit risk on the swaps because the swaps had negative fair value. However, if interest rates increase and the fair value becomes positive, the City would be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Basis risk - Basis risk is the risk that the interest rate paid by the City to the bondholders on the underlying variable rate bonds temporarily differs from the variable swap rates received from the counterparty. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying certificates of participation. The City is exposed to basis risk should the floating rate that it receives on the swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

Termination risk - The City may terminate the swap contracts if the other party fails to perform under the terms of the contracts. The City will be exposed to variable rates if the counterparty defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt - Using rates as of June 30, 2017, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation, the 2008 Lease Revenue Refunding Bonds, and the 2007 MID Domestic Water Revenue Bonds, including net swap payments and broker fees, are as shown in the following table assuming current interest rates remain the same for their term. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending	Variable-Rate Bonds		Net Swap Payments and Remarketing	
June 30,	Principal	Interest	Fees	Total
2018	$2,060,000	$2,205,377	$7,285,175	$11,550,552
2019	2,255,000	2,172,282	7,454,216	11,881,498
2020	2,395,000	2,136,883	7,364,096	11,895,979
2021	2,565,000	2,099,046	7,244,982	11,909,028
2022	2,815,000	2,057,758	7,126,891	11,999,649
2023-2027	43,605,000	8,859,253	32,298,233	84,762,486
2028-2032	62,665,000	5,476,427	20,611,770	88,753,197
2033-2037	62,245,000	1,636,560	7,825,763	71,707,323
2038	11,870,000	-	263,514	12,133,514
Total	$192,475,000	$26,643,586	$97,474,640	$316,593,226

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans Payable	$498,362	$1,638	$-	$500,000	$500,000
Lease Revenue Bonds	56,305,000	-	1,835,000	54,470,000	1,695,000
Notes Payable	2,568,000	-	233,000	2,335,000	245,000
Obligations under Capital Leases	942,057	5,883,756	467,093	6,358,720	909,342
Compensated Absences	6,746,729	4,140,931	4,135,942	6,751,718	2,346,174
Claims liability	23,596,531	13,619,346	9,331,096	27,884,781	5,682,904
Total governmental activities	**$90,656,679**	**$23,645,671**	**$16,002,131**	**$98,300,219**	**$11,378,420**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Loans Payable	$125,787,342	$3,254,000	$4,760,842	$124,280,500	$5,109,261
Compensated Absences	2,043,221	1,811,099	1,464,157	2,390,163	830,565
Certificates of participation	48,440,000	-	705,000	47,735,000	720,000
Unamortized Discounts	(109,947)	-	(5,499)	(104,448)	-
Reimbursement Agreement:					
MID Bonds	128,380,000	-	4,320,000	124,060,000	4,535,000
Unamortized Premium	3,995,084	-	570,726	3,424,358	-
Sewer Bonds	34,164,913	-	2,350,027	31,814,886	2,394,504
Unamortized Discount	(219,397)	-	(10,447)	(208,950)	-
Developer advances	1,238,449	-	93,111	1,145,338	93,112
Business-type activities	**$343,719,665**	**$5,065,099**	**$14,247,917**	**$334,536,847**	**$13,682,442**

Principal balances are reported on the government-wide and enterprise funds statements of net position, net of unamortized issuance discounts and premiums. Deferred losses on refundings are reported as deferred outflows of resources. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the internal service funds are included as part of the above totals for governmental activities. At year-end, internal service funds obligations were zero under notes payable, and zero in capital leases. 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. The predominant contributors for these internal service funds include the General Fund, Water Fund, and Sewer Fund.

D. OBLIGATIONS UNDER CAPITAL LEASES

Governmental Activities

Prior to the fiscal year ending June 30, 2017, the City of Modesto entered into two capital lease agreements with Pierce Manufacturing Inc.: 1) for the purchase of two Pierce Velocity 1500 GPM Pumpers valued at $1,070,472, less $155,599 of depreciation accumulated as of June 30, 2017, and 2) for the purchase of one 4x4 Freightliner Wildland Pumper valued at $330,947, less $57,961 of depreciation accumulated as of June 30, 2017. In the fiscal year ending

June 30, 2017, the City entered into another capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers valued at $5,883,756.

The following is a schedule of the future minimum lease payments, as of June 30, 2017:

Year Ending June 30,	
2018	$ 1,081,521
2019	598,544
2020	598,544
2021	598,544
2022	598,544
2023-2027	2,992,720
2028	954,214
Total minimum lease payments	7,422,631
Less: amount representing interest	(1,063,911)
Present value of minimum lease payments	$6,358,720

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, 2017, the total outstanding balance due under the agreements is $1,145,338. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2017, the amount of $93,112 due during fiscal year 2018 has been reported as "current portion-developer advances" on the Water Enterprise Fund statement of net position. The remaining $1,052,226 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2017 consist of the following:

Due to General Fund from:	
Other governmental funds	$4,682,858
Other enterprise funds	530,026
Total Due to General Fund	5,212,884
Total Due to/Due From:	$ 5,212,884
Advances from General Fund to:	
Other governmental funds	$1,135,600
Other enterprise funds	1,324,704
Advances from General Fund	2,460,304
Advances from Water Fund to:	
General Fund	100,000
Other governmental funds	10,814
Advances from Water Fund	110,814

Advances from other governmental funds to other governmental funds	80,000
Advances from Sewer Fund to other enterprise funds	889,200
Advance from internal service funds to General Fund	88,647
Total Advances from/Advances to	$3,628,965

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2017, and were repaid early in fiscal year 2018. 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.

G. Fund Balance

Detailed classifications of the City's Fund Balances, as of June 30, 2017, are provided below:

	General Fund	Housing and Community Development	Other Governmental	Total Governmental Funds
Nonspendable				
Advances to other funds	$ 2,460,304	$ -	$ 80,000	$ 2,540,304
Prepaid Items	54,842	-	1,007	55,849
Total Nonspendable Fund Balance	2,515,146	-	81,007	2,596,153
Restricted				
Capital Facility Fees	-	-	29,284,573	29,284,573
Cash with Fiscal Agent	-	-	5,594,309	5,594,309
Community Facilities District	-	-	16,774,444	16,774,444
Grants and Donations	-	3,370,144	1,166,534	4,536,678
Notes Receivable	-	23,861,467	2,281,179	26,142,646
Deposits	1,970,622	-	-	1,970,622
Traffic Fines	-	-	3,198,761	3,198,761
Total Restricted Fund Balance	1,970,622	27,231,611	58,299,800	87,502,033
Committed				
General Fund Set-Aside	15,800,000	-	-	15,800,000
Total Committed Fund Balance	15,800,000	-	-	15,800,000
Assigned				
Encumbrances - Vendor Contracts	2,854,307	-	-	2,854,307
FY 17-18 Budget Carryover	2,000,000	-	-	2,000,000
Downtown Improvement District	-	-	78,515	78,515
Successor Redevelopment Housing Agency	-	-	452,405	452,405
Gas Tax Funding	-	-	5,835,074	5,835,074
Special Capital Outlay Projects	-	-	281,476	281,476
Strategic Planning and Development	-	-	1,328,395	1,328,395
Total Assigned Fund Balance	4,854,307	-	7,975,865	12,830,172
Unassigned - General Fund	4,509,693	-	-	4,509,693
Unassigned - Special Revenue Funds	-	-	(2,002,193)	(2,002,193)
Unassigned - Debt Service Funds	-	-	(92,198)	(92,198)
Unassigned - Capital Project Funds	-	-	(1,062,288)	(1,062,288)
Total Unassigned Fund Balance	4,509,693	-	(3,156,679)	1,353,014
Total Fund Balance	$ 29,649,768	$ 27,231,611	$ 63,199,993	$ 120,081,372

H. DEFICIT FUND EQUITY

The Operating Grants fund has a fund balance deficit of $1,279,609, which will be recovered through future revenues and local matches covered through the General Fund or other City funds.

The Capital Grants fund has a fund balance deficit of $1,062,288, which will be recovered through future revenues and local matches covered through the General Fund or other City funds.

The Compost Fund has a net position deficit of $2,211,505, due to the pollution remediation liability reported for the Carpenter Landfill. The remediation funding has been incorporated into the utility fees related to garbage rates to cover the anticipated cost.

The Golf Enterprise Fund has a net position deficit of $1,459,554, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf Fund. The Golf Fund also has struggled due to competition and lagging revenues. Depreciation expense further contributes to the deficit. The City is looking at various options to resolve this funding deficit.

The Employee Benefits Management Internal Service Fund has a net position deficit of $55,025,905. It exists partially because the total compensated absences and other post-employment benefit 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. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

The Insurance Fund has a net position deficit of $14,966,774, due mainly to the recognition of settlements that were reached both in the current and prior fiscal year which have been reported as liabilities of the Liability Insurance Fund. Both settlements involved matters that represented city-wide policies and practices and therefore are allocable to all of the funds that make annual contributions to the liability insurance program. The liability insurance program will recover the full amount of the settlement from charges to the funds that participate in the liability insurance program over a period of 5 years based on this methodology being factored into the Internal Service Fund allocation that is distributed to City departments.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

	Transfers from (out):							
Transfers (in) to:	General Fund	Housing & Community Development	Other Govern-mental	Water	Sewer	Other Enterprise Funds	Internal Service	Total
General Fund	-	-	$ 84,473	$ 65,000	$ 68,640	-	$ 618,091	$ 836,204
Other Governmental	$ 4,146,400	$ 161,725	190,612	-	-	$ 82,419	142,360	4,723,516
Water	315,500	-	-	-	-	-	-	315,500
Sewer	114,000	-	-	-	-	17,719	154,722	286,441
Bus	1,500	-	-	-	-	-	-	1,500
Other Enterprise	1,443,776	-	-	700,000	-	-	-	2,143,776
Internal Service	-	16,110	185,663	42,172	6,648	14,218	16,126	280,937
Grand Total	$ 6,021,176	$ 177,835	$ 460,748	$ 807,172	$ 75,288	$ 114,356	$ 931,299	$ 8,587,874

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. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that previously had reported a redevelopment agency blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On

January 24, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency (RDA) in accordance with the Bill as part of County Resolution number 12-7.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

After the date of dissolution, as allowed under Section 34176(a) of the Bill, the City elected to retain the housing assets and functions previously performed by the former RDA. The assets and activities for the Successor Agency Housing fund continue to be reported in the City's governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved RDA, are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the City.

As of June 30, 2017, one of the obligations under the Successor Agency trust is associated with the 10th Street Place Project:

Reimbursement agreement with the City totaling $19,566,862. The original loan is from the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds that pertain to the Successor Agency. On August 28, 2008, the City refinanced the entire outstanding balance of the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds with variable rate 2008 Lease Revenue Bonds. The new balance has been provided as of June 30, 2017 that pertains to the Successor Agency. Additional information related to the 2008 Lease Revenue bonds is provided in Note II-C under the Lease Revenue Bonds – Governmental Activities section.	$15,796,300

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$491,550	$846,886	$1,338,436
2019	539,400	858,041	1,397,441
2020	580,000	826,731	1,406,731
2021	629,300	789,305	1,418,605
2022	693,100	750,050	1,443,150
2023-2027	4,370,300	3,042,802	7,413,102
2028-2032	5,802,900	1,539,354	7,342,254
2033-2035	2,689,750	107,912	2,797,662
Total	$15,796,300	$8,761,081	$24,557,381

The reserves for the Reimbursement Agreement are recorded in the Public Financing Authority debt service fund for the City.

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, for the purpose of funding the Kansas Avenue Business Park Project's Master Plan costs. The Agency has no obligation to begin repayment until the Project is completed and revenues begin.

Future debt service requirements to maturity for loans payable, as of June 30, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 405,000	$ -	$ 405,000
Total	$ 405,000	$ -	$ 405,000

As of June 30, 2017, the Successor Agency was obligated for the following long-term debt in conjunction with the Community Center Project:

1993 Refunding Certificates of Participation; serial certificates with annual maturities on November 1 in amounts ranging from $800,000 to $1,040,000; interest rates from 5.3% to 5.6%; and in the amount of $12,235,000 at 5.0% maturing November 1, 2023, with annual payment of $1,090,000 to $1,610,000 beginning in 2011.	$9,760,000

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$1,195,000	$458,125	$1,653,125
2019	1,260,000	396,750	1,656,750
2020	1,320,000	332,250	1,652,250
2021	1,385,000	264,625	1,649,625
2022	1,455,000	193,625	1,648,625
2023-2024	3,145,000	159,125	3,304,125
Total	$9,760,000	$1,804,500	$11,654,500

The former RDA also has a few outstanding obligations related to reimbursements for parking expenses with Westland Development Company and payments to the Tenth Street Joint Power Agency for maintenance for common areas in the Tenth Street Place. These amounts are all reported in the Successor Agency in the Fiduciary financial statements under the Private-Purpose Trust Fund.

K. NOTES AND LOANS RECEIVABLE

The notes receivable in the Housing and Community Development and Other Governmental Funds of $54,208,522 net of $167,637 allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, first-time homebuyers, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties or business assets, and are generally bearing annual interest at 3 or 5 percent. Some direct loans may be subject to forgiveness, some are interest free and require no repayment of principal until the loans reach maturity, and some are subject to residual receipt payment agreements. Loan terms range from 5 to 55 years.

L. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of $246,654 consist of amounts being held for housing projects using funds provided by federal grants. This liability is expected to be liquidated in less than a year.

M. POLLUTION REMEDIATION LIABILITY

The City reported a liability in the Water and Sewer Enterprise funds, which represents the recoveries the City has collected less any remediation and legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also initiated litigation with the manufacturers. As of June 30, 2017, the City reported a pollution remediation liability from the Water and Sewer funds in the amount of $8,677,433 and $7,495,053, respectively.

In addition, in the Compost Fund, a liability was reported related to the Carpenter Road Landfill which is a 39-acre City owned landfill, located on both the east and west sides of Carpenter Road between Kenneth and Robertson Roads and the Tuolumne River, which was in operation from 1956 to 1968. This landfill precedes Subtitle-D and had no liner or leachate collection or removal system. In 1993, six methane gas monitoring wells were installed. In December 2005, there was a spike in the methane gas level at the landfill's Northern boundary. The State required the City to determine the cause and develop a mitigation and monitoring plan to ensure the landfill remained in compliance with the state statutes. In November of 2010, a Corrective Action Plan was proposed for the landfill involving hydrogen releasing compound injection. In October 2014, a revised Corrective Action Plan and post closure maintenance plan was submitted to the Central Valley Regional Water Quality Control Board (CVRWQCB). In March 2015, a Cleanup and Abatement Order was issued to the City of Modesto for the Carpenter Road Landfill by the California Regional Water Quality Control Board to complete the clean closure correction action plan by January 15, 2017. Construction was to begin in Spring of 2017, however, due to flooding during the Winter of 2016, the groundwater level increased to a level too high to begin construction. The City has submitted a request to the CVRWQCB to delay the project until Spring of 2018. As of June 30, 2017, the City reported a pollution remediation liability from Compost Fund in the amount of $2,600,000.

N. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", the City recognized deferred outflows and inflows of resources in the entitywide and governmental fund statements. These items are an acquisition of net position by the City that is applicable to a future reporting period. On the governmental fund statements, the Housing and Community Development Fund reported deferred inflow of resources in the amount of $ 28,065,876 for unavailable resources related to note and grant receivables not meeting the period of availability. Previous financial reporting standards do not include guidance for reporting these in the financial statements, which are distinct from assets and liabilities. The items relate to outflows and inflows for net pension liability (Note III-G), swap hedging (Note II-C) and loss on refunding.

III. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim/occurrence as follows: workers' compensation $500,000; liability $1,000,000. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between $1,000,000 and $5,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies. 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 four excess layers, of $10,000,000 each and one additional layer of $5,000,000 above $45,000,000; for additional total coverage of $50,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years.

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, 2017 is $27,884,781 consisting of $23,042,810 workers' compensation, $4,610,484 general liability, $190,785 dental, and $40,702 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis, and are reported at their net present value using an expected future investment yield assumption of 3% (general liability) and 3% (workers' compensation). The undiscounted workers' compensation and liability claims totaled $27,482,468 and $4,902,954, respectively. The actuarial liability for workers' compensation and general liability were based on January 2017 actuarial reports.

The current portion of the total claims liability is estimated to be $5,682,904 and the balance of $22,201,877 is reported as a long-term liability on the statement of net position. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2016 through June 30, 2017 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2015-16	$22,530,631	$9,732,872	$(8,666,972)	$23,596,531
2016-17	23,596,531	13,619,346	(9,331,096)	27,884,781

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, 2017, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	$28,525,000
Fairview Village Community Facilities District	4,155,000

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, 2017, there were two series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was $7,475,000.

D. COMMITMENTS AND CONTINGENCIES

The City is involved in litigation relating to tort claims, workers' compensation claims and other claims such as contract actions and inverse condemnation actions for which the City is self-insured, as disclosed in Note III-A. The City is a defendant in various matters of litigation.

The City receives funding from a number of federal, state and local grant programs, principally the Federal Highway Administration, Community Development Block Grants, and Federal Transit Administration grants. These programs are subject to financial and compliance review by the grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the

granting agencies, cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the basic financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

The City has both operating and capital commitments of $16,581,596 for the City's governmental funds as of June 30, 2017 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of $2,854,307 in the General Fund, $712,248 in the Housing and Community Development, and $13,015,041 in other governmental funds. Commitments of the governmental funds are recorded in one of the classifications of fund balance based on the various funding restrictions on the balance sheet. As of June 30, 2017, there are major contracts for water (Conco West Inc - $5.9 million), sewer system improvements (Myers-Rados - $16.1 million), street improvement projects (Knife River Construction - $2.6 million), State Route 132 Project (Dokken Engineering $6.7 million) and Pelandale interchange reconstruction (Teichert - $1.1 million).

E. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Tuolumne River Regional Park

The City participates with Stanislaus County and the City of Ceres in the operation and development of the Tuolumne River Regional Park (TRRP). The governing body consists of 2 members from the County Board of Supervisors, 2 members from the Modesto City Council, and 1 member from the Ceres City Council. The TRRP board prepares the annual budget, which must be approved by both cities' councils and the board of supervisors. Each participant has an equity interest in the capital assets of TRRP based on the percentage of cumulative contributions paid. The City's contribution to TRRP was $162,693 for the fiscal year ended June 30, 2017. As of June 30, 2017 the City's investment in this joint venture was $803,331, and is included in governmental activities on the statement of net position. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank, Hughson, Waterford and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's cash contribution to the SDEA for the fiscal year ended June 30, 2017 was $74,678. The City's investment in this joint venture was estimated to be $154,973 as of June 30, 2017, based on the most recent available information. This amount is reported in governmental activities in the statement of net position. Financial statements of the SDEA are prepared by the City of Modesto Finance Department. Starting in January 1, 2018 the County Sheriff's office will became the fiscal administrator.

City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was final at the end of June 2003. Starting in July 1, 2010 the County Auditor Controller became the fiscal administrator. For the fiscal year ended June 30, 2017, the City's payments to the Agency were $923,882 for operations and capital reserve. The City's equity interest in the Agency is $8,550,313, equal to its capital asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the statement of net position. Financial statements of the Agency are prepared by the Stanislaus County Auditor Controller office.

Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency (Agency). The Agency was created to provide financing for a facility that generates power from solid waste. The costs of operating

the Agency, if any, are shared equally by the participants. The governing body consists of 2 members each from the County Board of Supervisors and the Modesto City Council. As of June 30, 2017, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Consolidated Emergency Dispatch Agency

The Modesto/Stanislaus Consolidated Emergency Dispatch Agency (the MSCEDA) was created on September 1, 1999, pursuant to a joint exercise of powers agreement between the City of Modesto and the County of Stanislaus. The MSCEDA is administered by a seven-member commission consisting of one member of the City Council, one member of the County Board of Supervisors, the County Chief Executive Officer, the City Manager, two members from the Dispatch Advisory Board, and one member from the City of Ceres' City Council or one member selected by the City Council of another participating City. The purpose of the MSCEDA is to consolidate the public safety communications system. The responsibilities of the agency include approval of annual budget, claims, liabilities, and the use of MSCEDA property as collateral. Each participant will contribute sufficient funds to pay for all costs and expenses associated with providing Emergency Dispatch Services. Upon termination of the agreement, assets will be distributed equally to the City and County, unless otherwise approved. The financial statements may be obtained by writing to the Modesto/Stanislaus Consolidated Emergency Dispatch, Office Manager, 3705 Oakdale Road, Modesto, California 95357.

North County Corridor Transportation Expressway Authority

On April 1, 2008, the City Council approved the establishment of a Joint Powers Authority between the County and the cities of Modesto, Oakdale and Riverbank to create the North County Corridor Transportation Expressway Authority (NCCTEA). The purpose of the Authority is to prepare, identify, and adopt a precise alignment, and prepare and certify environmental documents for a route to improve east/west traffic circulation in the County.

The intent of the NCCTEA is to provide a high capacity high speed east-west roadway to accommodate anticipated traffic growth, alleviate traffic on parallel roads, and to accommodate multi-modal travel. Under the terms of the agreement, the County will incur 40% of the costs of the project while each of the participating cities will be contributing 20%. The preliminary project development costs will be funded by State Transportation Program and Public Facility Fees. The NCCTEA Board of Directors will be comprised of two directors appointed by the County, and one director from each participating city. The board acts autonomously from the respective member agencies. The County of Stanislaus Public Works Director is designated as the NCCTEA's manager. Upon completion of the agreement, all assets will be distributed to the respective parties of the agreement as determined by the Board of Directors of the Authority. Financial statements may be obtained by writing to the County of Stanislaus, Public Works Department, 1716 Morgan Road, Modesto, CA 95358.

Stanislaus Animal Services Agency

The Stanislaus Animal Services Agency (SASA) was created October 27, 2009, pursuant to a joint powers agreement among the cities of Ceres, Hughson, Modesto, Patterson, Waterford, and the County of Stanislaus. SASA is administered by a six-member board comprised of the City Manager of each partner agency, and the Chief Executive Officer of the County. The purpose of SASA is to operate a regional agency providing animal services to their respective communities. The SASA Executive Director is responsible for the annual budget which must be approved by the SASA Board of Directors. Each partner agency will contribute sufficient funds to pay for all costs approved in the budget to provide animal services. Upon termination of the agreement, assets will be distributed in accordance with the joint powers agreement. The financial statements may be obtained by writing to the Stanislaus Animal Services Agency, Executive Director, 3647 Cornucopia Way, Modesto, CA 95358.

Regional Fire Training Center

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County for the use and management of the regional fire training center at Modesto Junior College. The executive board consists of the YCCD Chancellor, the President of Modesto Junior College, the City Manager of the City of Modesto, and the Chief Executive Officer of Stanislaus County. The YCCD is responsible for accounting and for monitoring the center's budget. All three entities share in the operating costs. Initial construction costs were paid by the YCCD from borrowed funds, with the City and County reimbursing a portion of these costs in exchange for future use of the center. The City has paid its share of the construction costs in full. Title to the constructed asset is held by the YCCD; therefore, the City has no equity interest.

North Valley Regional Recycled Water Program (NVRRWP)

The City participates in the NVRRWP, which was established by the City of Modesto and Del Puerto Water District in November 2014. The purpose of this agreement is to develop, construct, operate and maintain water supply facilities and service. Through this agreement all partner agencies will cooperate and collaborate to use their best efforts regarding the submission of grants, loans and other funding resources to cover future cost related to the design and construction on future projects. At the end of the fiscal year June 30, 2017, the City has no equity interest.

F. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

Plan Description

In addition to the pension benefits described below in Note III-G, the City participates in an agent multiple-employer plan which provides health care benefits to employees who retire from the City based on certain criteria related to their hired and retirement date, under contractual agreements with all employee groups. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leaves upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. As of June 30, 2017, there were 349 retirees receiving these health care benefits or a buy-out contribution to a retirement health savings account. If an employee elects to receive a buy-out contribution, they will be removed from the City's medical plan and will no longer be allowed to return to the City's medical plan.

The OPEB Plan provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Police (including Management)	General Employees	Management	Fire	Fire Management
Benefit Types Provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	Lifetime	One month per eight hours of converted sick leave
City Health Allowance per month*	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents	$128.00	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents
	Police (including Management)	General Employees	Management	Fire	Fire Management
City Health Allowance per month**	N/A	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents	N/A	N/A	N/A
City Health Allowance per month***	N/A	N/A	N/A	N/A	N/A

*Employees hired before January 1, 2011 and retired on or after October 23, 2012 through December 31, 2014 have had their sick leave conversion frozen with the health allowance.

**Employees hired before January 1, 2011 and retire after January 31, 2015 through December 31, 2015.

***Employees hired before January 1, 2011 and retire after December 31, 2015 (after January 31, 2015 for General Employees, after July 1, 2014 for Modesto Police Officers Association, and after August 26, 2014 for Modesto Police Management Association) will be subject to the City's new retirement program. The new retirement program will provide a City contribution to a Retirement Health Savings (RHS) account based on allowance. More information about the new retirement program is available under the City of Modesto Human Resources Department website under Compensation and Labor Agreements.

Except for the Fire group, the City health allowance amounts may increase each year based on the health allowance

for active employees but for all union groups newly retired employees will not have this option due to these health allowances being frozen. For the Fire group, the City health allowance amounts increase each year in accordance with Government Code Section 22892.

Funding Policy and Actuarial Assumptions

The City's funding policy for the Plan is to fund benefits on a pay-as-you-go basis. The annual required contribution was determined as part of the January 1, 2017 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) 4% investment rate of return, (b) 6.5% graded down to ultimate 4.5% rate over 8 years Medical cost trend rate; 4.5% Dental/Vision cost trend rate (c) Projected salary increases are based on California Public Employee Retirement System (CalPERS) experience study released in 2014 for miscellaneous, police and fire (refer to chart below).

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial accrued liabilities and actuarial value of asset. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Projections of benefits for financial purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future.

The remaining amortization period at June 30, 2017 was 20 years.

Projected Salary Increases
(CalPERS experience study released in 2014)

Service	Miscellanous	Police	Fire
0	11.60%	14.70%	19.80%
3	8.10%	7.80%	9.40%
5	6.00%	5.80%	6.40%
10	4.30%	4.30%	4.60%
15	4.00%	4.30%	4.20%
20	3.80%	4.30%	3.90%
25	3.60%	4.30%	3.70%
30	3.40%	4.30%	3.60%

The City has set aside $8,814,712 of Employee Benefits Management Internal Service Fund cash and investments to be used to fund the above benefits. Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Since the City's Internal Service Fund does not meet this requirement, the assets have been excluded from the actuarial study and calculation. This funding policy means that the City contributions are considered to be on a pay-as-you-go basis. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the annual required contribution and the pay-as-you-go contributions.

In prior years, the City estimated and recorded an accrued liability representing unfunded retiree pension costs in its Employee Benefits Management Internal Service Fund. In accordance with GASB 45, municipalities are permitted to retain an estimated liability for prior years unfunded OPEB costs, so long as it is calculated in a manner consistent

with GASB Statement 27, which employed methodologies consistent with those now required under GASB 45.

The Plan annual required contributions and actual contributions for the fiscal year ended June 30, 2017 and the prior two years is set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligations	ARC Adjustments	Annual OPEB Cost	Actual Contribution	Net OPEB Obligation	Percentage of Annual OPEB Cost Contributed
6/30/2015	$ 3,189,054	$ 2,382,790	$ (4,383,246)	$ 1,188,598	$ 3,806,476	$ 56,951,862	320.25%
6/30/2016	3,189,054	2,382,790	(4,383,246)	1,188,598	1,949,129	56,191,331	163.99%
6/30/2017	2,806,942	2,247,653	(4,134,656)	919,939	2,611,886	54,499,384	283.92%

The Schedule of Funding Progress is based on the most recent actuarial valuation as of January 1, 2017.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C}
01/01/2017	$0	$28,645,234	($28,645,234)	0.00%	$43,842,302	-65.34%

The schedule of funding progress, presented as RSI following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

G. PENSION PLANS

I. General Information about the Pension Plans

Plan Descriptions
All City of Modesto qualified employees are eligible to participate in the City of Modesto separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multi-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by the State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. This report is available online at www.calpers.ca.gov.

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

Benefits Provided
The benefits for the Plans are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

Miscellaneous Plan:

Hire date	Prior to January 17, 2012	January 17, 2012 to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.426 to 2.418%	1.092 to 2.418%	1.0 to 2.5%

Safety Plan:

Hire date	Prior to September 11, 2012	September 11, 2012 through December 31, 2012	On or after January 1, 2013
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 55	50 to 55	50 to 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4 to 3.0%	2.0 to 2.7%

Contributions

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2016 (the measurement date) for the Plans, the average active employee contribution rate was 6.846% of annual pay for Miscellaneous and 9.183% for Safety and the employer's contribution rate is 7.079% of annual payroll for Miscellaneous and 19.089% for Safety. The employee and employer contributions made in for fiscal year June 30, 2017 was $11.66 million for the Miscellaneous plan and $15.76 million for the Safety plan. Employer contribution rates may change if plan contracts are amended.

II. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below:

	Miscellaneous Plan	Safety Plan
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.5% [1]	7.5% [1]
Mortality Rate Table[2]	CalPERS Membership Data	CalPERS Membership Data
Post Retirement Benefit Increase	Up to 2.75%	Up to 2.75%

[1] Net of Pension Plan Investment and Administrative Expenses; includes inflation
[2] The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class as of the target allocation for the June 30, 2016 measurement date. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10(1)	Real Return Years 11+(2)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

III. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2015 (1)	$ 398,719,890	$ 315,056,908	$ 83,662,982
Changes Recognized for the Measurement Period:			
Service Cost	6,092,179	-	6,092,179
Interest on the Total Pension Liability	29,752,178	-	29,752,178
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(2,005,545)	-	(2,005,545)
Plan to Plan Resource Movement	-	(1,118)	1,118
Contributions - Employer	-	6,920,358	(6,920,358)
Contributions - Employees	-	3,349,400	(3,349,400)
Net Investment Income	-	1,667,540	(1,667,540)
Benefit Payments, including Refunds of Employee	(21,686,131)	(21,686,131)	-
Administrative Expense		(192,011)	192,011
Net Change during 2015-16	12,152,681	(9,941,962)	22,094,643
Balance at June 30, 2016 (1)	$ 410,872,571	$ 305,114,946	$ 105,757,625

(1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

Safety Plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2015 (1)	$ 508,339,261	$ 367,858,289	$ 140,480,972
Changes Recognized for the Measurement Period:			
Service Cost	8,193,455	-	8,193,455
Interest on the Total Pension Liability	38,004,835	-	38,004,835
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(2,184,871)	-	(2,184,871)
Plan to Plan Resource Movement	-	1,118	(1,118)
Contributions - Employer	-	11,137,899	(11,137,899)
Contributions - Employees	-	2,962,566	(2,962,566)
Net Investment Income	-	1,898,536	(1,898,536)
Benefit Payments, including Refunds of Employee	(26,911,771)	(26,911,771)	-
Administrative Expense	-	(224,190)	224,190
Net Change during 2015-16	17,101,648	(11,135,842)	28,237,490
Balance at June 30, 2016 (1)	$ 525,440,909	$ 356,722,447	$ 168,718,462

(1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

Miscellaneous Plan:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/ (Asset)	$ 156,954,819	$ 105,757,625	$ 63,129,842

Safety Plan:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/ (Asset)	$ 240,006,863	$ 168,718,462	$ 110,259,534

IV. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2015), the net pension liability was $83,662,982 for the Miscellaneous Plan and $140,480,972 for the Safety Plan.

For the measurement period ended June 30, 2016 (the measurement date), the City incurred a pension expense of $7,977,607 for the Miscellaneous Plan and $15,612,477 for the Safety Plan.

As of June 30, 2017, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	$ -	$ (2,981,936)
Differences between Expected and Actual Experiences	-	(2,875,591)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	16,532,404	-
Contributions subsequent to the measurement date	8,380,299	-
Total	$ 24,912,703	$ (5,857,527)

Safety Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	$ -	$ (4,914,722)
Differences between Expected and Actual Experiences	-	(2,079,143)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	19,429,205	-
Contributions subsequent to the measurement date	12,960,477	-
Total	$ 32,389,682	$ (6,993,865)

The amounts above are net of outflows and inflows recognized in the 2015-2016 measurement period expense. The amounts above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous Plan	Safety Plan
2018	(1,099,761)	(282,906)
2019	(1,256)	(282,907)
2020	7,387,260	7,868,176
2021	4,388,634	5,132,977
2022	-	-
Thereafter	-	-
Total	$ 10,674,877	$ 12,435,340

H. DEFICIENCY OF EXPENDITURES OVER APPROPRATIONS

For the fiscal year ended June 30, 2017, expenditures exceeded appropriations as follows:

General Fund

Expenditures	**Amount**
Interest Expenditures	$5,606

Other Governmental Funds

Expenditures	**Amount**
Local Transportation Fund – Transfer out	$4,506
Special Gas Tax Street Improvement Fund - Transfer out	156,506

I. SUBSEQUENT EVENTS

In September 2016, the Finance Committee received an informational report about potential net present value savings of $1.2 million to $1.6 million on a refunding of the outstanding Modesto Wastewater Revenue Bonds, Series 2006 A in the amount of $14,735,000.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th

Miscellaneous Plan

Measurement Period	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY			
Service Cost	$ 6,092,179	$ 5,768,082	$ 6,400,912
Interest on Total Pension Liability	29,752,178	28,873,755	28,037,915
Changes of Assumptions	-	(6,709,358)	-
Difference Between Expected and Actual Experience	(2,005,545)	(3,177,191)	-
Benefit Payments, Including Refunds of Employee Contributions	(21,686,131)	(20,945,229)	(20,334,821)
Net Change in Total Pension Liability	12,152,681	3,810,059	14,104,006
Total Pension Liability – Beginning	398,719,890	394,909,831	380,805,825
Total Pension Liability – Ending (a)	$ 410,872,571	$ 398,719,890	$ 394,909,831
PLAN FIDUCIARY NET POSITION			
Contributions – Employer	$ 6,920,358	$ 5,632,179	$ 4,654,055
Contributions – Employee	3,349,400	3,061,157	2,853,492
Net Investment Income	1,667,540	7,093,159	48,702,803
Benefit Payments, Including Refunds of Employee Contributions	(21,686,131)	(20,945,229)	(20,334,821)
Plan to Plan Resource Movement	(1,118)	(188)	-
Administrative Expense	(192,011)	(355,544)	-
Net Change in Fiduciary Net Position	(9,941,962)	(5,514,466)	35,875,529
Plan Fiduciary Net Position – Beginning	315,056,908	320,571,374	284,695,845
Plan Fiduciary Net Position – Ending (b)	305,114,946	315,056,908	320,571,374
Plan Net Pension Liability – Ending (a) - (b)	$ 105,757,625	$ 83,662,982	$ 74,338,457
Plan Fiduciary Net Position as a Percentage of the Total Pension	74.26%	79.02%	81.18%
Covered Payroll (1)	$ 45,207,621	$ 41,562,776	$ 44,125,963
Plan Net Pension Liability as a Percentage of Covered Payroll	233.94%	201.29%	168.47%

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2015 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2016, there were no changes. In 2015, the discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th

Safety Plan

Measurement Period	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY			
Service Cost	$ 8,193,455	$ 8,633,865	$ 8,970,868
Interest on Total Pension Liability	38,004,835	36,721,112	35,310,732
Changes of Assumptions	-	(9,188,394)	-
Difference Between Expected and Actual Experience	(2,184,871)	(849,707)	-
Benefit Payments, Including Refunds of Employee Contributions	(26,911,771)	(25,426,619)	(24,313,823)
Net Change in Total Pension Liability	17,101,648	9,890,257	19,967,777
Total Pension Liability – Beginning	508,339,261	498,449,004	478,481,227
Total Pension Liability – Ending (a)	$ 525,440,909	$ 508,339,261	$ 498,449,004
PLAN FIDUCIARY NET POSITION			
Contributions – Employer	$ 11,137,899	$ 10,210,101	$ 8,963,542
Contributions – Employee	2,962,566	2,800,626	2,939,117
Net Investment Income	1,898,536	8,215,387	56,385,743
Benefit Payments, Including Refunds of Employee Contributions	(26,911,771)	(25,426,619)	(24,313,823)
Plan to Plan Resource Movement	1,118	211	-
Administrative Expense	(224,190)	(414,089)	-
Net Change in Fiduciary Net Position	(11,135,842)	(4,614,383)	43,974,579
Plan Fiduciary Net Position – Beginning	367,858,289	372,472,672	328,498,093
Plan Fiduciary Net Position – Ending (b)	356,722,447	367,858,289	372,472,672
Plan Net Pension Liability – Ending (a) - (b)	$ 168,718,462	$ 140,480,972	$ 125,976,332
Plan Fiduciary Net Position as a Percentage of the Total Pension	67.89%	72.36%	74.73%
Covered Payroll (1)	$ 30,022,552	$ 31,202,983	$ 31,090,551
Plan Net Pension Liability as a Percentage of Covered Payroll	561.97%	450.22%	405.19%

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2015 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2016, there were no changes. In 2015, the discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Plan Contributions (1)

Miscellaneous Plan

Fiscal Year	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	$ 8,380,299	$ 6,920,358	$ 5,632,179	$ 4,654,055
Contributions in Relation to the Actuarially Determined Contribution (2)	(8,380,299)	(6,920,358)	(5,632,179)	(4,654,055)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered-Employee Payroll (3)(4)	$ 49,151,757	$ 45,207,621	$ 41,562,776	$ 44,125,963
Contributions as a Percentage of Covered-Employee Payroll (3)	17.05%	15.31%	13.55%	10.55%

Safety Plan

Fiscal Year	2015-2016	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	$ 12,960,477	$ 11,137,899	$ 10,210,101	$ 8,963,542
Contributions in Relation to the Actuarially Determined Contribution (2)	(12,960,477)	(11,137,899)	(10,210,101)	(8,963,542)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered-Employee Payroll (3)(4)	$ 31,404,842	$ 30,022,552	$ 31,202,983	$ 31,090,551
Contributions as a Percentage of Covered-Employee Payroll (3)	41.27%	37.10%	32.72%	28.83%

(1) Historical information is required only for fiscal year for which GASB 68 is applicable. As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be determined as of the employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015-16 were as follows for June 30, 2014 actuarial valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2014 Funding Valuation Report.
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

SCHEDULE OF FUNDING PROGRESS FOR OPEB

Actuarial Valuation Date**	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)		(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C}
1/1/2013	$0	$78,245,964	($78,245,964)	0.00%	$77,058,743		(101.54%)
1/1/2015	0	31,691,066	(31,691,066)	0.00%	46,576,754	(1)	(68.04%)
1/1/2017	0	28,645,234	(28,645,234)	0.00%	43,842,302		(65.34%)

(1) Payroll decreased because it is limited to active participants with a liability.

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget -
	Original	Final	Actual	Positive (Negative)
TAXES				
Utility users tax	$ 20,150,000	$ 20,150,000	$ 20,113,023	$ (36,977)
Property tax	14,445,241	14,445,241	15,384,518	939,277
Transient occupancy tax	2,150,000	2,150,000	2,669,484	519,484
Franchise tax	5,525,849	5,525,849	4,837,344	(688,505)
Business license tax	11,479,228	11,479,228	12,255,062	775,834
Total taxes	53,750,318	53,750,318	55,259,431	1,509,113
LICENSES AND PERMITS	87,537	87,537	109,784	22,247
INTERGOVERNMENTAL				
Sales tax	30,050,000	30,050,000	30,204,125	154,125
In-lieu sales tax				
Motor vehicle license fees	14,934,334	14,934,334	15,385,069	450,735
State	720,000	720,000	881,171	161,171
County	64,782	66,356	38,533	(27,823)
Federal	-	-	19,542	19,542
Other intergovernmental	1,568,000	1,568,000	2,292,586	724,586
Total intergovernmental	47,337,116	47,338,690	48,821,026	1,482,336
CHARGES FOR SERVICES				
General government	2,225,822	2,253,322	1,917,776	(335,546)
Community development	2,678,588	2,678,588	2,664,612	(13,976)
Public works	1,682,060	1,716,077	1,630,103	(85,974)
Parks and recreation	978,315	992,315	834,050	(158,265)
Public safety	1,506,324	1,551,873	3,147,021	1,595,148
Indirect cost recovery	3,164,981	3,164,981	3,168,791	3,810
Total charges for services	12,236,090	12,357,156	13,362,353	1,005,197
INTEREST AND RENT	601,580	650,837	819,908	169,071
NET DECREASE IN FAIR VALUE OF INVESTMENTS	-	-	(206,156)	(206,156)
FINES AND FORFEITS	388,854	568,854	560,250	(8,604)
MISCELLANEOUS				
Mandated cost recovery	78,700	78,700	85,573	6,873
Other	263,963	263,963	-	(263,963)
Total miscellaneous	342,663	342,663	85,573	(257,090)
Total revenues	$ 114,744,158	$ 115,096,055	$ 118,812,169	$ 3,716,114

The notes to required supplementary information are an integral part of this schedule.

CITY OF MODESTO
SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET
(GAAP BASIS) AND ACTUAL - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget -
	Original	Final	Actual	Positive (Negative)
General government:				
City council	$ 400,616	$ 408,017	$ 392,240	$ 15,777
Human resources	1,615,353	1,668,820	1,282,002	386,818
City manager	1,783,146	2,630,356	2,315,922	314,434
City attorney	2,156,463	2,170,659	2,026,615	144,044
City clerk/auditor	799,358	833,889	651,219	182,670
Finance	5,011,607	4,517,812	4,218,012	299,800
Other	656,000	446,000	383,211	62,789
Total general government	12,422,543	12,675,552	11,269,221	1,406,331
Community development:	6,946,085	7,172,747	6,372,162	800,585
Public works:				
Administration	376,025	383,304	361,516	21,788
Operations Service and maintenance	5,105,131	5,263,141	5,236,003	27,138
Facilities	1,108,301	1,596,315	919,191	677,124
Total public works	6,589,457	7,242,760	6,516,710	726,050
Parks and recreation:				
Administration	872,782	1,005,805	876,478	129,327
Planning and development	449,917	446,557	377,761	68,796
Recreation division	2,274,871	2,215,195	1,949,280	265,915
Total parks and recreation	3,597,570	3,667,557	3,203,519	464,038
Public safety:				
Fire protection	28,158,706	34,697,149	34,615,598	81,551
Police protection	58,373,882	57,262,077	54,470,398	2,791,679
Total public safety	86,532,588	91,959,226	89,085,996	2,873,230
Debt service:				
Principal retirement	642,019	471,801	467,093	4,708
Interest expenditures	10,278	10,278	15,884	(5,606)
Total debt service	652,297	482,079	482,977	(898)
Total expenditures	$ 116,740,540	$ 123,199,921	$ 116,930,585	$ 6,269,336

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Intergovernmental - federal grants	$ 2,609,380	$ 3,611,652	$ 4,277,482	$ 665,830
Interest and rent - interest	13,556	13,556	-	(13,556)
Miscellaneous	-	-	3,242	3,242
Total revenues	2,622,936	3,625,208	4,280,724	655,516
EXPENDITURES				
Community development	2,020,441	2,605,515	2,120,560	484,955
Debt service:				
Principal retirement	233,000	233,000	233,000	-
Interest	50,951	50,951	50,951	-
Total expenditures	2,304,392	2,889,466	2,404,511	484,955
EXCESS OF REVENUES OVER EXPENDITURES	318,544	735,742	1,876,213	1,140,471
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(637,554)	(177,835)	459,719
TOTAL OTHER FINANCING SOURCES (USES)	-	(637,554)	(177,835)	459,719
CHANGES IN FUND BALANCE	318,544	98,188	1,698,378	1,600,190
FUND BALANCE, JULY 1	25,533,233	25,533,233	25,533,233	-
FUND BALANCE, JUNE 30	$ 25,851,777	$ 25,631,421	$ 27,231,611	$ 1,600,190

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2017

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules for operating, non-capital multi-year, and capital budgets:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them for operating, non-capital multi-year and capital projects.

2. The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on all proposed budgets to obtain comments from interested persons.

3. Prior to July 1, the budget is legally adopted through 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. Authority to approve any adjustment in the amount of $25,000 or less is delegated to the Director of Finance.

    b. Authority to approve any adjustment in an amount between $25,000 and $50,000 is delegated to the City Manager.

    c. Authority for any budget adjustment more than $50,000 is delegated to the parties described below:

        a. Items requiring City Council Action – appropriation of undesignated reserves; appropriation of new revenues; transfers of appropriations between funds (inter-fund transfers); creation of inter-fund loans; creation of, or increase in, any multi-year appropriation.

        b. Items delegated to the City Manager – transfer appropriations between departments within a fund; changing any capital equipment appropriation; appropriation of reserves for litigation on a case-by-case basis; appropriation of developer payments not previously budgeted.

        c. Items delegated to the Director of Finance – appropriation of grant interest; revise the allocation of Internal Service Fund charges between departments provided that the total allocated amount does not increase; changing any capital improvement budget line item appropriation; make technical budget corrections to implement the intent of Council approved actions and resolutions.

        d. Items delegated to Department Directors – transfer appropriations within a department, within a single fund.

5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue, enterprise and internal service funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on this basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.

6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the appropriation unit level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g., City Attorney), or an entire department having multiple organizations within the same fund (e.g., Operations and Maintenance), or an entire fund (e.g., Downtown Improvement District). All departments and funds complete the year within their legally authorized expenditures except the Local Transportation Fund due to a budget error. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded to reserve the applicable appropriations, is employed in the governmental funds.

   The City does, however, honor the contracts represented by year-end encumbrances and the subsequent year's appropriations provide authority to complete these transactions.

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

Special Revenue Funds include funds which are restricted as to use by the Federal or State governments, and special purpose funds established by authority of the City Council. Nonmajor Special Revenue Funds include:

OPERATING GRANTS FUND – To account for a variety of governmental fund operating grants, including law enforcement grants.

LOCAL TRANSPORTATION FUND – To account for revenues and expenditures of Local Transportation Fund allocations for streets, urban trails, and non-motorized facilities. Allocations for the City bus system are reported directly in the Bus Enterprise Fund.

TRAFFIC SAFETY FUND – To account for receipts and expenditures of traffic safety fines.

DOWNTOWN IMPROVEMENT DISTRICT FUND – To account for the fiscal activities of Business Improvement Area A and Downtown Modesto Community Benefit District of the City of Modesto.

STRATEGIC PLANNING AND DEVELOPMENT FUND – Established to provide a funding source for future village planning, general plan update and other large expenses related to planning and development. This fund was originally financed with an apportionment of the PERS rebate related to AB702. Subsequent funding has been provided by transfers from the General Fund. Future funding will be provided by fees imposed on private development.

SPECIAL GAS TAX STREET IMPROVEMENT FUND – To account for state-collected, locally-shared gas tax monies. This fund may be used for all street and traffic purposes including construction, purchase of rights-of-way, and maintenance.

Nonmajor Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. Nonmajor Capital Projects Funds include:

SPECIAL FUND FOR CAPITAL OUTLAYS – To account for capital outlay authorized by the City Council. No monies placed in this fund are to be disbursed except for this purpose unless authorized by a vote of the people.

PARKS FUND – To account for a discretionary transfer of General Fund property tax revenue to provide for the development of parks within the City, as directed by the City Council.

SECURITIES FOR FUTURE IMRPOVEMENTS FUND – To account for the collection of impact fees for approved development projects to construct facilities needed for future development.

CAPITAL GRANTS – To account for receipts and disbursements of a variety of Governmental Fund capital grants.

COMMUNITY FACILITIES DISTRICTS FUND – To account for the construction of public improvements deemed to benefit properties against which special taxes are levied.

SUCCESSOR REDEVELOPMENT HOUSING AGENCY FUND – To account for the housing redevelopment capital projects financed by the Successor Redevelopment Housing Agency of the City of Modesto.

CAPITAL FACILITY FEES FUND – To account for special fees collected on new building permits to be used for construction of certain growth related projects. The fees and related capital projects include police department expansion, fire department expansion, expressway loop, street lights, street improvements, parks, new traffic signals, City downtown, wastewater treatment, public transportation, and air quality improvements.

Nonmajor Debt Service Fund

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

PUBLIC FINANCING AUTHORITY FUND – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
ASSETS						
Cash and cash equivalents	$ -	$ 1,369,099	$ -	$ 83,539	$ 1,006,830	$ 5,809,229
Receivables:						
Accounts, net	16,950	-	-	-	381,775	26,812
Interest	3,041	3,525	-	171	2,294	13,657
Taxes	81,810	-	-	5,075	-	304,024
Due from governments	3,065,329	-	3,358	-	-	42,675
Prepaid expenditures	115	-	-	-	-	600
Restricted assets:						
Cash and cash equivalents	-	244,580	3,087,018	-	-	-
Cash and cash equivalents with fiscal agent	652,290	-	-	-	-	-
Due from governments	-	-	111,743	-	-	-
Notes receivable, net	70,179	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-
Total assets	$ 3,889,714	$ 1,617,204	$ 3,202,119	$ 88,785	$ 1,390,899	$ 6,196,997
LIABILITIES AND AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 460,809	$ -	$ 496	$ 10,270	$ 62,504	$ 258,755
Accrued salaries and benefits	134,834	-	2,862	-	-	88,752
Interest payable	-	-	-	-	-	-
Due to other funds	414,329	-	-	-	-	-
Unearned revenue	162,932	1,372,624	-	-	-	13,816
Refundable deposits	4,000	-	-	-	-	-
Advances from other funds	10,814	-	-	-	-	-
Total liabilities	1,187,718	1,372,624	3,358	10,270	62,504	361,323
					-	
Deferred inflows of resources:						
Unavailable revenue	3,981,605	-	-	-	-	-
Fund balances:						
Nonspendable	115	-	-	-	-	600
Restricted	722,469	244,580	3,198,761	-	-	-
Assigned	-	-	-	78,515	1,328,395	5,835,074
Unassigned	(2,002,193)	-	-	-	-	-
Total fund balances	(1,279,609)	244,580	3,198,761	78,515	1,328,395	5,835,674
Total liabilities and fund balances	$ 3,889,714	$ 1,617,204	$ 3,202,119	$ 88,785	$ 1,390,899	$ 6,196,997

	Capital Projects						
	Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
$	295,754	$ 2,076	$ -	$ 6,781	$ 232,698	$ -	$ 412,016
	10,000	-	-	-	-	557	-
	32	1,774	-	-	38,468	-	64,977
	-	-	-	-	13,419	-	-
	-	-	-	3,464,446	184	1,192,004	824,242
	-	-	-	-	-	-	-
	-	855,557	66,397	-	16,774,444	-	29,284,573
	-	-	-	-	-	-	-
	-	-	-		-	-	-
	-	-	-	-	-	2,211,000	-
	-	-	-	-	-	-	80,000
$	305,786	$ 859,407	$ 66,397	$ 3,471,227	$ 17,059,213	$ 3,403,561	$ 30,665,808
$	14,310	$ 3,850	$ -	$ 650,779	$ 255,724	$ -	$ 231,362
	-	-	-	-	12,865	-	-
	-	-	-	-	-	1,634	-
	-	-	-	3,616,793	-	592,795	-
	10,000	-	-	-	-	-	-
	-	-	-	-	16,180	-	-
	-	-	-	-	-	145,727	1,069,873
	24,310	3,850	-	4,267,572	284,769	740,156	1,301,235
	-	-	-	265,943	-	-	-
	-	-	-	-	-	-	80,000
	-	855,557	66,397	-	16,774,444	2,211,000	29,284,573
	281,476	-	-	-	-	452,405	-
	-	-	-	(1,062,288)	-	-	-
	281,476	855,557	66,397	(1,062,288)	16,774,444	2,663,405	29,364,573
$	305,786	$ 859,407	$ 66,397	$ 3,471,227	$ 17,059,213	$ 3,403,561	$ 30,665,808

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Debt Service Public Financing Authority	Total
ASSETS		
Cash and cash equivalents	$ -	$ 9,218,022
Receivables:		
Accounts, net	-	436,094
Interest	-	127,939
Taxes	-	404,328
Due from governments	-	8,592,238
Prepaid expenditures	292	1,007
Restricted assets:		
Cash and cash equivalents	-	50,312,569
Cash and cash equivalents with fiscal agent	4,942,019	5,594,309
Due from governments	-	111,743
Notes receivable, net	-	2,281,179
Advances to other funds	-	80,000
Total assets	$ 4,942,311	$ 77,159,428
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 33,257	$ 1,982,116
Accrued salaries and benefits	-	239,313
Interest payable	-	1,634
Due to other funds	58,941	4,682,858
Unearned revenue	-	1,559,372
Refundable deposits	-	20,180
Advances from other funds	-	1,226,414
Total liabilities	92,198	9,711,887
Deferred inflows of resources:		
Unavailable revenue	-	4,247,548
Fund balances:		
Nonspendable	292	81,007
Restricted	4,942,019	58,299,800
Assigned	-	7,975,865
Unassigned	(92,198)	(3,156,679)
Total fund balances	4,850,113	63,199,993
Total liabilities and fund balances	$ 4,942,311	$ 77,159,428

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
REVENUES:						
Taxes	$ 383,589	$ -	$ -	$ 192,540	$ -	$ 1,210,290
Licenses and permits	58,224	-	-	-	-	33,437
Intergovernmental	1,620,094	2,725	-	-	366,775	3,968,029
Charges for services	4,994,538	-	193,771	-	19,070	1,068,376
Special assessments levied	57,619	-	-	678,616	-	-
Interest and rent	4,687	11,481	-	628	9,714	65,516
Net increase (decrease) in fair value of investments	(6,347)	(8,492)	-	(402)	(6,244)	(42,077)
Fines and forfeits	-	-	703,157	-	-	-
Miscellaneous	121,118	-	-	-	75,645	151,482
Total revenues	7,233,522	5,714	896,928	871,382	464,960	6,455,053
EXPENDITURES:						
Current:						
General government	272,910	-	-	-	-	-
Community development	872,793	-	-	850,528	457,243	-
Highways and streets	-	2,697	-	-	-	9,067,903
Public works	4,402,392	-	-	-	-	-
Parks and recreation	65,841		-	-	-	-
Public safety	3,622,769	-	188,746	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Community development	-	-	-	-	33,883	-
Highways and streets	-	(25,177)	-	-	-	47,954
Public works	5,764	-	-	-	-	-
Parks and recreation	-	-	-		-	-
Public safety	146,561	-	10,955	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	9,389,030	(22,480)	199,701	850,528	491,126	9,115,857
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,155,508)	28,194	697,227	20,854	(26,166)	(2,660,804)
OTHER FINANCING SOURCES (USES):						
Transfers in	408,512	-	-	-	367,000	125,000
Transfers out	(167,365)	(4,506)		-	-	(204,174)
Sale of assets	8,465	-	-	-	-	19,095
TOTAL OTHER FINANCING SOURCES (USES)	249,612	(4,506)	-	-	367,000	(60,079)
CHANGES IN FUND BALANCES	(1,905,896)	23,688	697,227	20,854	340,834	(2,720,883)
FUND BALANCES, JULY 1	626,287	220,892	2,501,534	57,661	987,561	8,556,557
FUND BALANCES, JUNE 30	$ (1,279,609)	$ 244,580	$ 3,198,761	$ 78,515	$ 1,328,395	$ 5,835,674

Capital Projects						
Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-
-	-	-	11,412,110	1,830	11,005	287,580
-	4,365	-	-	732,999	-	4,078,814
-	-	-	-	2,278,533	-	-
1,448	6,977	-	-	190,398	(6,398)	261,936
					-	-
143	(4,707)	-	-	(135,808)	4,361	(166,887)
-	-	-	-	-	-	-
-	21,463	-	-	58,321	-	-
1,591	28,098		11,412,110	3,126,273	8,968	4,461,443
-	-	-	-	-	-	-
17,461	-	-	-	2,505,936	-	84,281
-	-	-	170,054	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
			-			
-	-	-	-	-	-	-
59,620	-	-	-	859,045	-	230
-	-	-	11,984,735	-	-	1,200,693
-	-	-	-	-	-	-
-	42,930	-	181,041	-	-	318,813
125,605	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
202,686	42,930		12,335,830	3,364,981	-	1,604,017
(201,095)	(14,832)	-	(923,720)	(238,708)	8,968	2,857,426
463,696	70,000	-	352,106	-	-	230
-	(230)	-	-	-	-	(84,473)
-	-	-	-	-	-	-
463,696	69,770	-	352,106		-	(84,243)
262,601	54,938	-	(571,614)	(238,708)	8,968	2,773,183
18,875	800,619	66,397	(490,674)	17,013,152	2,654,437	26,591,390
$ 281,476	$ 855,557	$ 66,397	$ (1,062,288)	$ 16,774,444	$ 2,663,405	$ 29,364,573

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Debt Service Public Financing Authority	Total
REVENUES:		
Taxes	$ -	$ 1,786,419
Licenses and permits	-	91,661
Intergovernmental	1,301,083	18,971,231
Charges for services	-	11,091,933
Special assessments levied	-	3,014,768
Interest and rent	36,092	582,479
Net increase (decrease) in fair value of investments	-	(366,460)
Fines and forfeits	-	703,157
Miscellaneous	-	428,029
Total revenues	1,337,175	36,303,217
EXPENDITURES:		
Current:		
General government	-	272,910
Community development	-	4,788,242
Highways and streets	-	9,240,654
Public works	-	4,402,392
Parks and recreation	-	65,841
Public safety	-	3,811,515
Capital outlay:		
General government	-	
Community developement	-	952,778
Highways and streets	-	13,208,205
Public works	-	5,764
Parks and recreation	-	542,784
Public safety	-	283,121
Debt service:		
Principal retirement	1,835,000	1,835,000
Interest	2,008,367	2,008,367
Other	430,779	430,779
Total expenditures	4,274,146	41,848,352
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,936,971)	(5,545,135)
OTHER FINANCING SOURCES (USES):		
Transfers in	2,936,972	4,723,516
Transfers out	-	(460,748)
Sale of assets	-	27,560
TOTAL OTHER FINANCING SOURCES (USES)	2,936,972	4,290,328
CHANGES IN FUND BALANCES	1	(1,254,807)
FUND BALANCES, JULY 1	4,850,112	64,454,800
FUND BALANCES, JUNE 30	$ 4,850,113	$ 63,199,993

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Taxes	$ -	$ 400,000	$ 383,589	$ (16,411)
Licenses and permits	70,000	70,000	58,224	(11,776)
Intergovernmental	189,561	2,225,068	1,620,094	(604,974)
Charges for services	5,286,297	5,286,297	4,994,538	(291,759)
Special assessments	69,308	69,308	57,619	(11,689)
Interest and rent - interest	-	-	4,687	4,687
Net decrease in fair value of investments	-	-	(6,347)	(6,347)
Miscellaneous	142,360	142,360	121,118	(21,242)
Total revenues	5,757,526	8,193,033	7,233,522	(959,511)
EXPENDITURES:				
General government	284,720	509,945	272,910	237,035
Community development	939,487	939,599	872,793	66,806
Public works	5,639,406	4,553,116	4,408,156	144,960
Parks and recreation	189,561	630,888	65,841	565,047
Public safety	2,367,535	7,608,914	3,769,330	3,839,584
Total expenditures	9,420,709	14,242,462	9,389,030	4,853,432
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(3,663,183)	(6,049,429)	(2,155,508)	3,893,921
OTHER FINANCING SOURCES (USES):				
Transfers in	142,360	496,905	408,512	(88,393)
Transfers out	-	(178,716)	(167,365)	11,351
Sale of assets		-	8,465	8,465
TOTAL OTHER FINANCING SOURCES (USES)	142,360	318,189	249,612	2,030,376
CHANGES IN FUND BALANCE	(3,520,823)	(5,731,240)	(1,905,896)	5,924,297
FUND BALANCE, JULY 1	626,287	626,287	626,287	-
FUND BALANCE (DEFICIT), JUNE 30	$ (2,894,536)	$ (5,104,953)	$ (1,279,609)	$ 5,924,297

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Original	Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental	$ -	$ -	$ 2,725	$ 1,848
Interest and rent - interest	-	-	11,481	11,481
Net decrease in fair value of investments	-	-	(8,492)	(8,492)
Total revenues	-	-	5,714	4,837
EXPENDITURES:				
Highways and streets	-	-	(22,480)	22,480
EXCESS OF REVENUES OVER EXPENDITURES	-	-	28,194	28,194
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(4,506)	(4,506)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(4,506)	(4,506)
CHANGES IN FUND BALANCE	-	-	23,688	23,688
FUND BALANCE, JULY 1	220,892	220,892	220,892	-
FUND BALANCE, JUNE 30	$ 220,892	$ 220,892	$ 244,580	$ 23,688

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Charges for services	$ 146,190	$ 146,190	$ 193,771	$ 47,581
Motor vehicle fines	330,057	330,057	703,157	373,100
Total revenues	476,247	476,247	896,928	420,681
EXPENDITURES:				
Public safety	558,767	616,814	199,701	417,113
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(82,520)	(140,567)	697,227	837,794
OTHER FINANCING USES:				
Transfers out	(500,000)	(500,000)	-	500,000
CHANGES IN FUND BALANCE	(582,520)	(640,567)	697,227	1,337,794
FUND BALANCE, JULY 1	2,501,534	2,501,534	2,501,534	-
FUND BALANCE, JUNE 30	$ 1,919,014	$ 1,860,967	$ 3,198,761	$ 1,337,794

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Taxes - business license tax	$ 176,010	$ 176,010	$ 192,540	$ 16,530
Special assessments levied	700,000	700,000	678,616	(21,384)
Interest and rent - interest	-	-	628	628
Net decrease in fair value of investments	-	-	(402)	(402)
Total revenues	876,010	876,010	871,382	(4,628)
EXPENDITURES:				
Community development	873,498	873,664	850,528	23,136
CHANGES IN FUND BALANCE	2,512	2,346	20,854	18,508
FUND BALANCE, JULY 1	57,661	57,661	57,661	-
FUND BALANCE, JUNE 30	$ 60,173	$ 60,007	$ 78,515	$ 18,508

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - STRATEGIC PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Charges for services	$ 91,560	$ 101,560	$ 19,070	$ (82,490)
Intergovernmental	100,000	272,302	366,775	94,473
Interest and rent - interest	150,054	150,054	9,714	(140,340)
Net decrease in fair value of investments	(75)	(75)	(6,244)	(6,169)
Miscellaneous	-	-	75,645	75,645
Total revenues	341,539	523,841	464,960	(58,881)
EXPENDITURES:				
Community development	903,094	1,615,396	491,126	1,124,270
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(561,555)	(1,091,555)	(26,166)	1,065,389
OTHER FINANCING SOURCES:				
Transfers in	600,000	725,000	367,000	(358,000)
CHANGES IN FUND BALANCE	38,445.00	(366,555)	340,834	707,389
FUND BALANCE, JULY 1	987,561	987,561	987,561	-
FUND BALANCE, JUNE 30	$ 1,026,006	$ 621,006	$ 1,328,395	$ 707,389

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Intergovernmental:				
Federal grants	$ 4,266,705	$ 5,266,705	$ 3,968,029	$ (1,298,676)
Taxes	1,000,000	-	1,210,290	1,210,290
Licenses and permits	-	-	33,437	33,437
Charges for services	546,215	546,215	1,068,376	522,161
Interest and rent	15,000	15,000	65,516	50,516
Net decrease in fair value of investments	-	-	(42,077)	(42,077)
Miscellaneous	-	-	151,482	151,482
Total revenues	5,827,920	5,827,920	6,455,053	627,133
EXPENDITURES:				
Highway and streets	9,451,180	9,542,654	9,115,857	426,797
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(3,623,260)	(3,714,734)	(2,660,804)	1,053,930
OTHER FINANCING SOURCES (USES):				
Transfers in	125,000	125,000	125,000	-
Transfers out	-	(47,668)	(204,174)	(156,506)
Sale of assets	-	-	19,095	19,095
TOTAL OTHER FINANCING SOURCES (USES)	125,000	77,332	(60,079)	(137,411)
CHANGES IN FUND BALANCE	(3,498,260)	(3,637,402)	(2,720,883)	916,519
FUND BALANCE, JULY 1	8,556,557	8,556,557	8,556,557	-
FUND BALANCE, JUNE 30	$ 5,058,297	$ 4,919,155	$ 5,835,674	$ 916,519

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

Nonmajor Enterprise Funds

Enterprise Funds are established to account for activities that render services on a user-charge basis to the general public. Nonmajor Enterprise Funds include:

PARKING FUND – Revenues in this fund consist of charges for off-street parking and the downtown parking garage, as well as in-lieu parking fees. The revenue is used to develop and maintain parking facilities.

STORM DRAIN FUND – To account for storm drain improvements, operations and maintenance. The activities of the fund include street cleaning, rock well maintenance, and compliance with Federal and State water quality standards on storm water discharge.

COMPOST FUND – To account for tip fees charged at the City's composting facility for processing various compostable materials and the sale of compost product. Excess revenues over expenses are set aside to protect the enterprise against market fluctuations, and to provide for capital improvements to the facility infrastructure.

AIRPORT FUND – To account for all airport operations as stipulated in the City-Stanislaus County agreement of January 1968. Amounts received from the Federal government, State of California, and Stanislaus County, requiring matching amounts by the City, are recorded in this fund and are appropriated to finance approved capital projects.

GOLF FUND – Revenues in this fund consist of fees charged for using the City's golf courses. The revenue is used to improve, operate, and maintain golf courses.

COMMUNITY CENTER FUND – Accounted for in this fund are all amounts collected for the purpose of operating and maintaining the Modesto Centre Plaza Community Center. Revenues include room rental, catering fees, ticket sales, and other charges for using the center.

ABATEMENT AND PUBLIC NUISANCE FUND – To account the activity for expenses and recovery for the cost for both dangerous and unsafe building and property abatements.

CITY OF MODESTO
COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2017

	Parking	Storm Drain	Compost
ASSETS			
Current assets:			
Cash and cash equivalents	$ 454,254	$ 10,483,768	$ 4,300,162
Receivables:			
Accounts	4,222	2,774	921,520
Interest	949	23,222	10,567
Taxes	-	-	-
Utilities, net	-	498,843	310,314
Prepaid expenses	299	23,753	-
Due from governments	-	13,615	152,788
Inventories	-	-	-
Total current assets	459,724	11,045,975	5,695,351
Noncurrent assets:			
Restricted cash and cash equivalents with fiscal agent	-	-	-
Land and construction in progress	3,131,804	2,128,939	1,140,000
Other capital assets, net of accumulated depreciation	5,136,419	12,884,761	1,389,238
Total noncurrent assets	8,268,223	15,013,700	2,529,238
Total assets	8,727,947	26,059,675	8,224,589
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	165,577	251,680	1,489,958
Total assets and deferred outflows of resources	$ 8,893,524	$ 26,311,355	$ 9,714,547
LIABILITIES			
Current liabilities:			
Accounts payable	$ 30,667	$ 142,941	$ 1,731,458
Accrued salaries and benefits	10,903	12,808	84,584
Interest payable	-	-	-
Due to other funds	-	-	-
Unearned revenue	-	6,726	17,808
Current portion - long-term debt	-	-	-
Total current liabilities	41,570	162,475	1,833,850
Noncurrent liabilities:			
Pollution remediation liability	-	-	2,600,000
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	889,200
Net pension liability	661,330	1,095,013	6,285,986
Total liabilities	702,900	2,582,192	11,609,036
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	27,131	42,357	317,016
Total deferred inflows of resources	27,131	42,357	317,016
NET POSITION			
Net investment in capital assets	8,268,223	15,013,700	2,529,238
Unrestricted	(104,730)	8,673,106	(4,740,743)
Total net position	8,163,493	23,686,806	(2,211,505)
Total liabilities, deferred inflows of resources, and net position	$ 8,893,524	$ 26,311,355	$ 9,714,547

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
$ 1,418,220	$ -	$ 126,674	$ 640,711	$ 17,423,789
19,645	319,285	37,443	13,386	1,318,275
2,928	15,368	-	1,424	54,458
1,752	-	-	-	1,752
-	-	-	-	809,157
208	-	-	-	24,260
131,430	-	-	-	297,833
-	34,521	-	-	34,521
1,574,183	369,174	164,117	655,521	19,964,045
-	684,986	-	-	684,986
3,877,655	275,741	3,667,020	-	14,221,159
8,408,971	1,163,780	3,540,176	-	32,523,345
12,286,626	2,124,507	7,207,196	-	47,429,490
13,860,809	2,493,681	7,371,313	655,521	67,393,535
154,113	-	131,377	-	2,192,705
$ 14,014,922	$ 2,493,681	$ 7,502,690	$ 655,521	$ 69,586,240
$ 118,707	$ 41,884	$ 36,780	$ 554	$ 2,102,991
9,808	6,846	8,654	-	133,603
-	33,890	-	-	33,890
-	530,026	-	-	530,026
4,622	420,589	-	9,345	459,090
-	355,000	-	-	355,000
133,137	1,388,235	45,434	9,899	3,614,600
-	-	-	-	2,600,000
-	2,565,000	-	-	2,565,000
-	-	-	-	2,213,904
631,162	-	587,795	-	9,261,286
764,299	3,953,235	633,229	9,899	20,254,790
9,780	-	40,525	-	436,809
9,780	-	40,525	-	436,809
12,286,626	(795,493)	7,207,196	-	44,509,490
954,217	(664,061)	(378,260)	645,622	4,385,151
13,240,843	(1,459,554)	6,828,936	645,622	48,894,641
$ 14,014,922	$ 2,493,681	$ 7,502,690	$ 655,521	$ 69,586,240

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Parking	Storm Drain	Compost
OPERATING REVENUES:			
Charges for services	$ 1,284,269	$ 5,894,268	$ 8,902,276
Miscellaneous	-	16,720	1,641
Total operating revenues	1,284,269	5,910,988	8,903,917
OPERATING EXPENSES:			
Salaries and wages	424,024	513,747	3,509,986
Contractual services	254,048	555,996	1,705,883
Utilities	161,183	36,615	30,732
Maintenance and supplies	59,336	2,169,811	1,901,761
Insurance	61,038	8,617	101,778
Employee benefits	149,386	190,125	1,399,985
Administration services	32,897	2,077,655	771,095
Allocated indirect administrative costs	31,484	87,927	241,041
Depreciation	448,424	521,532	149,997
Total operating expenses	1,621,820	6,162,025	9,812,258
OPERATING INCOME (LOSS)	(337,551)	(251,037)	(908,341)
NONOPERATING REVENUES (EXPENSES):			
Gain on disposition of capital assets	-	2,304	39,944
Operating grants	-	-	325,147
Tax revenue	-	-	-
Tax expense	(20,141)	-	-
Interest income	4,247	72,384	38,583
Net decrease in fair value of investments	(2,930)	(60,410)	(26,959)
Rental income	-	-	-
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	(18,824)	14,278	376,715
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(356,375)	(236,759)	(531,626)
Capital contributions	-	-	-
Transfers in	-	700,000	206,632
Transfers out	-	-	(114,356)
CHANGES IN NET POSITION	(356,375)	463,241	(439,350)
NET POSITION (DEFICIT), JULY 1	8,519,868	23,223,565	(1,772,155)
NET POSITION (DEFICIT), JUNE 30	$ 8,163,493	$ 23,686,806	$ (2,211,505)

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
$ 594,767	$ 2,236,100	$ 301,124	$ 117,677	$ 19,330,481
1,385	-	4,312	-	24,058
596,152	2,236,100	305,436	117,677	19,354,539
343,815	-	443,403	-	5,234,975
224,739	2,218,241	152,452	52,865	5,164,224
105,757	52,312	219,164	-	605,763
46,277	231,871	150,008	146	4,559,210
30,174	34,782	27,697	-	264,086
144,929	-	120,468	-	2,004,893
93,827	109,665	82,653	5,718	3,173,510
31,639	45,346	2,957	-	440,394
738,580	51,227	752,830	-	2,662,590
1,759,737	2,743,444	1,951,632	58,729	24,109,645
(1,163,585)	(507,344)	(1,646,196)	58,948	(4,755,106)
-	-	-	-	42,248
303,449	-	-	-	628,596
199,124	-	-	-	199,124
(508)	-	-	-	(20,649)
3,383	(9,980)	-	5,452	114,069
(2,548)	(13,613)	-	(3,567)	(110,027)
125,838	95,722	462,031	-	683,591
-	(151,666)	-	-	(151,666)
-	(3,638)	-	-	(3,638)
628,738	(83,175)	462,031	1,885	1,381,648
(534,847)	(590,519)	(1,184,165)	60,833	(3,373,458)
1,773,826	-	-	-	1,773,826
-	701,652	535,492	-	2,143,776
-	-	-	-	(114,356)
1,238,979	111,133	(648,673)	60,833	429,788
12,001,864	(1,570,687)	7,477,609	584,789	48,464,853
$ 13,240,843	$ (1,459,554)	$ 6,828,936	$ 645,622	$ 48,894,641

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Parking	Storm Drain	Compost
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	$ 1,280,067	$ 5,887,091	$ 8,748,439
Receipts from interfund services provided	-	50,277	-
Payments to suppliers	(366,794)	(1,829,340)	(1,265,975)
Payments to employees	(575,479)	(712,422)	(4,956,782)
Payments for interfund services used	(251,915)	(3,351,516)	(2,826,605)
Net cash provided (used) by operating activities	85,879	44,090	(300,923)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	-	-	325,147
Taxes received	-	-	-
Transfers in	-	700,000	206,632
Transfers out	-	-	(114,356)
Payments on advances from other funds	-	-	(34,200)
Net cash provided (used) by noncapital financing activities	-	700,000	383,223
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(176,702)	(521,115)	(55,961)
Proceeds from sale of capital assets	-	2,304	42,769
Principal repayments	-	-	-
Interest paid	-	-	-
Trustee fees	-	-	-
Capital contributions	-	-	-
Net cash provided (used) by capital and related financing activities	(176,702)	(518,811)	(13,192)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received (paid)	4,348	71,883	39,791
Net increase in the fair value of investments	(2,930)	(60,410)	(26,959)
Rental income received	-	-	-
Net cash provided (used) by investing activities	1,418	11,473	12,832
Net increase (decrease) in cash and cash equivalents	(89,405)	236,752	81,940
CASH AND CASH EQUIVALENTS, JULY 1	543,659	10,247,016	4,218,222
CASH AND CASH EQUIVALENTS, JUNE 30	$ 454,254	$ 10,483,768	$ 4,300,162
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	$ 454,254	$ 10,483,768	$ 4,300,162
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	$ 454,254	$ 10,483,768	$ 4,300,162

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
$ 1,680,743	$ 2,449,342	$ 345,059	$ 133,640	$ 20,524,381
-	-	-	-	50,277
(1,479,346)	(2,428,771)	(471,113)	(78,153)	(7,919,492)
(491,170)	1,535	(568,849)	-	(7,303,167)
(269,525)	(237,375)	(180,154)	-	(7,117,090)
(559,298)	(215,269)	(875,057)	55,487	(1,765,091)
303,449	-	-	-	628,596
199,124	-	-	-	199,124
-	701,652	535,492	-	2,143,776
-	-	-	-	(114,356)
-	-	-	-	(34,200)
502,573	701,652	535,492	-	2,822,940
(1,836,361)	-	(40,006)	-	(2,630,145)
-	-	-	-	45,073
-	(340,000)	-	-	(340,000)
-	(117,776)	-	-	(117,776)
-	(3,638)	-	-	(3,638)
1,773,826	-	-	-	1,773,826
(62,535)	(461,414)	(40,006)	-	(1,272,660)
3,293	(49,234)		5,263	75,344
(2,548)	(13,613)	-	(3,567)	(110,027)
125,838	95,722	462,031	-	683,591
126,583	32,875	462,031	1,696	648,908
7,323	57,844	82,460	57,183	434,097
1,410,897	627,142	44,214	583,528	17,674,678
$ 1,418,220	$ 684,986	$ 126,674	$ 640,711	$ 18,108,775
$ 1,418,220	$ -	$ 126,674	$ 640,711	$ 17,423,789
-	684,986	-	-	684,986
$ 1,418,220	$ 684,986	$ 126,674	$ 640,711	$ 18,108,775

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2017

	Parking	Storm Drain	Compost
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	$ (337,551)	$ (251,037)	$ (908,341)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	448,424	521,532	149,997
Taxes paid	(20,141)	-	-
Change in assets, liabilities, and deferred resources:			
(Increase) decrease in accounts receivable	(4,202)	1,864	(111,140)
Increase in taxes receivable	-	-	-
(Increase) decrease in utilities receivable	-	17,791	(50,174)
(Increase) decrease in due from other governments	-	(1)	(11,972)
Increase (decrease) in accounts payable	1,717	(222,987)	659,056
Decrease in inventories	-	-	-
(Increase) decrease in prepaid expenses	(299)	(21,248)	654
Increase (decrease) in accrued salaries and benefits	697	(4,545)	(22,594)
Decrease in net pension liability and deferred resources	(2,766)	(4,005)	(24,217)
Increase in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	6,726	17,808
Total adjustments	423,430	295,127	607,418
Net cash provided (used) by operating activities	$ 85,879	$ 44,090	$ (300,923)

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
$ (1,163,585)	$ (507,344)	$ (1,646,196)	$ 58,948	$ (4,755,106)
738,580	51,227	752,830	-	2,662,590
(508)	-	-	-	(20,649)
6,146	26,457	39,623	6,618	(34,634)
(1,752)	-	-	-	(1,752)
-	-	-	-	(32,383)
1,075,575	-	-	-	1,063,602
(1,215,742)	(36,623)	(16,565)	(19,424)	(850,568)
-	1,804	-	-	1,804
(208)	60,890	229	-	40,018
97	1,535	(2,905)	-	(27,715)
(2,523)	-	(2,073)	-	(35,584)
-	187,646	-	-	187,646
4,622	(861)	-	9,345	37,640
604,287	292,075	771,139	(3,461)	2,990,015
$ (559,298)	$ (215,269)	$ (875,057)	$ 55,487	$ (1,765,091)

Internal Service Funds

Internal Service Funds are established to finance and account for services and commodities furnished by a designated agency of a governmental unit to other departments of the same governmental unit. Since the services and commodities are supplied exclusively to other departments of a governmental jurisdiction, they are distinguishable from those public services which are rendered to the public in general and which are accounted for in General, Special Revenue, or Enterprise Funds. Internal Service Funds include:

FLEET MANAGEMENT FUND – To provide the maintenance necessary for the City's equipment pool, which serves the needs of all City departments.

CENTRAL SERVICES FUND – To provide office supplies, various maintenance and construction materials, records storage, and mail services to all City departments.

INFORMATION AND TECHNOLOGY SERVICES FUND – To finance and account for the replacement, upgrade and maintenance of the City's network and technology infrastructure, and to develop and implement a coordinated city-wide information technology plan.

INSURANCE FUND – To finance and account for the City's insurance and risk management programs.

EMPLOYEE BENEFITS MANAGEMENT FUND – To account for all compensated absences and other employee benefits. Insurance benefits for current employees are accounted for in the Insurance Fund.

BUILDING SERVICES FUND – To account for the true cost of occupying and maintaining office space, to better reflect the value of that space, and to accumulate amounts for future building repair costs.

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CITY OF MODESTO
COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS
JUNE 30, 2017

	Fleet Management	Central Services	Information & Technology Services
ASSETS			
Current assets:			
Cash and cash equivalents	$ 8,981,025	$ 1,561,495	$ 4,559,712
Receivables:			
Accounts	19,726	-	-
Interest	19,303	3,585	11,068
Prepaid expenses	584	182	1,896
Due from governments	-	-	-
Inventories	-	19,142	-
Total current assets	9,020,638	1,584,404	4,572,676
Noncurrent assets:			
Advances to other funds	-	-	-
Restricted assets - cash and cash equivalents	-	-	-
Restricted assets - cash from fiscal agent	-	-	-
Land and construction in progress	1,167,334	-	1,320,900
Other capital assets, net of accumulated depreciation	12,518,430	66,385	4,084,368
Total noncurrent assets	13,685,764	66,385	5,405,268
Total assets	22,706,402	1,650,789	9,977,944
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	741,185	79,659	1,159,212
Total assets and deferred outflows of resources	$ 23,447,587	$ 1,730,448	$ 11,137,156
LIABILITIES			
Current liabilities:			
Accounts payable	$ 153,342	$ 4,387	$ 241,964
Accrued salaries and benefits	42,628	1,083	61,256
Unearned revenue	14,335	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Total current liabilities	210,305	5,470	303,220
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB obligation	-	-	-
Net pension liability	3,139,056	441,856	5,111,605
Total liabilities	3,349,361	447,326	5,414,825
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	181,585	42,312	366,037
NET POSITION			
Net investment in capital assets	13,685,764	66,385	5,405,268
Restricted	-	-	-
Unrestricted	6,230,877	1,174,425	(48,974)
Total net position	19,916,641	1,240,810	5,356,294
Total liabilities, deferred inflows of resources, and net position	$ 23,447,587	$ 1,730,448	$ 11,137,156

Insurance	Employee Benefits Management	Building Services	Total
$ 12,015,889	$ -	$ 883,360	$ 28,001,481
1,261,189	33,750	-	1,314,665
116,565	18,997	2,053	171,571
488,826	-	-	491,488
-	-	45,291	45,291
-	-	-	19,142
13,882,469	52,747	930,704	30,043,638
-	88,647	-	88,647
-	8,814,712	-	8,814,712
150,262	-	-	150,262
-	-	-	2,488,234
-	-	81,851	16,751,034
150,262	8,903,359	81,851	28,292,889
14,032,731	8,956,106	1,012,555	58,336,527
151,798	59,721	188,905	2,380,480
$ 14,184,529	$ 9,015,827	$ 1,201,460	$ 60,717,007
$ 531,080	$ 35,734	$ 115,370	$ 1,081,877
8,583	2,888	10,613	127,051
82,051	-	-	96,386
-	3,176,739	-	3,176,739
5,682,904	-	-	5,682,904
6,304,618	3,215,361	125,983	10,164,957
-	5,965,142	-	5,965,142
22,201,877	-	-	22,201,877
-	54,499,384	-	54,499,384
604,712	334,996	701,138	10,333,363
29,111,207	64,014,883	827,121	103,164,723
40,096	26,849	13,310	670,189
-	-	81,851	19,239,268
-	8,814,712	-	8,814,712
(14,966,774)	(63,840,617)	279,178	(71,171,885)
(14,966,774)	(55,025,905)	361,029	(43,117,905)
$ 14,184,529	$ 9,015,827	$ 1,201,460	$ 60,717,007

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Fleet Management	Central Services
OPERATING REVENUES:		
Charges for services	$ 6,964,494	$ 16,695
Sales	-	1,486,322
Total operating revenues	6,964,494	1,503,017
OPERATING EXPENSES:		
Salaries and wages	1,286,378	140,666
Cost of sales	-	1,111,541
Contractual services	2,067,722	75,131
Utilities	3,964	656
Maintenance and supplies	1,587,341	132,617
Insurance	68,735	4,022
Claims	-	-
Employee benefits	575,954	65,354
Administration services	346,444	30,500
Allocated indirect administrative costs	274,466	-
Depreciation	2,372,920	11,370
Total operating expenses	8,583,924	1,571,857
OPERATING INCOME (LOSS)	(1,619,430)	(68,840)
NONOPERATING REVENUES (EXPENSES):		
Gain (loss) on disposition of capital assets	37,426	5,487
Interest income	78,983	14,626
Net decrease in fair value of investments	(53,073)	(9,749)
Total nonoperating revenues (expenses)	63,336	10,364
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,556,094)	(58,476)
Capital contributions	22,242	-
Transfers in	112,824	-
Transfers out	(154,722)	(16,126)
CHANGES IN NET POSITION	(1,575,750)	(74,602)
NET POSITION (DEFICIT), JULY 1	21,492,391	1,315,412
NET POSITION (DEFICIT), JUNE 30	$ 19,916,641	$ 1,240,810

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
$ 4,761,759	$ 21,861,923	$ 3,390,609	$ 2,785,311	$ 39,780,791
-	-	-	-	1,486,322
4,761,759	21,861,923	3,390,609	2,785,311	41,267,113
2,304,356	319,865	101,879	428,997	4,582,141
-	-	-	-	1,111,541
861,795	601,125	184,399	1,786,086	5,576,258
103,289	233	-	152,815	260,957
874,195	7,914	15,692	66,134	2,683,893
29,146	16,246,164	2,286	5,309	16,355,662
-	13,619,346	-	-	13,619,346
849,529	220,150	2,378,365	155,269	4,244,621
28,565	29,817	33,286	175,123	643,735
-	-	-	-	274,466
640,913	-	-	3,059	3,028,262
5,691,788	31,044,614	2,715,907	2,772,792	52,380,882
(930,029)	(9,182,691)	674,702	12,519	(11,113,769)
(6,113)	-	-	-	36,800
44,839	436,840	76,777	8,015	660,080
(31,939)	(277,156)	(52,278)	(5,391)	(429,586)
6,787	159,684	24,499	2,624	267,294
(923,242)	(9,023,007)	699,201	15,143	(10,846,475)
-	-	-	-	22,242
167,365	-	-	748	280,937
(142,360)	-	(618,091)	-	(931,299)
(898,237)	(9,023,007)	81,110	15,891	(11,474,595)
6,254,531	(5,943,767)	(55,107,015)	345,138	(31,643,310)
$ 5,356,294	$ (14,966,774)	$ (55,025,905)	$ 361,029	$ (43,117,905)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Fleet Management	Central Services	Information & Technology Services
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	$ 295,386	$ -	$ -
Receipts from interfund services provided	6,672,154	1,503,017	4,761,759
Payments to suppliers	(3,722,136)	(1,211,902)	(1,924,423)
Payment of insurance claims	-	-	-
Payments to employees	(1,871,324)	(212,099)	(3,178,681)
Payments for interfund services used	(1,207,555)	(115,809)	(119,798)
Net cash provided (used) by operating activities	166,525	(36,793)	(461,143)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Receipts on advances to other funds	-	-	-
Transfers in	112,420	-	167,365
Transfers out	-	(14,974)	(142,360)
Net cash provided (used) by noncapital financing activities	112,420	(14,974)	25,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,816,066)	(19,324)	(1,210,187)
Proceeds from sale of capital assets	193,262	5,825	-
Net cash provided (used) by capital and related financing activities	(2,622,804)	(13,499)	(1,210,187)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	78,754	14,436	47,516
Net increase in the fair value of investments	(53,073)	(9,749)	(31,939)
Net cash provided by investing activities	25,681	4,687	15,577
Net increase (decrease) in cash and cash equivalents	(2,318,178)	(60,579)	(1,630,748)
CASH AND CASH EQUIVALENTS, JULY 1	11,299,203	1,622,074	6,190,460
CASH AND CASH EQUIVALENTS, JUNE 30	$ 8,981,025	$ 1,561,495	$ 4,559,712
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	$ 8,981,025	$ 1,561,495	$ 4,559,712
Restricted cash and cash equivalents	-	-	-
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	$ 8,981,025	$ 1,561,495	$ 4,559,712

Insurance	Employee Benefits Management	Building Services	Total
$ -	$ 517,177	$ 675,930	$ 1,488,493
22,067,061	2,873,432	2,082,933	39,960,356
(18,211,754)	(184,193)	(1,859,068)	(27,113,476)
(9,331,096)	-	-	(9,331,096)
(542,593)	(3,835,575)	(588,109)	(10,228,381)
(56,040)	(57,835)	(320,988)	(1,878,025)
(6,074,422)	(686,994)	(9,302)	(7,102,129)
-	75,000	-	75,000
-	-	-	279,785
-	-	-	(157,334)
	75,000	-	197,451
-	-	-	(4,045,577)
-	-	-	199,087
-	-	-	(3,846,490)
409,958	77,515	7,970	636,149
(277,156)	(52,278)	(5,391)	(429,586)
132,802	25,237	2,579	206,563
(5,941,620)	(586,757)	(6,723)	(10,544,605)
18,107,771	9,401,469	890,083	47,511,060
$ 12,166,151	$ 8,814,712	$ 883,360	$ 36,966,455
$ 12,015,889	$ -	$ 883,360	$ 28,001,481
-	8,814,712	-	8,814,712
150,262	-	-	150,262
$ 12,166,151	$ 8,814,712	$ 883,360	$ 36,966,455

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2017

	Fleet Management	Central Services
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (1,619,430)	$ (68,840)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,372,920	11,370
Change in assets, liabilities, and deferred resources:		
(Increase) decrease in accounts receivable	(11,289)	-
Increase in due from governments	-	-
(Increase) decrease in prepaid expenses	7,820	3,247
Decrease in inventories	-	314,097
Increase (decrease) in accounts payable	(588,839)	(290,588)
Increase (decrease) in accrued salaries and benefits	3,052	(4,994)
Increase in compensated absences	-	-
Decrease in net OPEB obligation	-	-
Decrease in net pension liability and deferred resources	(12,044)	(1,085)
Increase in unearned revenue	14,335	-
Increase in claims liability	-	-
Total adjustments	1,785,955	32,047
Net cash provided (used) by operating activities	$ 166,525	$ (36,793)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital asset transfers	$ (154,318)	$ (1,152)
Interfund loan transfer correction	-	-

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
$ (930,029)	$ (9,182,691)	$ 674,702	$ 12,519	$ (11,113,769)
640,913	-	-	3,059	3,028,262
-	180,205	-	-	168,916
-	-	-	(26,448)	(26,448)
264,447	(484,614)	-	116	(208,984)
-	-	-	-	314,097
(411,678)	(897,927)	(6,365)	5,295	(2,190,102)
(6,326)	(23)	(14,515)	(588)	(23,394)
-	-	351,931	-	351,931
-	-	(1,691,947)	-	(1,691,947)
(18,470)	(2,555)	(800)	(3,255)	(38,209)
-	24,933	-	-	39,268
-	4,288,250	-	-	4,288,250
468,886	3,108,269	(1,361,696)	(21,821)	4,011,640
$ (461,143)	$ (6,074,422)	$ (686,994)	$ (9,302)	$ (7,102,129)
$	$ -	$ -	$ 748	$ (154,722)
	-	(618,091)	-	(618,091)

AGENCY FUNDS

Agency Funds account for assets held by the City as an agent for individuals, governmental entities and non-public organizations.

SPECIAL DISTRICTS - To account for collection of special district assessments from property owners and forwarding these collections to trustees for payment to bondholders.

TUOLUMNE RIVER REGIONAL PARK - To account for cash and investments of the Tuolumne River Regional Park, a joint powers agency between the City of Modesto, Stanislaus County and City of Ceres. The agency provides financing, development, and maintenance of the Tuolumne River Regional Park facilities. The cash and investments of the Park are invested as part of the City's investment pool.

STANISLAUS DRUG ENFORCEMENT AGENCY - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, Riverbank, and Waterford. The agency's purpose is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. Cash and investments of the Agency are invested in the City's investment pool.

MODESTO-CERES FIRE PROTECTION AGENCY - To record and distribute the special assessments for fire protection that were established under the Industrial Fire District. This is a joint powers agency between the Modesto Regional Fire Authority, the City of Ceres, and the Industrial Fire District. Cash and investments of the Agency are invested in the City's investment pool.

CITY/COUNTY JOINT POWERS FINANCING AUTHORITY - To account for cash and investments of the City/County Capital Improvements and Financing Agency, a joint powers agency between the City of Modesto and Stanislaus County. The agency builds and maintains a joint City-County government complex in downtown Modesto. The cash and investments of the Agency are invested as part of the City's investment pool.

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CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Special Districts				
ASSETS				
Cash and cash equivalents	$ 680,457	$ 1,856,688	$ 2,071,544	$ 465,601
Cash and cash equivalents with fiscal agent	2,936,138	2,042,710	2,036,369	2,942,479
	$ 3,616,595	$ 3,899,398	$ 4,107,913	$ 3,408,080
LIABILITIES				
Due to special district bondholders	$ 3,616,595	$ 3,899,398	$ 4,107,913	$ 3,408,080
Tuolumne River Regional Park				
ASSETS				
Cash and cash equivalents	$ 22,126	$ 1,363,804	$ 1,378,975	$ 6,955
LIABILITIES				
Deposits held as agent for others	$ 22,126	$ 1,363,804	$ 1,378,975	$ 6,955
Stanislaus Drug Enforcement Agency				
ASSETS				
Cash and cash equivalents	$ 2,616,832	$ 2,030,376	$ 2,309,594	$ 2,337,614
LIABILITIES				
Deposits held as agent for others	$ 2,616,832	$ 2,030,376	$ 2,309,594	$ 2,337,614
Modesto-Ceres Fire Protection Agency				
ASSETS				
Cash and cash equivalents	$ 207,093	$ 575,926	$ 562,683	$ 220,336
LIABILITIES				
Deposits held as agent for others	$ 207,093	$ 575,926	$ 562,683	$ 220,336
City/County Joint Powers Financing Authority				
ASSETS				
Cash and cash equivalents	$ 18,631	$ 1,848	$ 117	$ 20,362
LIABILITIES				
Deposits held as agent for others	$ 18,631	$ 1,848	$ 117	$ 20,362
Totals - All Agency Funds				
ASSETS				
Cash and cash equivalents	$ 3,545,139	$ 5,828,642	$ 6,322,913	$ 3,050,868
Cash and cash equivalents with fiscal agent	2,936,138	2,042,710	2,036,369	2,942,479
	$ 6,481,277	$ 7,871,352	$ 8,359,282	$ 5,993,347
LIABILITIES				
Due to special district bondholders	$ 3,616,595	$ 3,899,398	$ 4,107,913	$ 3,408,080
Deposits held as agent for others	2,864,682	3,971,954	4,251,369	2,585,267
	$ 6,481,277	$ 7,871,352	$ 8,359,282	$ 5,993,347

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STATISTICAL SECTION

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Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information to aid in understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends
These schedules contain trend information to help the reader understand how the City's financial performance has changed over time:

1. Net Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balances of Governmental Funds

Revenue Capacity
This schedule gives information on the City's most significant local revenue source, the water usage charges:

1. Water Utility System – Ten Largest Customers
2. Water revenues by customer class
3. Water rates

Debt Capacity
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Debt Margin
4. Revenue Bond Coverage, Wastewater Revenue Bonds

Demographic and Economic Information
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

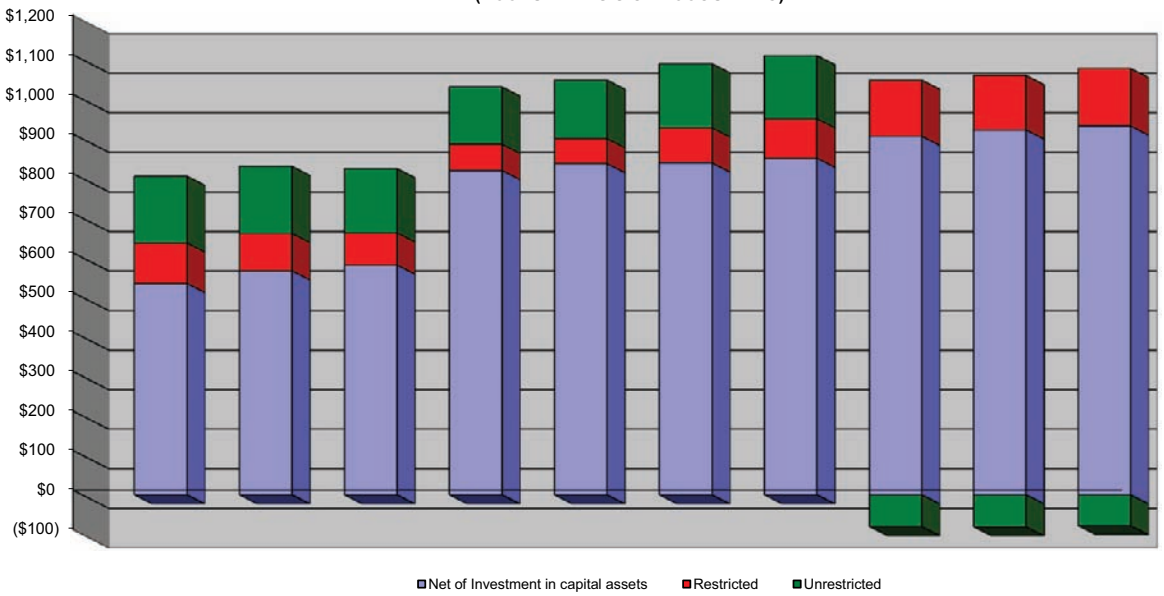
1. Demographic and Economic Statistics
2. Principal Employers
3. Principal Property Taxpayers

Operating Information
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time City Government Employees by Function
2. Operating Indicators by Function
3. Capital Asset Statistics by Function/Program

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

CITY OF MODESTO
NET POSITION BY COMPONENT (1)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)



	2008	2009	2010	2011	2012	2013	2014	2015 (2)	2016	2017
Governmental activities										
Net investment in capital assets	$339,396,266	$347,357,492	$329,592,169	$338,010,133	$362,755,958	$361,582,237	$347,647,419	$378,145,625	$381,887,289	$376,743,556
Restricted	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677	121,105,182	115,619,807	123,851,082
Unrestricted	4,627,884	(472,402)	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253	(179,570,210)	(173,275,294)	(191,483,628)
Total governmental activities net position	$446,626,848	$441,704,863	$425,520,463	$411,121,584	$421,927,689	$423,860,935	$434,379,349	$319,680,597	$324,231,802	$309,111,010
Business-type activities										
Net investment in capital assets	$194,435,373	$218,432,739	$251,025,494	$481,186,894	$473,757,198	$476,681,835	$502,684,950	$527,784,338	$539,821,175	$555,163,217
Restricted	-	-	-	-	-	25,571,860	22,398,957	20,622,619	22,052,595	21,525,961
Unrestricted	163,792,245	169,639,845	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831	99,450,370	92,324,550	113,595,981
Total business-type activities net position	$358,227,618	$388,072,584	$398,687,011	$619,220,041	$625,760,853	$665,135,994	$675,271,738	$647,857,327	$654,198,320	$690,285,159
Primary government										
Net investment in capital assets	$533,831,639	$565,790,231	$580,617,663	$819,197,027	$836,513,156	$838,264,072	$850,332,369	$905,929,963	$921,708,464	$931,906,773
Restricted	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634	141,727,801	137,672,402	145,377,043
Unrestricted	168,420,129	169,167,443	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084	(80,119,840)	(80,950,744)	(77,887,647)
Total primary government net position	$804,854,466	$829,777,447	$824,207,474	$1,030,341,625	$1,047,688,542	$1,088,996,929	$1,109,651,087	$967,537,924	$978,430,122	$999,396,169

1) Accounting standards require that net position be reported in three components in the financial statements: net investment in capital assets; restricted; and unrestricted. Net position is considered restricted when a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.
2) The significant decrease in net position was due to the implementation of GASB 68 related to the City's net pension liability.

CITY OF MODESTO
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	$15,997,582	$12,700,264	$12,093,091	$12,473,794	$14,236,573	$12,041,953	$11,221,704	$12,085,051	$12,838,583	$13,945,824
Community development	14,619,525	14,694,997	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466	11,888,475	12,552,115	15,419,529
Highways and streets	26,436,475	23,682,253	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315	21,269,704	20,149,011	22,481,002
Public works	11,471,344	9,151,786	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135	9,810,989	10,749,465	13,169,149
Parks and recreation	14,264,334	15,070,007	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816	4,641,611	3,493,743	3,947,898
Public safety	88,651,249	84,395,987	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682	86,782,741	86,907,876	104,348,464
Interest on long-term debt	4,998,482	6,114,875	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471	3,204,203	2,691,894	2,500,849
Total governmental activities expenses	176,438,991	165,810,169	160,724,324	169,584,766	154,610,734	161,882,262	135,701,589	149,682,774	149,382,687	175,812,715
Business-type activities:										
Water	1,982,066	2,011,386	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829	54,718,239	59,127,625	63,008,231
Sewer	36,713,351	38,190,214	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896	30,281,361	33,093,921	36,248,877
Bus	23,974,989	22,416,713	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568	18,614,175	19,709,745	21,979,360
Parking	6,349,113	6,140,963	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418	1,513,185	1,625,943	1,628,226
Storm drain	1,312,511	1,130,816	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441	3,913,204	5,312,896	6,119,472
Compost	1,444,667	1,682,644	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222	7,841,048	11,998,345	9,648,481
Airport	14,834,612	15,210,224	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547	2,025,146	1,787,081	1,744,557
Golf	2,497,161	2,440,599	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109	2,998,505	3,130,536	2,871,167
Community center	2,465,825	2,303,256	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928	1,852,585	1,981,307	1,934,179
Abatement and public nuisance	-	-	-	-	34,609	42,879	31,877	93,067	84,152	51,624
Total business-type activities expenses	91,574,295	91,526,815	102,592,957	100,926,439	118,931,429	106,319,598	135,142,835	123,850,515	137,851,551	145,234,174
Total primary government expenses	$268,013,286	$257,336,984	$263,317,281	$270,511,205	$273,542,163	$268,201,860	$270,844,424	$273,533,289	$287,234,238	$321,046,889
Program revenues										
Governmental activities:										
Charges for services:										
General government	$6,726,893	$6,987,127	$6,323,865	$6,804,398	$6,799,202	$6,262,963	$5,825,407	$5,912,157	$6,539,908	$5,082,405
Community development	7,869,742	4,788,324	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984	3,385,050	6,885,850	10,378,999
Highway and streets	5,804,342	8,222,178	2,801,213	3,179,788	4,178,567	761,394	873,566	1,744,505	1,154,290	1,101,813
Public works	5,110,428	1,349,956	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641	6,621,704	5,469,419	5,908,332
Parks and recreation	5,590,196	4,006,123	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001	1,344,923	771,733	1,614,443
Public safety	4,868,612	4,625,935	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758	4,218,000	3,868,346	4,847,914
Operating grants and contributions	14,221,390	11,424,548	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684	5,862,566	3,630,185	5,050,771
Capital grants and contributions	17,930,957	6,595,213	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154	5,878,550	1,708,602	2,117,867
Total government activities program revenues	$68,122,560	$47,999,404	$51,211,051	$52,903,515	$44,684,839	$47,529,401	$35,586,195	$34,967,455	$30,028,333	$36,102,544
Business-type activities:										
Charges for services:										
Water	$1,297,484	$1,256,360	$1,239,995	$1,274,482	$1,291,401	$1,169,293	$1,092,347	$59,800,535	$55,992,533	$69,075,873
Sewer	51,679,042	53,218,692	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110	46,193,997	47,859,680	49,905,078
Bus	29,340,615	35,854,857	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304	3,424,662	3,352,615	3,253,046
Parking	5,338,838	5,301,150	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133	1,239,439	1,289,211	1,284,269
Storm drain	1,075,032	1,397,708	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133	5,874,349	5,588,169	5,910,988
Compost	593,349	661,524	675,565	1,019,177	619,689	619,904	634,530	7,191,145	7,352,767	8,903,917
Airport	3,182,762	2,944,108	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504	551,373	622,383	596,152
Golf	2,124,672	1,984,769	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280	2,574,496	2,431,904	2,236,100
Community center	532,471	492,989	489,562	433,460	420,059	263,581	230,801	257,991	326,839	305,436
Abatement and public nuisance	-	-	-	-	71,567	302,563	201,825	128,636	166,641	117,677
Operating grants and contributions	12,459,707	11,462,346	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179	14,223,954	14,153,568	15,975,703
Capital grants and contributions	9,793,356	4,527,875	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940	13,820,127	4,753,223	19,617,513
Total business-type activities program revenue	117,417,328	119,102,378	122,819,204	129,867,659	141,587,253	143,601,683	143,023,086	155,280,704	143,889,533	177,181,752
Total primary government program revenues	$185,539,888	$167,101,782	$174,030,255	$182,771,174	$186,272,092	$191,131,084	$178,609,281	$190,248,159	$173,917,866	$213,284,296
Net (Expense)/Revenue										
Governmental activities	($108,316,431)	($117,810,765)	($109,513,273)	($116,681,251)	($109,925,895)	($114,352,861)	($100,115,394)	($114,715,319)	($119,354,354)	($139,710,171)
Business-type activities	25,843,033	27,575,563	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251	31,430,189	6,037,982	31,947,578
Total primary government net expense	($82,473,398)	($90,235,202)	($89,287,026)	($87,740,031)	($87,270,071)	($77,070,776)	($92,235,143)	($83,285,130)	($113,316,372)	($107,762,593)

(continued)

City of Modesto
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011 (1)	2012	2013	2014	2015 (5)	2016	2017
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Utility users tax	$ 19,173,295	$ 19,093,222	$ 19,117,518	$ 19,119,037	$ 19,230,879	$ 20,399,116	$ 20,153,653	$ 19,591,170	$ 19,564,921	$ 20,113,023
Property taxes, levied for general purposes (2)	16,202,587	13,863,471	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010	13,551,827	14,552,304	15,384,518
Property taxes, generated by and allocated to the airport	5,813,822	6,228,634	6,521,515	5,750,235	2,884,357	-	-	-	-	-
Transient occupancy tax	2,038,255	1,853,732	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825	2,097,952	2,523,087	2,669,484
Franchise tax	7,735,131	4,779,854	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130	5,768,146	6,194,733	6,431,223
Business license tax, levied for general purposes	9,680,721	9,330,563	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820	11,421,759	11,944,291	12,255,062
Business license tax, levied for downtown improvement district	202,100	196,253	169,471	172,520	177,026	170,222	181,689	188,247	186,123	192,540
Grants and contributions not restricted to specific programs:										
Sales tax (state appropriation)	26,305,982	24,578,230	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939	28,437,594	29,878,815	30,204,125
Motor vehicle license fee	16,856,108	15,255,503	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642	13,871,248	14,548,427	15,385,069
Gas tax funding	-	-	-	-	-	-	-	5,924,101	4,533,572	3,968,029
Community facilities district fees	-	-	-	-	-	-	-	4,570,403	3,829	1,830
Special assessments, levied	-	-	-	-	-	-	-	1,924,623	3,168,260	3,014,768
Proceeds from Modesto Regional Fire Authority dissolution	-	-	-	-	-	-	-	2,500,721	-	-
Other	917,347	3,285,651	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250	25,866,105	13,101,149	15,842,047
Unrestricted investment earnings	9,960,367	5,247,506	1,211,702	696,848	(411,571)	52,893	441,383	564,314	582,565	362,856
Miscellaneous	3,469,916	5,809,581	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480	2,281,008	2,440,696	515,206
Transfers	(779,437)	(5,490,881)	402,303	1,503,170	2,838,873	1,055,670	(41,312)	(775,377)	(567,177)	(1,750,401)
Total government activities	117,576,194	104,031,319	94,255,297	103,146,840	104,930,663	104,999,196	111,314,509	137,783,841	122,655,595	124,589,379
Business-type activities:										
Taxes:										
Property taxes, generated by and allocated to the airport	182,031	202,460	265,587	309,699	253,974	257,687	254,200	237,546	206,854	199,124
Business license tax, generated by and allocated to the airport	19,188	-	-	-	-	-	-	-	-	-
Unrestricted investment earnings	7,099,765	6,227,615	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148	554,180	2,247,061	872,935
Connection fees (3)	-	-	-	-	-	1,200,800	524,914	-	-	-
Miscellaneous	-	253,032	-	-	-	-	-	1,214,729	1,368,761	1,316,801
Settlements	779,437	5,490,881	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317	13,851	-	-
Transfers, net	14,525,389	-	447,102	187,096	222,379	116,711	110,376	775,377	567,177	1,750,401
Special item (4)	(625,620)	(2,211,514)	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)	-	-	-
Total business-type activities	21,980,190	9,962,474	2,140,031	213,732	(1,092,706)	560,693	2,300,537	2,795,683	4,389,853	4,139,261
Total primary government	$139,556,384	$113,993,793	$96,395,328	$103,360,572	$103,837,957	$105,559,889	$113,615,046	$140,579,524	$127,045,448	$128,728,640
Change in Net Position										
Governmental activities	$9,259,763	($13,779,446)	($15,257,976)	($13,534,411)	($4,995,232)	($9,353,665)	$11,199,115	$23,068,522	$3,301,241	($15,120,792)
Business-type activities	47,823,223	37,538,037	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788	34,225,872	10,427,835	36,086,839
Total primary government	$57,082,986	$23,758,591	$7,108,302	$15,620,541	$16,567,886	$28,489,113	$21,379,903	$57,294,394	$13,729,076	$20,966,047

(1) The amount reported under utility users taxes and property taxes were keyed backwards in 2011. The amounts have been fixed to reflect the correct numbers in these two categories.
(2) Due to the dissolution of the Redevelopment agencies, no tax increments will be reported on the entity-wide statements.
(3) Starting in 2015, connection fee revenues were reported as part of program revenues for the Water fund.
(4) Starting in 2015, the special item related to pollution remediation has been reported as a liability. Any expenses incurred will be accounted for as a reduction to the liability.
(5) Starting in 2015, general revenues for grants and contributions not restricted to specific programs other related governmental activities were reclassified to provide more specific category revenue types.

CITY OF MODESTO
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011 (b)	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	$ 3,816,559	$ 3,568,273	$ 2,871,715	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved	11,942,168	11,185,485	10,103,645	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	123,061	126,603	102,152	2,770,844	2,647,692	2,515,146
Restricted	-	-	-	4,313,287	3,998,539	3,713,640	3,718,682	1,341,972	2,092,126	1,970,622
Committed	-	-	-	-	-	-	3,000,000	3,000,000	3,000,000	15,800,000
Assigned	-	-	-	458,415	519,051	1,173,377	1,024,149	3,119,753	6,503,769	4,854,307
Unassigned	-	-	-	10,215,682	10,806,111	11,758,746	12,069,864	14,586,931	12,822,134	4,509,693
Total General Fund	$ 15,758,727	$ 14,753,758	$ 12,975,360	$ 14,987,384	$ 15,446,762	$ 16,772,366	$ 19,914,847	$ 24,819,500	$ 27,065,721	$ 29,649,768
All Other Governmental Funds										
Reserved	$ 42,799,130	$ 39,607,945	$ 39,686,892	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved, reported in:										
Special revenue funds	8,746,111	12,808,809	6,867,750	-	-	-	-	-	-	-
Capital project funds	71,780,583	58,718,023	54,341,594	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	119	746	3,907	88,057	86,242	81,007
Restricted	-	-	-	118,919,268	109,145,041	106,724,809	108,672,378	79,643,971	80,563,574	85,531,411
Assigned	-	-	-	3,647,941	2,604,281	3,965,851	3,700,733	14,962,522	10,063,058	7,975,865
Unassigned	-	-	-	(23,614,308)	(18,852,239)	(32,965,286)	(34,656,617)	(3,866,450)	(724,841)	(3,156,679)
Total all other governmental funds	$ 123,325,824	$ 111,134,777	$ 100,896,236	$ 98,952,901	$ 92,897,202	$ 77,726,120	$ 77,720,401	$ 90,828,100	$ 89,988,033	$ 90,431,604

The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

Note: The City has elected to show ten years of data for this schedule.
(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

CITY OF MODESTO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes	$57,142,392	$55,345,729	$52,606,197	$52,068,220	$49,856,697	$50,034,153	$50,096,127	$52,619,101	$54,965,459	$57,045,850
Licenses and permits	153,545	132,459	138,811	139,073	131,302	175,720	174,734	149,888	186,624	201,445
Intergovernmental	71,179,504	63,606,634	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885	88,906,770	76,317,229	72,069,739
Charges for services	33,319,642	27,051,151	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298	22,337,357	20,429,860	24,454,286
Special assessments levied	35,294	37,299	38,520	1,852,529	1,860,905	1,781,896	2,063,784	1,924,623	3,168,260	3,014,768
Interest and rent	5,236,476	2,909,155	1,322,005	838,178	1,145,251	835,994	1,019,357	957,846	1,297,734	1,402,387
Net increase (decrease) in fair value of investments	1,404,913	860,820	399,322	(89,608)	(452,987)	(584,090)	(423,827)	(320,398)	102,422	(572,616)
Fines and forfeits	2,614,523	2,443,506	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607	1,171,076	904,802	1,263,407
Miscellaneous	3,469,916	5,809,581	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746	2,784,295	2,286,597	516,844
Total Revenues	174,556,205	158,196,334	144,321,053	156,249,438	145,111,923	151,867,461	146,312,711	170,530,558	159,658,987	159,396,110
Expenditures										
Current:										
General government	15,107,461	13,715,577	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579	11,334,202	12,414,982	11,542,131
Community development	13,820,295	14,137,095	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817	11,511,154	12,453,678	13,264,050
Highways and streets	12,549,018	9,721,445	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899	9,672,790	8,498,783	9,240,654
Public works	9,719,098	7,667,125	6,124,685	6,035,524	5,283,123	2,993,702	3,088,701	9,228,780	10,393,169	10,919,102
Parks and recreation	12,605,651	13,307,764	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862	4,212,301	3,385,484	3,269,360
Public safety	82,707,285	78,103,260	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533	81,353,131	84,022,670	86,475,891
Capital outlay	22,745,308	27,663,037	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002	30,339,677	19,817,025	21,431,186
Debt service:										
Principal retirement	2,265,000	1,093,000	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000	1,789,335	2,345,362	2,535,093
Interest	3,473,369	3,033,829	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672	2,417,840	2,043,278	2,075,202
Other	1,337,611	1,395,211	1,408,771	57,557	48,738	932,460	872,350	783,264	697,405	430,779
Total Expenditures	176,330,096	169,837,343	155,606,865	153,585,852	147,364,386	163,122,899	140,139,415	162,642,474	156,071,836	161,183,448
Excess of revenues over (under) expenditures	(1,773,891)	(11,641,009)	(11,285,812)	2,663,586	(2,252,463)	(11,255,438)	6,173,296	7,888,084	3,587,151	(1,787,338)
Other Financing Sources (Uses)										
Transfers in	24,429,880	19,237,526	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817	8,157,278	6,960,425	5,559,720
Transfers out	(22,579,265)	(18,149,564)	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)	(10,682,539)	(10,572,346)	(6,659,759)
Proceeds of loan payable	244,650	209,575	-	-	-	-	-	-	-	-
Proceeds of lease revenue bonds	-	65,170,000	-	-	-	-	-	-	-	-
Refunding of lease revenue bonds	-	(65,210,000)	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	1,070,472	330,947	5,883,756
Sale of assets	-	34,900	-	-	-	72,489	200,838	94,489	106,582	31,239
Payments to refunded debt escrow agent	-	(2,431,247)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	2,095,265	(1,138,810)	(56,691)	(2,511,977)	(2,839,203)	(114,150)	(3,001,339)	(1,360,300)	(3,174,392)	4,814,956
Extraordinary Items:										
RDA dissolution transactions	-	-	-	-	(403,850)	-	-	-	-	-
RDA advance receivable elimination	-	-	-	-	(966,127)	-	-	-	-	-
Total extraordinary items	-	-	-	-	(1,369,977)	-	-	-	-	-
Change in fund balances	321,374	(12,779,819)	(11,342,503)	151,609	(6,461,643)	(11,369,588)	3,171,957	6,527,784	412,759	3,027,618
FUND BALANCES, July 1	138,763,177	139,084,551	125,888,535	113,871,596	113,940,285	108,343,964	94,498,486	97,635,248	115,647,600	117,053,754
PRIOR PERIOD ADJUSTMENTS	-	(416,197)	(674,436)	(82,920)	865,322	(2,475,890)	(35,195)	11,484,568	993,395	
FUND BALANCES, June 30	$139,084,551	$125,888,535	$113,871,596	$113,940,285	$108,343,964	$94,498,486	$97,635,248	$115,647,600	$117,053,754	$120,081,372
Debt service as a percentage of noncapital expenditures	0.04830	0.04041	0.05695	0.04333	0.04696	0.03577	0.03775	0.03920	0.03877	0.03742

The debt service percentage was revised to only include principal and interest.

CITY OF MODESTO
REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE
WATER UTILITY SYSTEM
(YEAR ENDED JUNE 30, 2017)

Ten Largest Customers of Water Utility System, Year Ended 06/30/2017

Customer	Usage (ccf) (1)	% of Total Usage	Water Sales Revenue ($)	% of Total Water Sales Revenue
1) Modesto City Schools	347,228	1.70%	$ 796,932	1.36%
2) City of Modesto-Stores	274,205	1.34%	$ 796,192	1.36%
3) Stanislaus Food Products	385,849	1.88%	$ 650,097	1.11%
4) Foster Farms	322,837	1.58%	$ 567,002	0.97%
5) Seneca Foods	257,370	1.26%	$ 419,120	0.71%
6) Modesto Irrigation District	191,324	0.93%	$ 378,262	0.64%
7) Stanislaus Housing Authority	122,298	0.60%	$ 325,320	0.55%
8) Sunopta	171,687	0.84%	$ 308,870	0.53%
9) Yosemite Community College	99,435	0.49%	$ 237,710	0.40%
10) E & J Gallo	109,387	0.53%	$ 233,701	0.40%
Total Top Ten	2,281,620	11.14%	$ 4,713,206	8.03%

Total Flat/Metered Revenues (Water Sales) $ 58,728,175

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 06/30/2017

Residential - Flat Rates	$ 6,767,446
Commercial, Industrial and Municipal - Metered Rates	$ 51,960,729
Total Water Sales (2)	$ 58,728,175

Water Rates and Charges as of 07/01/2016

The average monthly flat rate service charge for residential customers is: $ 54.72

Commercial Accounts:

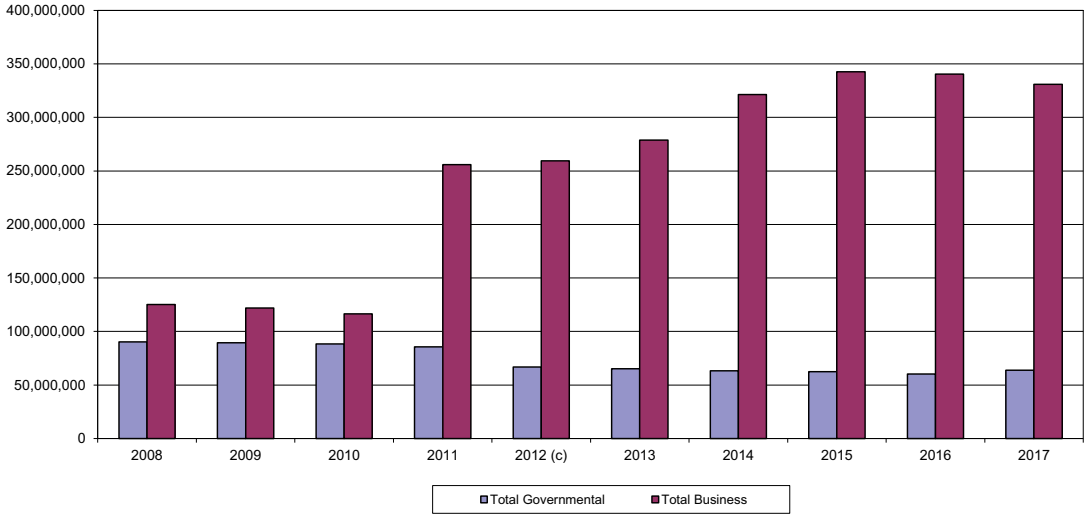
Meter Size	
3/4"	$ 20.79
1"	$ 29.30
1 1/2"	$ 50.58
2"	$ 76.11
3"	$ 156.98
4"	$ 276.14
6"	$ 561.28
8"	$ 1,029.42
10"	$ 1,625.23
12"	$ 2,135.93

In addition to these minimum charges, commercial accounts are charged $1.79 per 100 cubic feet of water used.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

Source:
City of Modesto-Utilities Division

CITY OF MODESTO
RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years



	Governmental Activities					
Fiscal Year	Loans Payable (h)	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2008	$ 693,788	$ 19,935,000	$ 65,210,000	$ 4,187,220	$ 137,392	$ 90,163,400
2009	903,362	19,000,000	65,170,000	3,999,252	454,401	89,527,015
2010	905,000	18,015,000	64,275,000	3,802,436	1,221,553	88,218,989
2011	905,030	16,975,000	63,255,000	3,594,658	975,955	85,705,643
2012 (c)	500,000	-	62,130,000	3,392,000	742,937	66,764,937
2013	500,000	-	60,870,000	3,201,000	502,622	65,073,622
2014	500,000	-	59,475,000	3,000,000	256,945	63,231,945
2015	500,000	-	57,970,000	2,789,000	1,070,472	62,329,472
2016	500,000	-	56,305,000	2,568,000	942,057	60,315,057
2017	500,000	-	54,470,000	2,335,000	6,358,720	63,663,720

	Business-Type Activities								
Fiscal Year	Loans Payable	Certificates of Participation	Reimbursement Agreement related to MID (e)	Revenue Bonds (b)	Capital Leases	Total (f)	Total Primary Government	Percentage of Personal Income (a) (e)	Per Capita (a) (e)
2008	$ 1,754,300	$ 71,915,000	-	$ 51,420,000	$ 77,485	$ 125,166,785	$ 215,330,185	3.76%	$ 1,025
2009	1,543,554	70,545,000	-	49,760,000	-	121,848,554	211,375,569	3.78%	999
2010	1,326,174	67,066,213	-	48,050,000	-	116,442,387	204,661,376	3.90%	1,017
2011 (d)	6,522,243	50,757,779	-	198,654,489	-	255,934,511	341,640,154	5.43%	1,693
2012 (d)	16,098,866	50,237,067	-	193,098,177	-	259,434,110	326,199,047	7.14%	1,584
2013	41,921,784	49,681,357	-	187,251,865	-	278,855,006	343,928,628	7.29%	1,663
2014	88,922,403	49,634,062	-	182,792,914	-	321,349,379	384,581,324	8.15%	1,860
2015	117,690,257	48,989,556	137,055,810	39,057,561	-	342,793,184	405,122,656	8.63%	1,937
2016 (g)	125,787,342	48,330,053	132,375,084	33,945,516	-	340,437,995	400,753,052	8.21%	1,891
2017	124,280,500	47,630,552	127,484,358	31,605,936	-	331,001,346	394,665,066	8.13%	1,859

(a) See Demographic and Economic Statistics for personal income and population data.
(b) The MID Treatment and Delivery issued by MID on behalf of the City has been reported as a City liability.
(c) The Certificates of Participation bonds for the Governmental Activities due to the dissolution of the Redevelopment Agency.
(d) In 2011, the OPEB was reported in the Certificates of Participation in error. In 2012 the Loans payable increase from the bond reimbursements related to the State Revolving loan approved for the construction of a new tertiary treatment plant.
(e) In 2015, the Reimbursement agreement with MID was reclassified from revenue bonds payable to reimbursement agreement related to MID since this long-term debt is listed under MID but is the City's liability due to nature of the treatment and delivery agreement.
(f) The total for Business-Type Activities did not include the capital leases in error. The total has been updated to account for this debt.
(g) Starting in 2016, the amounts presented include net of unamortized premiums or discounts.
(h) Starting in 2010, governmental activities loans payables were previously incorrectly reported as $1,638 less than they should have. The amounts here reflect corrected amounts.

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2017

Jurisdiction	Net Debt Outstanding (1)	Percentage Applicable to City of Modesto (2)	Amount Applicable to City of Modesto
Direct debt:			
City of Modesto	$ 63,663,720	100%	$ 63,663,720
Overlapping General Obligation debt - school districts:			
Ceres Unified School District	65,088,815	4.50%	2,927,561
Hart-Ransom Union School District	5,478,381	30.82%	1,688,691
Modesto Elementary School District	8,710,677	77.78%	6,775,554
Modesto High School District	34,857,498	67.70%	23,598,982
Paradise Elementary School District	365,000	0.00%	-
Salida Union Elementary District	410,000	28.99%	118,859
Stanislaus Union School District	28,609,931	74.54%	21,325,857
Sylvan School District	49,789,283	77.87%	38,768,708
Yosemite Community College District	282,693,267	33.60%	94,988,074
Total overlapping debt	476,002,852		190,192,286
Total direct and overlapping debt	$ 539,666,572		$ 253,856,006

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.

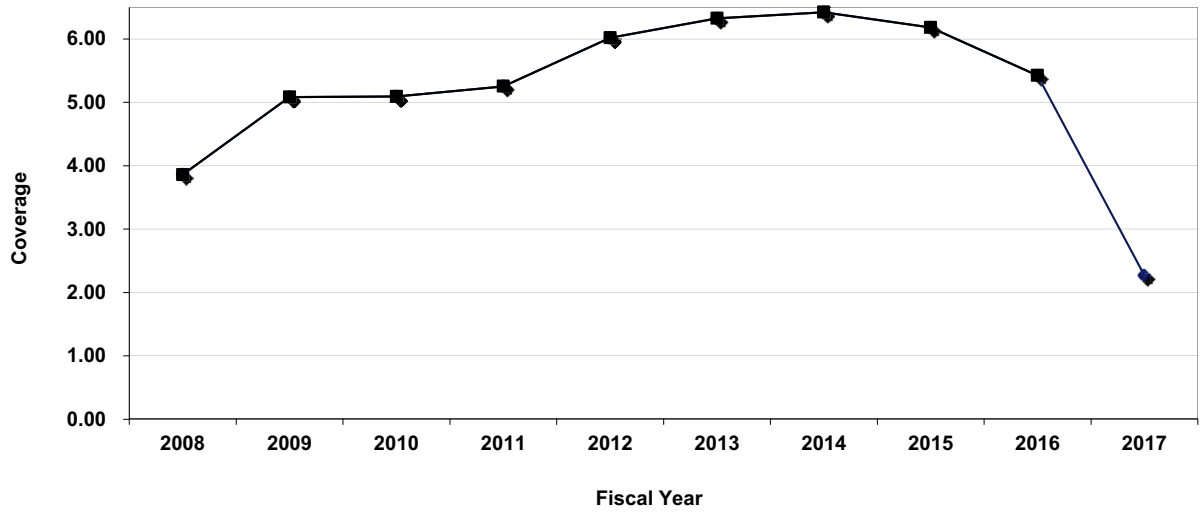
CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2017

Net assessed value (1)(3)			$ 14,678,535,296
Plus homeowners' exemption (1)(3)			201,745,315
Gross assessed value (1)(3)			$ 14,880,280,611
Debt limit - 15% of gross assessed value (2)			$ 2,232,042,092
Amount of debt applicable to debt limit:			
Total general bonded debt, including special assessment debt		$ -	
Less: Assets in debt service funds available for payment of principal	$ -		
Other deductions: Special assessment debt	-		
Total deductions		-	
Total amount of debt applicable to debt limit			-
Legal debt margin			$ 2,232,042,092

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
2008	2,327,946,572	-	2,327,946,572	0%
2009	2,138,574,915	-	2,138,574,915	0%
2010	1,945,371,241	-	1,945,371,241	0%
2011	1,856,710,771	-	1,856,710,771	0%
2012	1,823,551,939	-	1,823,551,939	0%
2013	1,724,049,678	-	1,724,049,678	0%
2014	1,825,518,342	-	1,825,518,342	0%
2015	2,017,621,335	-	2,017,621,335	0%
2016	2,120,160,392	-	2,120,160,392	0%
2017	2,232,042,092	-	2,232,042,092	0%

Note: The City has elected to show ten years worth of data for this schedule.
(1) Source: Stanislaus County Auditor
(2) Section 43605 California Government Code.
(3) Figures are based on Stanislaus County

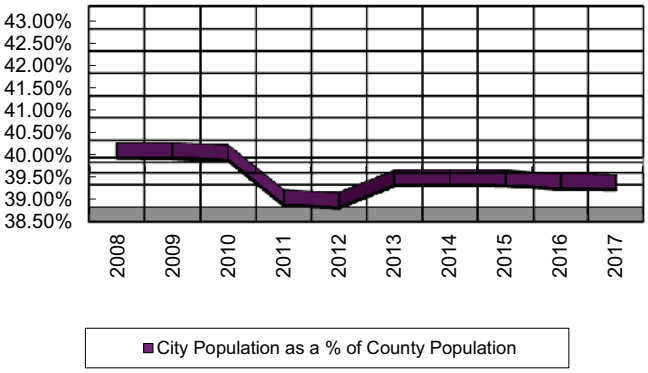
CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
LAST TEN FISCAL YEARS (4)

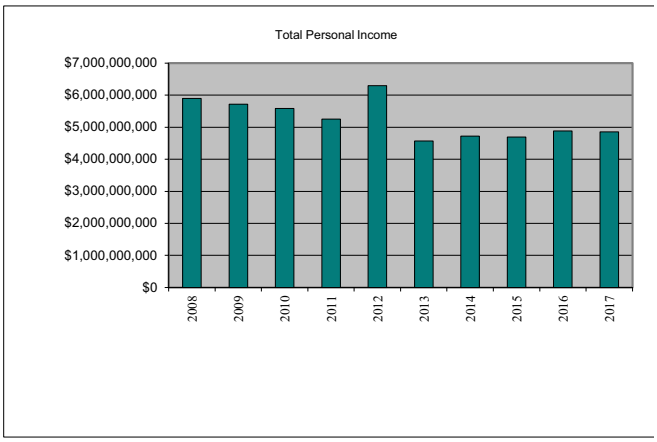


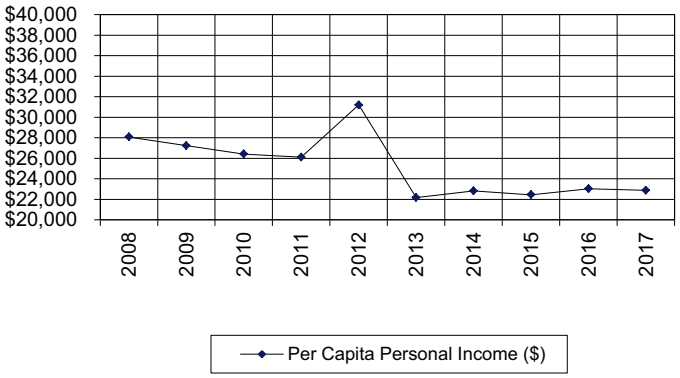
Fiscal Year	Gross Revenue (1)	Operating Expenses (2)(4)	Net Revenue Available for Debt Service	Debt Service Requirements(3)	Coverage
2008	$ 32,214,071	$ 16,280,914	$ 15,933,157	$ 4,127,837	3.86
2009	37,539,860	17,050,138	20,489,722	4,030,633	5.08
2010	39,086,504	18,161,292	20,925,212	4,110,221	5.09
2011	39,844,523	18,722,729	21,121,794	4,021,108	5.25
2012	43,453,216	19,287,894	24,165,322	4,014,808	6.02
2013	45,018,125	19,586,799	25,431,326	4,019,558	6.33
2014	47,233,028	19,860,430	27,372,598	4,261,980	6.42
2015	46,853,368	21,207,025	25,646,343	4,150,322	6.18
2016	50,207,559	25,418,140	24,789,419	4,570,286	5.42
2017	50,907,228	25,212,214	25,695,014	11,311,098	2.27

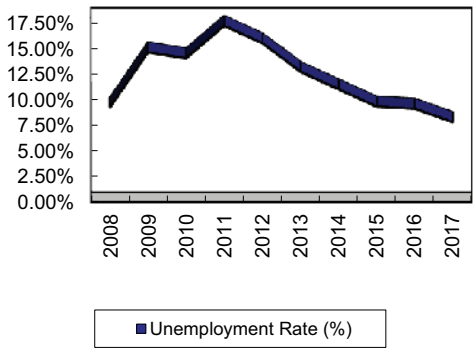
Notes: (1) Consists of all receipts of the Sewer fund not dedicated to capital spending purposes and including charges for services, connection fees, interest and rental income.
(2) Reflects total sewer fund operating expenses less depreciation; also includes certain transfers out that are made for operational costs incurred in other funds.
(3) Includes total principal and interest of Wastewater Refunding Revenue Bonds Series 2005 A and 2005 B and 2006 Wastewater Revenue Bonds. In fiscal year 2016-17, began repaying State Revolving Fund loan for Phase 2 - Tertiary Treatment Project debt service.
(4) The amount reported in 2014 was corrected from $28,203,399 to $19,860,430. The former amount included $8.4 million for the State Revolving Fund loan which should not have been included in the calculation.

CITY OF MODESTO
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS









Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income ($)	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
2008	209,936	5,895,212,816	28,081	9.20%	525,903	39.92%
2009	210,088	5,720,906,328	27,231	14.60%	526,383	39.91%
2010	211,536	5,586,877,296	26,411	14.02%	530,584	39.87%
2011	201,165	5,251,613,490	26,106	17.20%	517,685	38.86%
2012	201,761	6,294,337,917	31,197	15.50%	519,940	38.80%
2013	205,987	4,566,113,829	22,167	12.70%	524,124	39.30%
2014	206,785	4,719,247,270	22,822	11.00%	526,042	39.31%
2015	209,186	4,693,924,654	22,439	9.30%	532,297	39.30%
2016	211,903	4,880,973,702	23,034	9.10%	540,214	39.23%
2017	212,287	4,856,701,986	22,878	7.80%	541,466	39.21%

Source: State of California, Department of Finance (population)
State of California, Employment Development Department (unemployment rate)
U.S. Department of Commerce, Census Bureau (income)

CITY OF MODESTO
PRINCIPAL EMPLOYERS

	2016/17			2008/09		
Employer	Number of (1) Employees	Rank	Percentage of Total City Employment	Number of (1) Employees	Rank	Percentage of Total City Employment
Modesto City Schools				3,231	2	3.2%
Gallo Vineyards, Inc	3,000	1	1.31%			
Doctors Medical Center	2,260	2	0.99%	2,000	6	2.00%
Seneca				2,100	4	2.1%
Memorial Medical Center	2,056	3	0.90%	2,071	3	2.00%
Carlo Rossi Winery	2,000	4	0.87%			
E & J Gallo	2,000	4	0.87%	3,250	1	2.00%
Ecco Domani Winery	2,000	4	0.87%			
Peter Vella Winery	2,000	4	0.87%			
Zabaco Winery	2,000	4	0.87%			
Stanislaus Food Products				1,600	8	1.6%
Kaiser Permanente Modesto				1,500	9	1.5%
DelMonte Foods, Inc	1,500	5	0.65%	2,000	5	2.00%
City of Modesto	1,219	6	0.53%	1,239	10	1.2%
Modesto Junior College	1,007	7	0.44%	1,746	7	1.7%
Copperidge Winery	1,001	8	0.44%			
Community Services Agency	1,000	9	0.44%			
Modesto Bee	651	10	0.28%			
Subtotal	21,042		10.34%	17,506		16.09%
Total Labor Force	229,200			102,100		
Total City Population	212,287			210,088		

Source: Stanislaus Economic Development & Workforce Alliance (reflects peak seasonal employment, may include estimates)
(1) The number of employees include both part-time and full time.

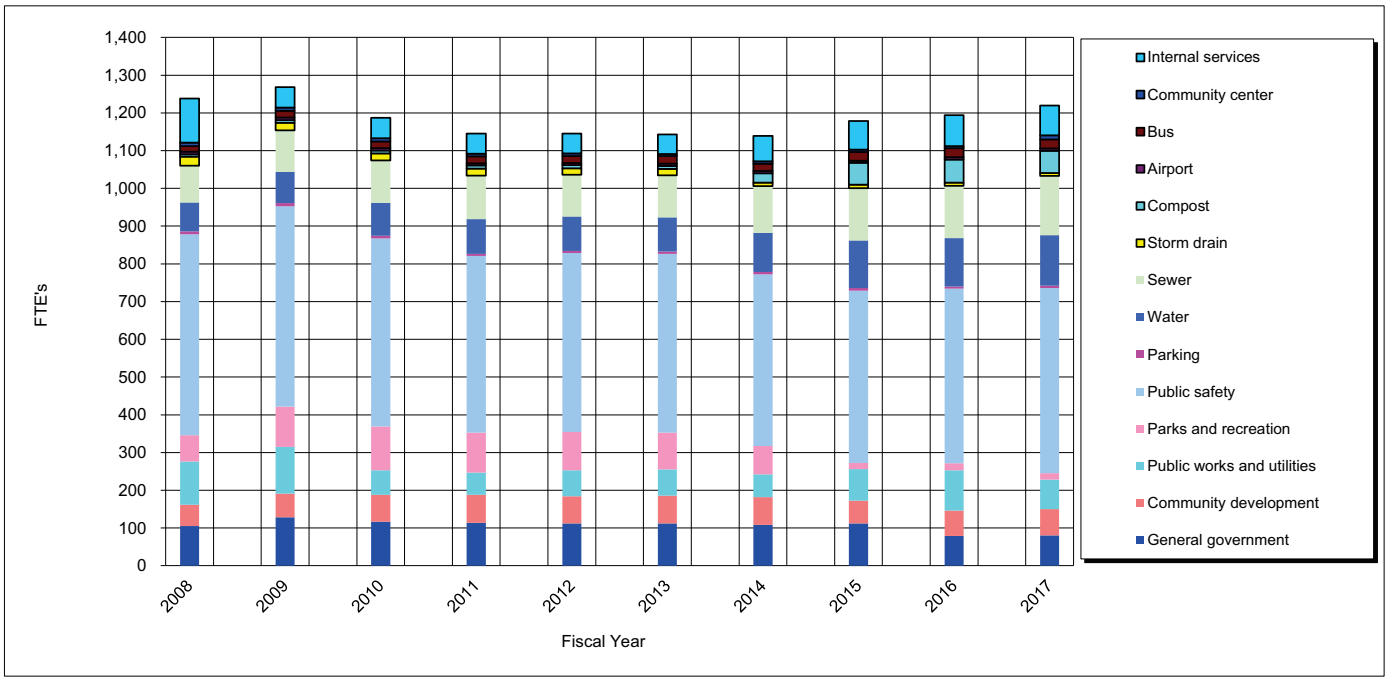
CITY OF MODESTO
PRINCIPAL PROPERTY TAXPAYERS

	2016/17			2008/09		
Employer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pacific Gas & Electric Company	$ 3,887,621	1	0.76%	$ 1,838,227	4	0.33%
World International, LLC	3,212,117	2	0.63%	3,589,757	1	0.65%
Gallo Glass Co	3,040,497	3	0.59%	2,543,430	2	0.46%
Gallo E & J Winery	2,865,296	4	0.56%	1,980,255	3	0.36%
Bronco Wine Co	1,586,536	5	0.31%			
Excel Monte Vista LP	1,566,192	6	0.31%			
WR Griffin Patterson LLC	1,443,301	7	0.28%			
E & J Gallo Winery	1,435,809	8	0.28%			
SBC California				1,378,681	5	0.25%
Doctors Med Center of MOD Inc	1,397,390	9	0.27%	1,368,817	6	0.25%
Hunt Wesson Foods Inc	1,304,059	10	0.25%	1,141,780	9	0.21%
Del Monte Corp				1,099,179	10	0.20%
Recot Inc (Frito Lay)				1,215,949	7	0.22%
Foster Dairy Farms				1,167,115	8	0.21%
Subtotal	$ 21,738,818		4.24%	$ 17,323,190		3.14%
Total assessed value of $	$ 513,253,305			$ 550,894,585		

Source: Stanislaus Country Treasurer-Tax Collector

Note: Information based on entire Stanislaus County

CITY OF MODESTO
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function										
General government	105.00	128.60	116.60	113.60	112.00	112.00	108.00	112.10	79.00	80.00
Community development	57.00	62.20	71.20	74.20	72.20	74.00	73.80	60.75	67.00	70.00
Public works and utilities	114.00	124.00	65.00	59.00	69.00	69.00	60.00	83.00	107.00	78.00
Parks and recreation	70.00	107.25	116.00	106.23	101.48	97.50	75.38	16.50	18.50	17.50
Public safety	532.00	530.75	499.00	467.75	473.75	474.00	455.00	456.50	462.50	490.50
Parking	8.00	8.00	7.00	6.00	6.00	6.00	6.00	7.00	6.00	6.00
Water	77.00	83.00	87.00	92.00	91.00	91.00	104.00	126.00	128.00	134.00
Sewer	97.00	110.00	112.00	115.00	111.00	111.00	124.00	139.00	139.00	157.00
Storm drain	24.00	20.00	19.00	19.00	17.00	17.00	9.00	9.00	8.00	8.00
Compost	6.00	7.00	8.00	8.00	8.00	8.00	24.80	57.80	61.80	58.80
Airport	7.00	6.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Bus	15.00	18.00	18.00	18.00	18.00	20.00	20.00	23.00	24.00	24.00
Community center	9.50	8.50	8.50	7.25	7.25	5.50	5.50	6.00	5.00	11.00
Internal services	117.00	54.00	54.00	53.00	53.00	52.00	67.30	76.00	82.00	79.00
Total	1,238.50	1,268.05	1,187.30	1,145.03	1,145.68	1,143.00	1,138.78	1,178.65	1,193.80	1,219.80

Source: City of Modesto

CITY OF MODESTO
OPERATING INDICATORS BY FUNCTION

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety:										
Fire:										
Fire calls for service(1)	23,246	22,911	20,888	20,400	20,970	22,846	24,281	24,712	21,135	26,288
Primary fire inspections conducted	976	1,069	1,012	1,214	1,618	818	989	1,050	764	1,060
Police:										
Communication Center calls answered										
Police calls for service	121,434	116,383	167,576	154,549	168,242	174,113	123,357	122,270	129,439	129,802
Law violations:										
Part I and Part II crimes	60,595	57,844	52,182	49,914	47,175	52,272	53,032	50,729	53,609	53,142
Physical arrests (adult and juvenile)	14,185	12,471	15,105	11,872	11,536	12,418	15,039	18,634	12,303	11,760
Traffic violations	25,739	26,914	30,941	24,278	16,330	14,761	15,477	12,700	11,451	15,428
Parking violations	16,079	21,391	18,041	20,452	15,772	12,150	12,327	5,493	6,139	10,841
Public works										
Streets:										
Street resurfacing (lane miles)	9	1	7	6	-	6	12	8	4	12
Potholes repaired (square miles)	40,411	39,473	39,705	27,724	38,290	13,282	12,573	14,515	24,059	8,745
Water utility customer repaired (sq. ft)	-	58,737	6,990	58,044	112,136	81,261	29,108	611	-	-
Crack sealing (lane miles)	-	-	16	23	-	20	33	12	37	29
Airport:										
Number of passengers enplaned (2)	49,525	28,470	25,640	22,514	19,188	16,532	11,703	-	-	-
Number of tenant aircraft	195	184	190	183	184	184	172	162	173	162
Number of hangars	109	109	118	118	118	118	118	119	119	119
Number of runways	2	2	2	2	2	2	2	2	2	2
Annual fuel consumption in gallons	1,140,426	672,406	639,971	311,500	645,283	653,153	682,769	582,473	443,272	582,602
Bus service:										
Number of buses	56	56	56	63	55	65	55	56	60	59
Number of routes	20	20	20	20	20	20	20	21	21	21
Total route miles	362	362	362	362	362	362	362	362	362	362
Average weekday number of passengers	12,599	12,599	12,524	10,688	11,553	11,616	12,538	11,598	12,441	10,523
Total number of passengers carried	3,699,846	3,699,846	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824	3,416,314	3,664,689	3,108,307
Community development										
Building safety & NPU:										
Permits issued	4,182	3,242	3,733	3,801	3,288	3,566	3,871	4,511	4,939	4,973
Estimated cost of construction	$ 157,006,451	$ 96,127,131	$ 67,488,906	$ 73,397,148	$ 76,362,371	$ 81,095,370	$ 58,850,241	$ 137,453,763	$ 92,768,634	$ 118,527,812
Building Inspections made	39,172	32,362	32,846	29,034	25,549	27,816	30,034	31,571	23,187	36,158
Traffic electrical:										
Street lights	13,595	13,764	13,765	13,765	13,765	13,765	13,761	13,764	13,764	13,764
Traffic signals	140	146	149	143	143	144	144	147	151	153
Lighted ped walks*	-	28	28	28	30	28	29	28	28	28
Beacons*	-	1	12	5	8	8	11	11	11	11
Four way flashers*	-	9	9	9	9	10	10	10	10	10
School flashers*	-	22	22	22	22	22	22	22	23	24
CCTV*	-	38	38	38	38	41	41	41	41	41
Hubs*	-	5	5	5	5	6	6	6	6	6
Culture and recreation:										
Recreation class participants	4,255	3,271	3,171	2,297	2,072	264,670	150,514	151,323	150,091	150,500
Solid waste:										
Recyclables processed (tons per year)	106,664	74,288	47,170	50,789	67,317	37,647	46,936	55,020	56,493	71,155
Yard waste	38,889	41,235	48,856	60,408	58,650	55,147	39,117	48,832	58,730	62,859
Commercial food waste	280	597	667	814	735	765	827	817	845	914
Waste tires	7,120	5,214	3,683	2,388	1,247	1,674	4,969	4,152	4,497	4,931

(1) FY13 Fire calls for service was originally reported incorrectly due to duplicate entries found on the NFIRS reports. This figure was corrected 10/24/2014.
Source: City of Modesto - Various Departments
(2) The enplanements subsided with the loss of commercial service in FY 2014.

CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function/Program										
Public safety:										
Fire stations	11	11	11	11	11	11	11	11	11	11
Police stations	1	1	1	1	1	1	1	1	1	1
Police patrol units	102	70	100	98	98	105	105	105	105	104
Public works										
Streets:										
Miles of streets (1)	675	675	675	676	684	684	691	691	692	692
Water:										
Miles of water mains	994	1,007	1,008	1,008	1,008	1,009	1,009	914	887	887
Fire hydrants	7,301	7,412	7,516	7,536	7,566	7,584	7,596	7,748	7,845	7,859
Storage capacity (thousands of gallons)	9,400,000	9,400,000	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000	12,300,000	18,300,000	18,300,000
Wastewater:										
Miles of sanitary sewers	656.7	642	642	642	642	639	639	639	639	655
Miles of storm sewers	133.6	183	183	183	183	183	183	183	183	170
Number of treatment plants (2)	2	2	2	2	2	2	2	2	2	2
Treatment capacity (millions of gallons)(5)	70	72	72	72	72	70	70	70	70	19
Community services:										
City parks (3)	76	76	76	76	76	76	76	76	76	76
City parks acreage	1,088	1,088	1,088	1,088	1,088	1,110	1,110	1,110	1,240	1,240
Playgrounds	55	55	55	55	55	55	55	58	58	58
City trails	4	4	4	4	7	7	7	6	6	6
City trails miles	12	12	12	12	14	14	14	15	15	15
Regional park acreage	324	324	324	324	324	324	324	375	375	375
Regional park facilities:										
Golf courses (18 holes)	2	2	2	2	2	2	2	2	2	2
Golf courses (9 holes)	1	1	1	1	1	1	1	1	1	1
Clubhouse and banquet facility	8	8	8	8	8	8	8	8	8	8
Historic house (4)	4	4	4	4	4	4	4	4	3	3
Community gardens	2	2	2	2	2	2	2	2	2	1
Community centers	6	7	7	6	6	7	7	7	7	7
Senior centers	1	1	1	1	1	1	1	1	1	1
Sports centers	1	1	1	1	1	1	1	1	1	1
Performing arts centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	13	13	13	4	4	4	4	4	4	1
Tennis courts	37	37	37	37	37	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24	24	24	24	24	24
Soccer/football fields	22	22	22	22	22	29	29	29	29	29
Splash play in Existing parks	-	-	-	-	10	10	10	10	10	10

(1) Information now reported from the City's GIS system.
(2) The City has both a Primary and a Secondary treatment facility.
(3) The number of parks for fiscal years 2013, 2014, 2015 was reported incorrectly as 77. Figures have been corrected to reflect accurately.
(4) The number of historic houses was reduced by one due to the Crismon House burning down. There are no plans to rebuild.
(5) The City has a new process and permit. Previous permit was 70 MGD seasonal Oct. through May. Current permit is 19 MGD year round.
Source: City of Modesto - Various Departments

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CONTINUING DISCLOSURE SECTION

Continuing Disclosure Section

This part of the Comprehensive Annual Financial Report provides information in order to comply with the City's contractual commitment established by certain continuing disclosure undertaking of the City, entered into in accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule") for the City's bond obligations listed below. In contrast to the financial section, the continuing disclosure section information is not subject to independent audit.

1. Wastewater Revenue Bonds, Series 2006 A
2. Wastewater Revenue Refunding Bonds, Series 2015
3. Water Revenue Refinancing Certificates of Participation, 2008 Series A
4. Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G
5. Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
YEAR ENDED JUNE 30, 2017

Wastewater Revenue Bonds, Series 2006 A, and
Wastewater Revenue Refunding Bonds, Series 2015

Connection charge information: The Sewer Enterprise imposes connection fees on an on-time basis to new users of the sewer system and to users who significantly expand their usage. The fees have three components:

Capacity charge:	$2,643 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.
Sub-trunk sewer charge:	$645 per acre
Connection (lateral) charge:	$33 per linear foot of lot frontage adjacent to the sewer line.

Customer Base by Type of Account

Category	Number of Accounts	% of Total Accounts	% of Sewer Fee Operating Revenue
Residential	57,947	94.61%	49.56%
Commercial	3,259	5.32%	10.45%
Industrial	42	0.07%	29.80%
Total	61,248	100.00%	89.82%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/17

User	Sewer Fee Revenue	% of Sewer Fee Operating Revenue
1) Stanislaus Food Products	$ 1,409,172	3.17%
2) E & J Gallo Winery	$ 1,358,209	3.06%
3) Foster Farms	$ 1,152,448	2.59%
4) Frito Lay, Inc.	$ 1,088,277	2.45%
5) Del Monte Foods	$ 1,062,966	2.39%
6) City of Ceres	$ 1,020,714	2.30%
7) Seneca	$ 452,282	1.02%
8) Sunopta	$ 430,868	0.97%
9) Nestle Food Company	$ 395,568	0.89%
10) Rizo Lopez Foods	$ 334,130	0.75%
Total (Top Ten Customers)	$ 8,704,634	19.60%
Total (All Customers)	$ 44,410,464	

The average single-family residence monthly sewer charge is: $31.92

Commercial Group	Charge Per 1,000 Gallons	Fixed Charge
Group 1 (no food, just toilets or working facilities)	$2.76	$4.40
Group 2 (commercial laundromats, service stations, hotels without food)	$3.78	$4.40
Group 3 (industrial laundromats, hotels with food)	$4.80	$4.40
Group 4 (restaurants, bakeries, auto steam, markets)	$6.03	$4.40

Industrial users pay a minimum account charge of $4.40 with additional charges of: $2,604.00 per million gallons of flow, $213.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and $441.00 per 1,000 pounds of Total Suspended Solids (TSS).
Industrial users on the Cannery Segregation line pay a minimum account charge of $4.40 with additional charges of: $2,680.00 pe $1.39 per 1,000 pounds of excess biochemical oxygen demand (BOD), and $4.04 per 1,000 pounds of Total Suspended Solids (TSS) while in production during the months of July, August and September.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

Updates of other required disclosures may be found elsewhere in this report, as follows:

Statement of Revenues, Expenses and Changes in Fund Net Position	Page 27	
Principal Amount of Bonds and Other Parity Debt	Page 51-52	(Note III-C)
Historical Debt Service Coverage	Page 137	

(continued)

CITY OF MODESTO
WASTEWATER COMPARISON INFORMATION
YEAR ENDED JUNE 30, 2017

Residential, commercial and industrial rates have increased according to the following approved schedule.

CITY OF MODESTO
WASTEWATER SYSTEM
Ten Year History of Rate Increases

Fiscal Year	Percent Increase
2007-08	30.00
2008-09	30.00
2009-10	0.00
2010-11	3.00
2011-12	8.00
2012-13	6.00
2013-14	6.00
2014-15	2.00
2015-16	3.00
2016-17	6.00

Comparative Monthly Wastewater Service Charges.

The City's residential charges as of July 1, 2016 are set forth below with a comparison to other Central Valley and Northern California cities.

CITY OF MODESTO
WASTEWATER SYSTEM
Monthly Sewer Charge Comparison
Residential Service
As of July 1, 2016

City	Monthly Residential Charge
Fresno	$25.75
Lodi	$25.63
Modesto	**$29.36**
Stockton	$38.36
Tracy	$34.00
Turlock	$31.20

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2017

CITY OF MODESTO
WASTEWATER SYSTEM
Wastewater Connection Fees Comparison
As of July 1, 2016

City	Connection Fee
Fresno (1)	$3,438.50
Lodi (2)	$2,932.00
Modesto	**$2,643.00**
Stockton	$635.00
Tracy	$6,727.00
Turlock	$2,636.66

(1) Connection fees are based on the size of the lot & location.
(2) Connection fees are based on the size of the water meter.

Water Revenue Refinancing Certificates of Participation, 2008 Series A
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G(1)
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F(1)

Reserve Account Requirement as of 6/30/17	$ 4,011,410
Surety Policy Value:	$ (2,082,513)
Balance in Parity Reserve Account as of 6/30/17	$ (1,942,080)
Shortfall/(Excess) Reserve Coverage:	$ (13,183)

Balance in Rate Stabilization Account as of 6/30/17:

Ten Largest Customers of Water Utility System, Year Ended 6/30/17

Customer	Business Type	Usage (ccf) (2)	% of Total Usage	Water Sales Revenue ($)	% of Total Water Sales Revenue
1) Modesto City Schools	Education	347,228	1.70%	$796,932	1.68%
2) City of Modesto - Stores	Local Government	274,205	1.34%	$796,192	1.67%
3) Stanislaus Food Products	Cannery	385,849	1.88%	$650,097	1.37%
4) Foster Farms	Dairy Processor	322,837	1.58%	$567,002	1.19%
5) Seneca Foods	Cannery	257,370	1.26%	$419,120	0.88%
6) Modesto Irrigation District	Power Company	191,324	0.93%	$378,262	0.80%
7) Stanislaus Housing Authority	Housing Authority	122,298	0.60%	$325,320	0.68%
8) Sunpota	Cannery	171,687	0.84%	$308,870	0.65%
9) Yosmite Community College	Education	99,435	0.49%	$237,710	0.50%
10) E & J Gallo	Processor	109,387	0.53%	$233,701	0.49%
Total Top Ten		2,281,620	11.14%	$4,713,206	9.91%

Total Flat/Metered Revenues (Water Sales) $47,562,579

(1) Grover Landscaping maintains City parks
(2) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/2017

Residential - flat rates	$ 6,767,446
Commercial, industrial and municipal - metered rates	$ 51,960,729
Total Water Sales	$ 58,728,175

The average monthly flat rate service charge for residential customers is: $ 54.72

Current Water Rates as of 07/01/2015- Commercial Accounts

Meter Size	
3/4"	$ 20.79
1"	$ 29.30
1 1/2"	$ 50.58
2"	$ 76.11
3"	$ 156.98
4"	$ 276.14
6"	$ 561.28
8"	$ 1,029.42
10"	$ 1,625.23
12"	$ 2,135.93

In addition to these minimum charges, commercial accounts are charged $1.79 per 100 cubic feet of water used.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

(1) Water Fund parity debt obligations, issued by the Modesto Irrigation District Financing Authority, on behalf of the City, and pursuant to the 1992 Treatment and Delivery Agreement between the District and the City.
On August 14, 2013 Modesto Irrigation District Financing Authority refunded the 1998 D Bond, with the 2013 G Bond.
As of 6/30/2017, the balance of the 2013 G Bond was $30,870,000 and the balance of the 2007 F Bond was $93,190,000.

(continued)

CITY OF MODESTO
CITY WATER- HISTORICAL DEBT SERVICE COVERAGE
CONTINUING DISCLOSURE REQUIREMENTS
LAST TEN FISCAL YEARS

CITY WATER UTILITY SYSTEM
Historical Debt Service Coverage

	2008	2009	2010	2011	2012	2013 (1)	2014	2015 (11)	2016 (12)	2017
Charges for services	$ 52,927,134	$ 52,990,138	$ 51,572,801	$ 51,876,505	$ 53,453,708	$ 56,906,488	$ 56,940,812	$ 54,779,417	$ 51,489,077	$ 63,253,114
Connection charges	1,943,456	1,113,082	647,579	452,021	516,839	295,632	357,432	1,024,626	935,987	1,435,654
Refunds, damages & recoveries	232,570	29,033	428,083	460,766	166,522	260,802	215,271	20,988	511,063	57,533
Interest and rental income	1,984,517	2,055,531	1,006,611	588,917	670,046	174,224	235,246	353,305	535,823	574,899
Draw from (deposit to) rate stabilization fund	-	-	-	-	-	-	-	-	-	-
Service credits[2]	604,082	501,671	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999	3,033,487	3,026,911	3,304,911
Miscellaneous	13,190	32,586	25,782	58,083	118,203	150,949	154,700	365,808	2,979,500	231,134
Total gross operating revenues	57,704,949	56,722,041	55,851,223	55,999,278	57,891,783	60,990,046	60,582,460	59,577,631	59,478,361	68,857,245
Operating expenses [3]	23,664,217	28,359,392	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298	33,773,198	38,722,320	35,508,887
Operating transfers [4][5]	65,000	482,503	765,000	776,000	1,257,406	838,421	765,000	765,000	765,954	765,000
CIP expenses moved to operating [6]	2,156,833	3,054,407	1,127,185	-	-	-	-	-	-	-
Total operating expenses [7]	25,886,050	31,896,302	32,111,187	27,414,348	32,013,228	29,368,975	37,363,298	34,538,198	39,488,274	36,273,887
Net operating revenues	31,818,899	$ 24,825,739	$ 23,740,036	$ 28,584,930	$ 25,878,555	$ 31,621,071	$ 23,219,162	$ 25,039,433	$ 19,990,087	$ 32,583,358
1997 Refunding Certificate of Participation[8]	1,791,930	1,792,258	1,794,688	1,797,013	-	-	-	-	-	-
2006 Revenue Certificates of Participation	1,982,256	-	-	-	-	-	-	-	-	-
2008 Revenue Certificates of Participation	-	2,262,117	2,145,966	2,271,034	2,684,462	2,632,225	2,648,783	2,531,179	2,313,857	2,468,593
MID Treatment & Delivery Agreement[9]	6,681,894	6,672,406	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208	9,930,040	10,203,352	10,202,108
CDWR Loan	264,719	263,079	264,719	264,719	255,942	264,719	264,719	262,692	131,322	-
ARRA Grant		-	-	-	5,137	36,289	36,103	36,095	36,089	36,084
Total debt service	$ 10,720,799	$ 10,989,860	$ 11,661,291	$ 15,126,807	$ 13,834,331	$ 13,822,993	$ 11,834,813	$ 12,760,006	$ 12,684,620	$ 12,706,785
Debt service coverage (14)	2.97	2.26	2.04	1.89	1.87	2.50	1.96	1.96	1.58	2.56

(1) In fiscal year 2012-13, the amount reported for Charges for Services was incorrectly reported in the amount of $59,906,488. The correct amount is $56,906,488 which is reflected in the table above.
(2) Service Credits are reimbursements from other City funds of costs associated with employee time worked on other projects.
In fiscal year 2009-10 Cashiering, Utilities, and Collections division was moved into the Water Fund. This caused a structural change and in return an increase in service credits.
(3) Beginning in fiscal year 2008-09 total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration. Reduced fiscal year 2016 Operating Expenses as the 131,322 CDWR Loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the debt service section.
(4) Operating transfers in fiscal year 2008-09 increased due to an administrative oversight and funds were returned to the correct fund.
(5) Includes operating transfers for building rental fee of $65,000 annually and commencing in fiscal year 2009-10 $700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In fiscal year 2011-12 $668,610 a one time transfer for information technology internal service funds.
(6) In fiscal year 2009-10, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. This prior period adjustment has been reflected in this table in the years costs were incurred.
(7) Total operating expenses excludes depreciation and amortization, as well as the debt service component under the Treatment and Delivery Agreement. Fiscal year 2016 Total operating expense reduced from 39,619,604 to 39,488,274 since the Operating expenses was adjusted (see note 3)
(8) 1997 COPS were prepaid in full in fiscal year 2010-11
(9) Increased fiscal year 2015 2008 Revenue Certificates of Participation from 2,501,891 to 2,531,179 to account for actual expenditure instead of the internal transfer.
(10) Debt service payment increased by $4.1 million in fiscal year 2010-11 due to the expiration of capitalized interest. Fiscal year 2015 MID Treatment & Delivery Agreement increased from 9,905,923 to 9,930,040 to account for actual expenditure.
(11) Reduced fiscal year 2014-15 Operating expenses from 40,349,338 to 33,773,198.
(12) The sale of the Waterford-Hickman Water System for $2.6 million had a significant impact to the Water Fund debt service calculation. Without the sale of this system Water Fund debt service coverage would have been 1.35. Reduced fiscal year 2015-16 Operating Expenses as the 131,322 Del Estate Water Company loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the Debt service section.
(13) Del Estate Water Company (CDWR) loan payment for fiscal year 2014-15 was reduced from 264,719 to 262,692 and fiscal year 2015-16 reduced from 264,719 to 131,322. Loan repayment was completed in fiscal year 2015-16.
(14) Changed fiscal year 2014-15 ARRA Grant from 36,290 to 36,095 and changed fiscal year 2015-16 ARRA Grant from 36,290 to 36,089.
(15) Fiscal year 2015-16 Debt service coverage increased from 1.55 to 1.57 and fiscal year 2014-15 Debt service coverage increased from 1.45 to 1.96 after above stated changes were made.
(16) The financial figures reported only reflect net operating revenues in the Water Operating Fund.

Source: City of Modesto

CITY OF MODESTO
CITY WATER UTILITY SYSTEM
PROJECTED OPERATING RESULTS [1]
CONTINUING DISCLOSURE REQUIREMENTS

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2018-22. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary.

	Fiscal Year Projected 2018	Fiscal Year Projected 2019	Fiscal Year Projected 2020	Fiscal Year Projected 2021 (5)	Fiscal Year Projected 2022
Charges for services[2]	$ 66,000,000	$ 71,940,000	$ 78,415,000	$ 85,472,000	$ 85,472,000
Connection charges	346,000	331,000	331,000	331,000	331,000
Refunds, damages & recoveries	189,000	192,000	196,000	200,000	200,000
Interest and rental income	174,000	174,000	175,000	176,000	176,000
Draw from (deposit to) rate stabilization fund	-	-	-	-	-
Service credits	2,753,000	2,781,000	2,808,000	2,836,000	2,836,000
Miscellaneous	27,000	27,000	28,000	28,000	28,000
GF (parks loan) P/I	54,000	54,000	54,000	54,000	54,000
Total gross operating revenues	$69,543,000	$75,499,000	$82,007,000	$89,097,000	$89,097,000
Operating expenses[3]	41,756,000	42,542,000	43,369,000	44,213,000	45,097,260
Operating transfers	765,000	765,000	765,000	765,000	765,000
Total operating expenses[4]	$42,521,000	$43,307,000	$44,134,000	$44,978,000	$45,862,260
Net operating revenues	27,022,000	32,192,000	37,873,000	44,119,000	43,234,740
2008 Revenue Certificates of Participation	2,492,000	2,504,000	2,486,000	2,466,000	2,466,000
MID Treatment & Delivery Agreement	10,088,000	10,081,000	10,082,000	10,080,000	10,080,000
CDWR Loan	-	-	-	-	
ARRA Grant	36,000	36,000	36,000	36,000	36,000
New Future Debt	-	2,468,000	2,468,000	2,468,000	2,468,000
Total debt service	12,616,000	15,089,000	15,072,000	15,050,000	15,050,000
Debt service coverage	2.14	2.13	2.51	2.93	2.87

* Please note that fiscal year 2018 thru fiscal year 2021 projection is derived from the May 2016 Water Rate and Fee Study. Fiscal year 2011-22 has been kept flat until another Water Rate and Fee Study is completed.

(2) Revenues do NOT include a Consumer Price Index (CPI) increase. There were approved water rate increases as follows: fiscal year 2016-17 at 25.04%, fiscal year 2017-18 at 11.08%, fiscal year 2018-19 at 9.00%, fiscal year 2019-20 at 9.00%, and

(3) Operating expenses have assumed an inflationary rate of 2% in 2018-22 thru fiscal year 2021-22.

(4) Total operating expenses exclude depreciation and amortization, as well as the debt service component under the MID Treatment & Delivery Agreement.

(5) Increase in Debt Service Coverage from fiscal year 2017-18 to fiscal year 2020-21 is due to larger increase in water rates compared to operating expenses. See note (2) and note (3). The increase in water rates is intended to fund pay-as-you-go CIPs not reflected on this table.

Source: City of Modesto.

CITY OF MODESTO
CITY WATER UTILITY SYSTEM STATISTICS
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2017

CITY WATER UTILITY SYSTEM STATISTICS
(Calendar Years 2008 through 2017)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Service Accounts	76,852.0	76,899.0	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0	74,665.0	72,825.0	73,135.0
Total Water Production (MG)(1)	25,182.0	23,824.0	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0	17,692.0	15,155.0	15,319.5
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	175.2	175.2	175.2	175.2	175.2	175.2
Peak Daily Distribution (MGD)	116.5	113.0	110.0	98.5	97.2	99.8	95.3	84.6	74.7	84.3
Average Daily Distribution (MGD)	68.8	65.3	59.5	57.2	59.5	59.2	56.5	48.5	41.5	42.0

(1) "MG" means million gallons.
(2) "MGD" means million gallons daily.

CITY WATER UTILITY SYSTEM
Service Area Total Production (Billion Gallons)
(Fiscal Years 2008 through 2017)

Fiscal Year Ended	Well Water	Surface Water	Total
2008	14.74	10.44	25.18
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76
2013	10.62	10.99	21.61
2014	10.72	9.91	20.63
2015	10.63	5.85	16.48
2016	9.22	5.02	14.24
2017	8.63	5.86	14.49

CITY WATER UTILITY SYSTEM
Average Monthly Water Rates Comparison
Flat Rate (1" Service)
As of July 1, 2016

City	Flat Rate Typical Home
Fresno (1)	$ 13.80
Lodi (2)	$ 26.92
Modesto	**$ 54.72**
Stockton (1)	$ 31.00
Tracy (2)	$ 20.40
Turlock (1)	$ 21.20

(1) Water is metered. Charge varies per meter size.
(2) Water is both metered and flat rate. Charge varies per meter and dwelling size.

The following table sets forth connection fees for all users except multi-family units by meter size for year 2016-2017:

CITY WATER UTILITY SYSTEM
Connection Fees Comparison
Except Multiple Family Units
(Fiscal Year 2016-2017)

Meter Size	Connection Fees
5/8" meter**	$2,202
1" meter	$3,671
1-1/2" meter	$7,341
2" meter	$11,746
3" meter	$25,695
4" meter	$46,250
6" meter	$95,437
8" meter	$176,191
10" meter	$278,970
12" meter	$367,065

**NOTE- Single-family residences qualify for the 5/8" connection fee only under the following conditions:
Single story, single-family residences on a lot of 4,000 square feet or less.
Two-story single family residence on a lot of 4,000 square feet or less, provided the request for such a service accompanied by a report from a licensed professional engineer that certifies that the 5/8" service is adequate to meet the needs of the proposed dwelling.
A 5/8" "service" shall not be allowed for a single-family dwellings of greater than 2 stories on lots less than 4,000 square feet.

CITY WATER UTILITY SYSTEM
Sale of Water
(Year Ended June 30, 2017)*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues ($000)										
Residential (Flat Rates)	$31,495	$30,585,450	$21,256,928	$16,888,754	$14,464,689	$12,955,005	$10,723,594	$9,037,477	$7,320,096	$6,767,446
Commercial, Industrial and Municipal (Metered)	17,890	20,445,393	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862	43,118,855	40,242,493	51,960,729
Total Water Sales	$49,385	$51,030,843	$50,015,340	$50,079,180	$51,627,550	$55,407,867	$54,817,456	$52,156,332	$47,562,589	$58,728,175

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2016-17.

CITY WATER UTILITY SYSTEM
Monthly Single Family Residential Flat Water Rates (1)

Lot Size	Effective July 1,2007	Effective July 1, 2008	Effective July 1, 2009	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016
0-5,000 sq. ft. lot	$35.45	$37.23	$37.23	$38.01	$38.69	$39.89	$40.81	$40.81	$40.81	$47.38
5,001-7,000 sq. ft. lot	40.30	42.31	42.31	43.20	43.98	45.34	46.38	46.38	46.38	54.72
7,001-11,000 sq. ft. lot	47.82	50.21	50.21	51.26	52.18	53.80	55.04	55.04	55.04	69.22
11,001-17,000 sq. ft. lot	50.76	53.30	53.30	54.42	55.40	57.12	58.43	58.43	58.43	90.88
over 17,000 sq. ft. lot	59.68	62.66	62.66	63.98	65.13	67.15	68.69	68.69	68.69	101.80

(1) Single family residential properties with water meters that are read for billing purposes, are charged the meter water rate.

NOTE: Additional financial information available at www.modestogov.com

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2016-17.

CITY WATER UTILITY SYSTEM
Water Rates and Charges
Commercial Accounts

	Effective July 1, 2008	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016
Volume-based Rate ($/hcf)	$1.28	$1.28	$1.28	$1.33	$1.33	$1.37	$1.40	$1.40	$1.40	$1.79
Fixed Monthly Meter Charge (in addition to volume-based charges)										
5/8"-3/4" meter	$13.71	$13.71	$13.71	$14.00	$14.25	$14.69	$15.03	$15.03	$15.03	$20.79
1" meter	19.45	19.45	19.45	19.86	20.22	20.85	21.33	21.33	21.33	29.30
1-1/2" meter	33.66	33.66	33.66	34.37	34.99	36.07	36.90	36.90	36.90	50.58
2" meter	50.79	50.79	50.79	51.86	52.79	54.43	55.68	55.68	55.68	76.11
3" meter	96.51	96.51	96.51	98.54	100.31	103.42	105.80	105.80	105.80	156.98
4" meter	147.88	147.88	147.88	150.99	153.71	158.48	162.13	162.13	162.13	276.14
6" meter	290.51	290.51	290.51	296.61	301.95	311.31	318.47	318.47	318.47	561.28
8" meter	461.75	461.75	461.75	471.45	479.94	494.82	506.20	506.20	506.20	1,029.42
10" meter	661.58	661.58	661.58	675.47	687.63	708.95	725.26	725.26	725.26	1,625.23
12" meter	1,232.31	1,232.31	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92	1,350.92	1,350.92	2,135.93

Note: Additional financial information is available at www.modestogov.com

CITY OF MODESTO
BOND RATINGS
FISCAL YEAR ENDED JUNE 30, 2017

Bonds	Moody's Rating	Standard & Poor's Rating	Fitch Rating
1993 Golf Certificates of Participation		AA-	
Wastewater Revenue Bonds, Series 2006A	A2	AA	AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa3	AA+/A-1	

Sources: www.moodys.com
www.standardandpoors.com
www.Fitchratings.com

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. Reference is directed to the Indenture for the complete text thereof. Copies of the Indenture are available from the City Clerk/Auditor of the City of Modesto.

Definitions

"**Accreted Value**" means, with respect to any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified therein.

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

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

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

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

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

"**Business Day**" means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed.

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

"**Certificate,**" "**Statement,**" "**Request,**" "**Requisition**" or "**Order**" of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its City Manager, Finance Director or any other person authorized by the City Manager or Finance Director to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, certificates and opinions will include the statements provided for in the Indenture.

"**City**" means the City of Modesto, California.

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

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

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

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

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

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

(a) The Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period;

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

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

provided, that for the purposes of determining compliance with the requirements for issuance of additional Bonds or Parity Debt, the rate covenant contained in the Indenture and the amount of the Reserve Fund Requirement, the following provisions apply:

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

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

(iii) Interest on Bonds or Parity Debt with respect to which a Public Finance Contract is in force. Interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be based on the net economic effect on the City expected to be produced by the terms of such Bonds or Parity Debt and such Public Finance Contract, including

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

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

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

(iv) Interest on Balloon Indebtedness. If any outstanding Bonds or Parity Debt constitute Balloon Indebtedness (and such Bonds or Parity Debt do not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below) or if Bonds or Parity Debt proposed to be incurred would constitute Balloon Indebtedness (and such Bonds or Parity Debt would not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below), then such Balloon Indebtedness

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

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

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

"**Defeasance Securities**" means any of the following:

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

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i) held by a bank or trust company as custodian, under which the owner thereof is the real party in interest and has the right to

proceed directly and individually against the obligor and the underlying bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America are not available to any person claiming through the custodian or to whom the custodian may be obligated; or

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

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

"**Event of Default**" means any of the events specified as such in the Indenture as described under the caption "Events of Default" below.

"**Fiscal Year**" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City which designation will be provided to the Trustee in a Certificate of the City.

"**Gross Revenues**" means all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, and (c) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise

Fund; but excluding (x) the proceeds of any ad valorem property taxes received by the City to pay debt service on any outstanding obligations of the City, (y) any contributed capital (other than connection fees), and (z) any moneys received by the City as a result of litigation arising out of perchloroethylene (PCE) contamination that are to be expended on capital costs of the Enterprise.

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

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

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial interest, direct or indirect, with the City; and

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

"**Interest Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

"**Investment Securities**" means the following:

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

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

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

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

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

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

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

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

(ix) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation provided that the variable rate obligations themselves are rated in their respective highest Rating Categories for its short-term rating, if any, and not lower than their respective ratings on the Bonds for its long-term rating, if any, by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds), and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

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

(xi) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of the definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of the definition of Investment Securities and which money market fund is rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds); provided that as used in this clause (xi) and clause (xii) investments will be deemed to satisfy the requirements of clause (x) if they meet the requirements set forth in clause (x)

ending with the words "clauses (i), (ii), or (iii) above" and without regard to the remainder of such clause (x);

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

(xiii) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xii) of the definition of Investment Securities and which companies are rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) or have an investment advisor registered with the Securities and Exchange Commission with not less than 5 years experience investing in such securities and obligations and with assets under management in excess of $500,000,000;

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

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

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

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

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

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

"**Operating Expenses**" means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar

costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) interest on the Bonds and any Parity Debt.

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

"**Outstanding,**" when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City will have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) for which money has been set aside for the payment of the interest, principal or Redemption Price due as provided in the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

"**Owner**" or "**Bondholder**" or "**Bondowner,**" whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

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

"**Parity Reserve Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

"**Principal Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

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

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

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

"**Qualified Counterparty**" means a party (other than the City or a party related to the City) who is the other party to a Public Finance Contract and (1) (A) who is rated at least "A2" from Moody's and "A" from Standard & Poor's, or (B) whose senior debt obligations are rated

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

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

"**Rebate Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

"**Rebate Requirement**" means the Rebate Requirement defined in the Tax Certificate.

"**Redemption Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

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

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

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

"**Series,**" whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any

Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

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

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

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

"**State**" means the State of California.

"**Supplemental Indenture**" means any indenture hereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

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

"**Term Bonds**" means Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"**Trustee**" means The Bank of New York Mellon Trust Company, N.A., acting as trustee under the Indenture, or its successor, as Trustee as provided in the Indenture.

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

"**Variable Interest Rate Indebtedness**" means, for any period of time, any Bonds or Parity Debt that bear a Variable Interest Rate during such period, except that no Bonds or Parity Debt will be treated as a Variable Interest Rate Indebtedness if the net economic effect of a Public Finance Contract with respect to any particular Bonds or Parity Debt is to produce

obligations that bear interest at a fixed interest rate, and any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be treated as a Variable Interest Rate Indebtedness if the net economic effect of the Public Finance Contract is to produce obligations that bear interest at a Variable Interest Rate.

Issuance of Bonds and Parity Debt

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

(a) no Event of Default shall have occurred and then be continuing;

(b) the aggregate principal amount of Bonds issued under the Indenture will not exceed any limitation imposed by law or otherwise;

(c) there will be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or no reserve fund; and

(d) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, will at least equal one hundred twenty-five percent (125%) of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt under the Indenture are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional Series of Bonds or Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such

Fiscal Year or such twelve (12) month period, were not in service, all in an amount equal to ninety-five percent (95%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by a Certificate of the City filed with the Trustee.

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

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

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

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

(a) an executed copy of the Supplemental Indenture authorizing such Series;

(b) a Certificate of the City stating that no Event of Default has occurred and is then continuing;

(c) an Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the City in accordance with the Indenture; that such Series, when duly executed by the City and authenticated and delivered by the Trustee, will be valid and binding limited obligations of the City, and that upon the delivery of such Series the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted by law or otherwise;

(d) the Certificate of the City required by the Indenture; and

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

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

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

(a) Bonds of any Series authorized pursuant to the Indenture as described under the captions "Issuance of Bonds" and "Proceedings for Issuance of Additional Series of Bonds" above;

(b) refunding Bonds authorized pursuant to the Indenture as described under "Issuance of Refunding Bonds" above.

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

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

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

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

(4) the City will have filed with the Trustee an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance with law and constitutes a valid and binding obligation of the City payable from Net Revenues on a parity with the Bonds; and

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

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

Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts

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

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

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

Sewer Enterprise Fund. In order to carry out and effectuate the obligation of the City contained in the Indenture to pay the Bonds, so long as any Bonds are Outstanding, the City covenants and agrees that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City will have no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City covenants and agrees to maintain the Sewer Enterprise Fund at all times so long as any Bonds will be Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited

with the Trustee, all as provided in the Indenture, will nevertheless be disbursed, allocated, and applied solely to the uses and purposes set forth in the Indenture.

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

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

(2) Principal Fund: Sinking Accounts. The City will transfer to the Trustee and the Trustee will set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund payments will be made without priority of any payment into any one such Sinking Account over any other such payment.

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

Any Net Revenues remaining in the Sewer Enterprise Fund after the transfers described above, except as otherwise provided in a Supplemental Indenture, will be held free and clear of the Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of

the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

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

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

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

The Trustee will establish and maintain within the Principal Fund a separate sinking account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a mandatory sinking fund payment is due, the Trustee will transfer the amount of such mandatory sinking fund payment (being the principal thereof, in the case of Current Interest Bonds and the Accreted Value, in the case of Capital Appreciation Bonds from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each mandatory sinking fund payment date established for such Sinking Account, the Trustee will apply the mandatory sinking fund payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. If the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or purchased or redeemed Term Bonds of such Series and maturity at any time from the Redemption Fund and allocable to said mandatory sinking fund payment, or if the City has purchased or otherwise acquired Term Bonds and deposited such Term Bonds with the Trustee, such Term Bonds so purchased or deposited or redeemed by the Trustee or the City will be applied, to the extent of the full principal amount

thereof, to reduce said mandatory sinking fund payment. All Term Bonds so purchased or deposited as described under this caption, "Application of Principal Fund" will be cancelled and destroyed by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding will be withdrawn by the Trustee and transferred to the City to be deposited in the Sewer Enterprise Fund. All Term Bonds so purchased will be allocated first to the next succeeding mandatory sinking fund payment for such Series and maturity of Term Bonds, then as a credit against such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed from the Redemption Fund will be credited to such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City.

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

Parity Reserve Fund. The Trustee will establish and maintain and hold in trust so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the "Parity Reserve Fund." Amounts on deposit in the Parity Reserve Fund are pledged to the payment of the Bonds and any Parity Debt to be secured by the Parity Reserve Fund and will be applied only for such purposes as permitted in the Indenture. The Trustee will deposit in the Parity Reserve Fund, upon the direction of the City, the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there will be on deposit therein a sum equal to at least the amount required to be on deposit therein as described in this paragraph. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement, notice thereof will be provided to the insurer of the Bonds, if any, and such amount will be increased to the Reserve Fund Requirement as described in this paragraph not later than twelve months thereafter. Moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) will be transferred by the Trustee to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. The Trustee will also, from

such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in the immediately succeeding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts Parity Reserve Fund") on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such letter of credit will have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit will provide by its terms that it may be drawn upon as provided in the Indenture. At least one year prior to the stated expiration of such letter of credit, the City will either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Bonds or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements described in the immediately succeeding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund." Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee will deliver the then effective letter of credit to or upon the order of the City. If the City fails to deposit a replacement letter of credit, extended letter of credit, surety bond or insurance policy with the Trustee, the City will immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Fund Requirement will be on deposit in the Parity Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Fund Requirement, as of the date following the expiration of the letter of credit, is not on deposit in the Parity Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee will draw on the letter of credit to fund the amount of any such deficiency in the Parity Reserve Fund.

The City may also provide for all or any part of the Parity Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such surety bond or insurance policy will be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers. Such surety bond or insurance policy will have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City will immediately implement the actions described in clause (i) or (iii) of the immediately preceding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund"

above or make the required deposits to the Parity Reserve Fund. Repayment of any draw under any such surety bond or insurance policy, and any expenses and accrued interest related to such draw (collectively the "Policy Costs") will commence in the first month following each such draw, and will be paid at the time specified in the first paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund" above in an amount not less than one-twelfth (1/12th) of the aggregate of the Policy Costs related to such draw. If and to the extent that cash has also been deposited in the Parity Reserve Fund, all such cash will be used (including investments purchased with such cash, which will be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under surety bond or insurance policy, and repayment of any Policy Costs will be made prior to any replenishment of any such cash amounts. If the City fails to repay any Policy Costs in accordance with the Indenture, the insurance company issuing such surety bond or insurance policy will be entitled to exercise any and all remedies available at law or under the Indenture other than (i) an acceleration of the interest on or principal of the Bonds as provided in the Indenture or (ii) any other remedy that would adversely affect Bondholders. The Trustee will ascertain the necessity for a claim upon any surety bond or insurance policy provided pursuant to the provisions of the Indenture described under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund" and provide notice to the insurance company issuing such bond or policy in accordance with the terms and conditions of such bond or insurance policy not less than two (2) Business Days prior to any interest payment date upon which such a claim should be paid.

In the event of any deficiency in the Principal Fund or Interest Fund for the payment of principal and interest payments for the Bonds pursuant to clause (A) above, the Trustee will, after first applying all cash and Investment Securities held in the Parity Reserve Fund to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due, on a pro rata basis with respect to the portion of the Parity Reserve Fund held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies), draw under each letter of credit or surety bond or insurance policy issued with respect to the Parity Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due. In the event that the Trustee has written notice from the City or any Bondholder that any payment of principal of, or interest on, a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, credited to the Parity Reserve Fund so provide, will so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Bondholder the principal of and interest so recovered. All amounts in the Parity Reserve Fund (other than amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Parity Reserve Fund) may be used and withdrawn by the Trustee, if so directed by the City, for the payment or redemption of all Bonds then Outstanding, or for the payment of the final principal and interest payments of the Bonds.

Investment of Moneys in Funds and Accounts

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

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

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture will be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the City, may impose its customary charge therefor. The Trustee may sell or present for redemption, any Investment Securities so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee will not be liable or responsible for any loss resulting from such investment.

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

dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

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

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

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

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

Covenants

Pursuant to the Indenture, the City has covenanted as follows:

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

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

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

Further Assurances. The City will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

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

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

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

Insurance. The City covenants that it will at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the physical Enterprise will

either (a) be used for repairing or rebuilding the damaged or destroyed Enterprise, and to the extent not so applied will be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

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

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

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

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

(a) all Operating Expenses estimated by the City to become due and payable in such Fiscal Year;

(b) the Debt Service on the Outstanding Bonds and Parity Debt becoming due and payable during such Fiscal Year;

(c) all other payments required for compliance with the Indenture and the instruments pursuant to which any Parity Debt will have been issued; and

(d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

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

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

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

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

Notwithstanding any of the tax covenants contained in the Indenture, if the City will receive an Opinion of Bond Counsel to the effect that any action required by the tax covenants contained in the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the City and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture will be deemed to be modified to that extent.

Continuing Disclosure Agreement. The City will comply with and carry out all of its obligations under any Continuing Disclosure Agreement executed in connection with a Series of Bonds. Upon the failure of the City to comply with the Continuing Disclosure Agreement relating to any Series of Bonds, the Trustee (at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Owners of at least 25% in aggregate Bond Obligation of the related Series of Bonds, will, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City, to comply with its obligations under this paragraph. For purposes of the covenant described in this paragraph, "Beneficial Owner" will have the meaning prescribed thereto in the respective Continuing Disclosure Agreement relating to such Series of Bonds.

Events of Default and Remedies

Events of Default. The following events will be Events of Default under the Indenture:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise in the amounts and at the times provided therefor;

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

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

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

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

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

(g) the assumption, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction of custody or control of the City or of the Net Revenues and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Application of Net Revenues and Other Funds After Default; Acceleration. If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all Net Revenues held by it and received thereafter and the Trustee shall apply all Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

In each and every such case during the continuance of such Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any

such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the City shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Net Revenues, and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in

accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

Limitation on Bondholders' Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the City. Nothing in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective due dates therefor or upon call for redemption, as provided in the Indenture, but only out of the Net Revenues and other assets pledged in the Indenture therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the City, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the

Indenture, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

The Trustee

Appointment; Duties, Immunities and Liabilities of Trustee. The Bank of New York Trust Company, N.A. serves as successor Trustee under the Indenture and accepts the trust imposed upon it as Trustee under the Indenture and to perform all the functions and duties of the Trustee under the Indenture, subject to the terms and conditions set forth in the Indenture. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied covenants shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The City may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with the requirements of the Indenture, or will become incapable of acting, or will be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer will take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon will appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture, will signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the City or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the City will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as described under this caption "The Trustee," the City will give notice of the succession of such Trustee to the trusts under the Indenture by mail to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the City.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company or bank having the powers of a trust company having a corporate trust office in the State, having a combined capital and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture described in this paragraph, the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with the provisions of the Indenture described in this paragraph, the Trustee will resign immediately in the manner and with the effect described under this caption "The Trustee."

If, by reason of the judgment of any court, the Trustee or any successor Trustee is rendered unable to perform its duties under the Indenture, and if no successor Trustee be then appointed, all such duties and all of the rights and powers of the Trustee under the Indenture will be assumed by and vest in the Treasurer of the City in trust for the benefit of the Bondowners.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger,

conversion or consolidation to which it is a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company will be eligible under the Indenture, will be the successor to such Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond), and makes no representations as to the validity or sufficiency of the Indenture or of the Bonds or of any Investment Security, as to the sufficiency of the Net Revenues, or the priority of the lien of the Indenture thereon, or as to the financial or technical feasibility of the Enterprise and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Indenture. The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under the Indenture. The Trustee may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

The Trustee will not be liable for any error of judgment made in good faith by a responsible officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture, but the Trustee will be answerable for the negligence or misconduct of any such attorney, agent, or receiver selected by it; provided, however, that the Trustee will not be answerable for the negligence or misconduct of any attorney or certified public accountant selected by it with due care.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Indenture, including, without limitation, the provisions of the Indenture, unless such Bondholders has offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Indenture.

The Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to, any Event of Default (other than an Event of Default described under (a) or (b) under the caption "Events of Default" above) or event which would, with the giving of notice, the passage of time or both, constitute an Event of Default, unless the Trustee shall have actual knowledge of such event or shall have been notified of such event by the City or the Owners of twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Indenture (including, without limitation, the covenants of the City set forth in the Indenture relating to insurance and records and accounts), other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Indenture and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee under the Indenture.

No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

The Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

The Trustee will not be responsible for:

(1) the application or handling by the City of any Net Revenues or other moneys transferred to or pursuant to any Requisition or Request of the City in accordance with the terms and conditions of the Indenture;

(2) the application and handling by the City of any other fund or account designated to be held by the City under the Indenture;

(3) any error or omission by the City in making any computation or giving any instruction pursuant to the covenant provisions of the Indenture relating to insurance and records and accounts and may rely conclusively on any computations or instructions furnished to it by the City in connection with the requirements of the Indenture and the Tax Certificate; or

(4) the construction, operation or maintenance of the Enterprise by the City.

Whether or not therein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture described under this caption "The Trustee."

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

Amendments

Amendments Permitted with Consent. The Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding has been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding described under this under this caption "Amendments."

For any Series of Bonds for which there is a letter of credit or policy of bond insurance in place securing such Series of Bonds, the written consents of each provider of a letter of credit or a policy of bond insurance for such Series of Bonds filed with the Trustee shall be accepted in lieu of consent of the Owners of such Series of Bonds and shall be deemed to be the consent of all of the Owners of such Series of Bonds for purposes of satisfying the requirements descried in the preceding paragraph, provided that at the time such consent is given, the payment of all the principal of and interest on all Outstanding Bonds of such Series will be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which will be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of Moody's or Standard & Poor's.

No such modification or amendment will (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof exclusively, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Net Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution and delivery by the Trustee and the City of any

Supplemental Indenture under the provisions of the Indenture described under this caption "Amendments Permitted With Consent," the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

A copy of each Supplemental Indenture entered into by the City and the Trustee pursuant to the provisions described under this caption "Amendments Permitted with Consent" will be sent by the City to Moody's and Standard & Poor's.

Amendments Not Requiring Consent. The Indenture and the rights and obligations of the City, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the City;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Indebtedness or Parity Debt with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Indenture;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect the interests of the Owners of the Bonds;

(6) if the City agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(7) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture; and

(8) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Defeasance

Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount and subject to the conditions as described under "Deposit of Moneys or Securities with Trustee" to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City pays all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the City, then and in that case (but subject to any additional requirements in connection therewith as may be imposed by any insurer of the Bonds and set forth in a Supplemental Indenture), at the election of the City (evidenced by a Certificate of the City filed with the Trustee signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds have not been surrendered for payment, the Indenture and the pledge of Net Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Trustee will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount and subject to the conditions as described under "Deposit of Moneys or Securities with Trustee" to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee have been made for the giving of such notice, then (but subject to any additional requirements with respect thereto as may be imposed by any insurer of the Bonds and set forth in

a Supplemental Indenture) all liability of the City in respect of such Bond will cease, terminate and be completely discharged, provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City will remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture and the continuing duties of the Trustee under the Indenture.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held will be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that the Trustee has been irrevocably instructed (by the terms of the Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Liability of City Limited to Net Revenues

Notwithstanding anything in the Indenture or in the Bonds contained, the City will not be required to advance any moneys derived from any source other than the Net Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

The Bonds are special, limited obligations of the City. The Bonds will not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but will be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds will not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

April ___, 2018

City of Modesto
Modesto, California

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

$_____
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto, California, a charter city and municipal corporation existing under the laws of the State of California (the "City"), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2018A, in the aggregate principal amount of $_____ (the "Series 2018A Bonds"). The Series 2018A Bonds are being issued under and pursuant to (i) Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law"), and (ii) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and The Bank of New York Mellon Trust Company, N.A., successor trustee (the "Trustee") to U.S. Bank National Association, as amended and supplemented (the "Indenture"), including as amended and supplemented by a Fourth Supplemental Indenture, dated as of April 1, 2018 (the "Fourth Supplemental Indenture"). The Series 2018A Bonds are being issued to provide funds to refund all of the City of Modesto, California, Wastewater Revenue Refunding Bonds, Series 2006A. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Indenture.

In our capacity as bond counsel, we have reviewed the Charter of the City, the Bond Law, the Indenture, certifications of the City, the Trustee and others, opinions of the City Attorney and counsel to the Trustee, the Tax Certificate executed and delivered by the City in connection with the issuance of the Series 2018A Bonds (the "Tax Certificate"), and such other documents, certificates, opinions and matters of law as we have deemed necessary to enable us to render the opinions expressed herein. We have assumed, but have not verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and have assumed the accuracy and completeness of, certificates and letters (including opinion letters), and on oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

Our services as bond counsel were limited to such examination and to rendering the opinions set forth below. Furthermore, we have assumed compliance with all covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Series 2018A Bonds to be included in gross income for federal tax purposes. With respect to the opinions expressed herein, we call attention to the fact that the enforceability of the rights and obligations under the Series 2018A Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in

appropriate cases and to the limitations on legal remedies against charter cities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Enterprise is subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion that, under existing law:

1. The Series 2018A Bonds constitute the valid and binding special limited obligations of the City.

2. The Series 2018A Bonds are payable exclusively from and are secured by a pledge of Net Revenues of the Enterprise and certain amounts pledged under the Indenture. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2018A Bonds.

3. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the City. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2018A Bonds, of the Net Revenues of the Enterprise, and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. Additional bonds and other Parity Debt of the City have been, and may from time to time hereafter be, issued under the Indenture which are payable from Net Revenues on a parity basis with the Series 2018A Bonds.

5. Assuming compliance by the City with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the Series 2018A Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Series 2018A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2018A Bonds is not includable in the gross income of the owners of the Series 2018A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2018A Bonds to be included in gross income retroactive to the date of issuance of the Series 2018A Bonds.

6. Interest on the Series 2018A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Series 2018A Bonds 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 Series 2018A Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt or accrual of interest on, the Series 2018A Bonds. Further, certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Series 2018A Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect of any change to any document pertaining to the Series 2018A Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Series 2018A Bonds for federal income tax purposes.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date

hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2018A Bonds.

This opinion is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the "Disclosure Agreement"), dated as of April ___, 2018, is executed and delivered by the City of Modesto, California (the "Issuer") and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the "Disclosure Dissemination Agent" or "DAC") for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to assist the Issuer in processing certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute "advice" within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer's behalf regarding the "issuance of municipal securities" or any "municipal financial product" as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a "Municipal Advisor" as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"Annual Filing Date" means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

"Annual Report" means an Annual Report containing Annual Financial Information described in and consistent with Section 3 of this Disclosure Agreement.

"Audited Financial Statements" means the annual financial statements of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

"Bonds" means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

"Certification" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"Disclosure Dissemination Agent" means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

"Disclosure Representative" means the Director of Finance of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"Failure to File Event" means the Issuer's failure to file an Annual Report on or before the Annual Filing Date.

"Force Majeure Event" means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent's reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

"Holder" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

"Information" means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"Notice Event" means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

"Obligated Person" means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

"Official Statement" means that Official Statement prepared by the Issuer in connection with the Bonds, as listed in Exhibit A.

"Trustee" means the institution, if any, identified as such in the document under which the Bonds were issued.

"Voluntary Event Disclosure" means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

"Voluntary Financial Disclosure" means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the 31st day of March following the end of each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2018. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 10:00 a.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, if any, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) hereof with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. "Principal and interest payment delinquencies;"

2. "Non-Payment related defaults, if material;"

3. "Unscheduled draws on debt service reserves reflecting financial difficulties;"

4. "Unscheduled draws on credit enhancements reflecting financial difficulties;"

5. "Substitution of credit or liquidity providers, or their failure to perform;"

6. "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"

7. "Modifications to rights of securities holders, if material;"

8. "Bond calls, if material;"

9. "Defeasances;"

10. "Release, substitution, or sale of property securing repayment of the securities, if material;"

11. "Rating changes;"

12. "Tender offers;"

13. "Bankruptcy, insolvency, receivership or similar event of the obligated person;"

14. "Merger, consolidation, or acquisition of the obligated person, if material;" and

15. "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as "Failure to provide annual financial information as required" when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. "amendment to continuing disclosure undertaking;"

2. "change in obligated person;"

3. "notice to investors pursuant to bond documents;"

4. "certain communications from the Internal Revenue Service;" other than those communications included in the Rule;

5. "secondary market purchases;"

6. "bid for auction rate or other securities;"

7. "capital or other financing plan;"

8. “litigation/enforcement action;”

9. “change of tender agent, remarketing agent, or other on-going party;”

10. “derivative or other similar transaction;” and

11. “other event-based disclosures;”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. “quarterly/monthly financial information;”

2. “Timing of annual disclosure (120 days);”

3. “change in fiscal year/timing of annual disclosure;”

4. “change in accounting standard;”

5. “interim/additional financial information/operating data;”

6. “budget;”

7. “investment/debt/financial policy;”

8. “information provided to rating agency, credit/liquidity provider or other third party;”

9. “consultant reports;” and

10. “other financial/operating data.”

(viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 3:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the information provided in the Official Statement with respect to the City in the most recent Fiscal Year

in Tables 3-15 and Table 18; provided that, with respect to Tables 6 and 10, the City will provide such information on an "as available" basis.

(b) Audited Financial Statements as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. In such event, Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Issuer is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other

proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Issuer shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. The Issuer will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws.

The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a

successor, the Issuer shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, if any, for the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Florida (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of page intentionally left blank.]

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Disclosure Dissemination Agent

By:_____
Name:_____
Title:_____

CITY OF MODESTO, CALIFORNIA
as Issuer

By:_____
Name:_____
Title:_____

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer	City of Modesto, California
Obligated Person(s)	City of Modesto, California
Name of Bond Issue:	Wastewater Revenue Refunding Bonds, Series 2018A
Date of Issuance:	April ___, 2018
Date of Official Statement	_____, 2018

CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
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CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Issuer: City of Modesto, California

Obligated Person: City of Modesto, California

Name(s) of Bond Issue(s): Wastewater Revenue Refunding Bonds, Series 2018A

Date(s) of Issuance: April ___, 2018

Date(s) of Disclosure Agreement: April ___, 2018

CUSIP Number: _____

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. [The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____].

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent, on behalf of the Issuer

_____

cc: Director Finance of the City of Modesto

EXHIBIT C-1
EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" may be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

_____

Number of pages attached: _____

____ Description of Notice Events (Check One):

1._____"Principal and interest payment delinquencies;"
2._____"Non-Payment related defaults, if material;"
3._____"Unscheduled draws on debt service reserves reflecting financial difficulties;"
4._____"Unscheduled draws on credit enhancements reflecting financial difficulties;"
5._____"Substitution of credit or liquidity providers, or their failure to perform;"
6._____"Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7._____"Modifications to rights of securities holders, if material;"
8._____"Bond calls, if material;"
9._____"Defeasances;"
10._____"Release, substitution, or sale of property securing repayment of the securities, if material;"
11._____"Rating changes;"
12._____"Tender offers;"
13._____"Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14._____"Merger, consolidation, or acquisition of the obligated person, if material;" and
15._____"Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

____ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of April ___, 2018 between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

_____

Number of pages attached: _____

____ Description of Voluntary Event Disclosure (Check One):

1._____"amendment to continuing disclosure undertaking;"
2._____"change in obligated person;"
3._____"notice to investors pursuant to bond documents;"
4._____"certain communications from the Internal Revenue Service;"
5._____"secondary market purchases;"
6._____"bid for auction rate or other securities;"
7._____"capital or other financing plan;"
8._____"litigation/enforcement action;"
9._____"change of tender agent, remarketing agent, or other on-going party;"
10._____"derivative or other similar transaction;" and
11._____"other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-3
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary financial disclosure" may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of April ___, 2018, between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

_____

Number of pages attached: _____

____ Description of Voluntary Financial Disclosure (Check One):

1._____"quarterly/monthly financial information;"
2._____"change in fiscal year/timing of annual disclosure;"
3._____"change in accounting standard;"
4._____"interim/additional financial information/operating data;"
5._____"budget;"
6._____"investment/debt/financial policy;"
7._____"information provided to rating agency, credit/liquidity provider or other third party;"
8._____"consultant reports;" and
9._____"other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

APPENDIX F

BOOK ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2018A Bonds. The Series 2018A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2018A Bond certificate will be issued in the aggregate principal amount of each maturity of the Series 2018A Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2018A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2018A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2018A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Series 2018A Bonds, except in the event that use of the book-entry system for the Series 2018A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2018A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2018A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018A Bonds, such as redemptions, defaults, and proposed amendments to the Series 2018A Bond documents. For example, Beneficial Owners of Series 2018A Bonds may

wish to ascertain that the nominee holding the Series 2018A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2018A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2018A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2018A Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2018A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds, and interest payments on the Series 2018A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC nor of its nominee, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2018A Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2018A Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 2018A Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The City and the Underwriter cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of, premium, if any, and interest on the Series 2018A Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 2018A Bonds or any error or delay relating thereto.

None of the City, the Underwriter or the Trustee will have any responsibility or obligation to Direct Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Direct Participant, or any Indirect Participant; (ii) the payment by DTC or any Direct Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Series 2018A Bonds; (iii) any notice that is permitted or required to be given to Holders under the Indenture; (iv) the selection by DTC, any Direct Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Series 2018A Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Direct Participants or Indirect Participants under the book-entry system.

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CALIFORNIA

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RULE 15c2-12 CERTIFICATE

CITY OF MODESTO, CALIFORNIA
Wastewater Revenue Refunding Bonds,
Series 2018A

The undersigned hereby certifies to Raymond James & Associates, Inc. (the "Underwriter") that I am an authorized representative of the City of Modesto (the "City"), and as such, I am authorized to execute and deliver this Certificate and further hereby certify and confirm on behalf of the City to the Underwriter as follows:

(1) This Certificate is delivered to enable the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the above-captioned bonds (the "Bonds").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement, setting forth information concerning the Bonds and the City (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" means the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters, all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule and has been, and the information therein is, accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, the undersigned has executed this certificate as of this 9th day of March, 2018.

CITY OF MODESTO

By:_____

DeAnna Christensen
Acting Director of Finance

$11,340,000
CITY OF MODESTO, CALIFORNIA
Wastewater Revenue Refunding Bonds,
Series 2018A

BOND PURCHASE AGREEMENT

March 20, 2018

City of Modesto
1010 10th Street
Modesto, California 95354

Ladies and Gentlemen:

The undersigned, Raymond James & Associates, Inc. (the "**Underwriter**"), offers to enter into this Bond Purchase Agreement (this "**Purchase Agreement**") with the City of Modesto (the "**City**"), which will be binding upon the City and the Underwriter upon the acceptance hereof by the City. This offer is made subject to its acceptance by the City by execution of this Purchase Agreement and its delivery to the Underwriter on or before 11:59 p.m., California time, on the date hereof. All terms used herein and not otherwise defined shall have the respective meanings given to such terms in the Indenture (as hereinafter defined).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase from the City for offering to the public, and the City hereby agrees to sell to the Underwriter for such purpose, all (but not less than all) of the $11,340,000 aggregate principal amount of the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "**Bonds**"), at a purchase price equal to $13,373,634.04, being the aggregate principal amount thereof, plus original issue premium of $2,083,429.80, less an underwriter's discount of $49,795.76.

The City acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm's-length commercial transaction between the City and Underwriter; (ii) in connection with such transaction, including the process leading thereto, the Underwriter is acting solely as a principal and not as an agent or a fiduciary of the City; (iii) the Underwriter has neither assumed an advisory or fiduciary responsibility in favor of the City with respect to the offering of the Bonds or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the City on other matters) nor has it assumed any other obligation to the City except the obligations expressly set forth in this Purchase Agreement; (iv) the Underwriter has financial and other interests that differ from those of the City; and (v) the City has consulted with its own legal and financial advisors to the extent it deemed appropriate in connection with the offering of the Bonds. The City acknowledges

that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under rule G-17 of the Municipal Securities Rulemaking Board (the "**MSRB**").

2. Authorizing Instruments and Law. The City is issuing the Bonds pursuant to (a) the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "**Bond Law**"), which was enacted by the City Council on October 2, 1984, pursuant to its authority under the Charter of the City of Modesto, and the constitution and laws of the State of California; (b) resolutions adopted by the City Council of the City of Modesto (the "**City Council**") on March 6, 2018; and (c) a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and The Bank of New York Trust Company, N.A., as successor trustee (the "**Trustee**"), as amended and supplemented from time to time, including as supplemented by a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, by and between the City and the Trustee (as so amended and supplemented, the "**Indenture**"). The Bonds shall be as described in the Indenture and the Official Statement (described below).

The Bonds are being issued to provide funds to: (a) refund all of the City's outstanding City of Modesto, California Wastewater Revenue Bonds, Series 2006A (the "**Refunded Bonds**"), and (b) pay the costs of issuing the Bonds.

In order to enable the Underwriter to comply with Rule 15c2-12 under the Securities Exchange Act of 1934 (the "**Rule**"), the City will execute and deliver a Disclosure Dissemination Agent Agreement, dated as of April 19, 2018 (the "**Continuing Disclosure Agreement**").

3. Public Offering. The Underwriter agrees to make a bona fide public offering of all the Bonds initially at the public offering prices (or yields) set forth on **Appendix A** attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth on **Appendix A**. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices.

The Bonds will be subject to redemption as set forth on **Appendix A**.

4. Delivery of Official Statement. The City has delivered or caused to be delivered to the Underwriter prior to the execution of this Purchase Agreement, copies of the Preliminary Official Statement relating to the Bonds (the "**Preliminary Official Statement**"). Such Preliminary Official Statement is the official statement deemed final by the City for purposes of the Rule and approved for distribution by resolution of the City Council. The City has executed and delivered to the Underwriter a certification to such effect in the form attached hereto as **Appendix B**.

Within seven (7) business days from the date hereof, or such earlier date identified by the Underwriter to meet its obligation under MSRB Rule G-32, the City shall deliver to the Underwriter a final Official Statement, executed on behalf of the City and dated the date of delivery thereof to the Underwriter, which shall include information permitted to be omitted by paragraph (b)(1) of the Rule and with such other amendments or supplements as shall have been approved by the City and the Underwriter (the "**Official Statement**") and such additional conformed copies thereof as the Underwriter may reasonably request in sufficient quantities to comply with the Rule and to meet potential customer requests for copies of the Official Statement.

The Underwriter agrees to comply with the Rule and applicable rules of the MSRB with respect to the Preliminary Official Statement and the Official Statement.

5. The Closing. At 8:00 a.m., California time, on April 19, 2018, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the City and the Underwriter (the "**Closing Date**"), the City will deliver (a) the Bonds in definitive form to the Underwriter duly executed and authenticated by the Trustee, and (b) the closing documents hereinafter mentioned at the offices of Norton Rose Fulbright US LLP, San Francisco, California ("**Bond Counsel**"), or another place to be mutually agreed upon by the City and the Underwriter. The Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof in immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the "**Closing**." The Bonds will be delivered as fully registered, book-entry-only bonds initially in denominations equal to the principal amount of each maturity thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, and will be made available for checking by the Underwriter at such place as the Underwriter and Bond Counsel shall agree not less than 24 hours prior to the Closing.

6. City Representations, Warranties and Covenants. The City represents, warrants and covenants to the Underwriter that:

(a) Due Organization, Existence and Authority. The City is a charter city and municipal corporation, duly organized and existing under the laws of the State with full right, power and authority to issue the Bonds and to execute, deliver and perform its obligations under the Bonds, this Purchase Agreement and the Indenture (collectively, the "**City Documents**") and to carry out and consummate the transactions contemplated by the City Documents and described in the Official Statement.

(b) Due Authorization and Approval. By all necessary official action, the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations contained in, the Bonds, the Preliminary Official Statement, the Official Statement, and the City Documents and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered, the City Documents will constitute the legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally. The City has complied, and will at the Closing be in compliance in all respects, with the terms of the City Documents.

(c) Official Statement Accurate and Complete. The Preliminary Official Statement was as of its date, and the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true, complete and correct in all material respects and the Preliminary Official Statement and the Official Statement contain no misstatement of any material fact and do not omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system).

(d) Underwriter's Consent to Amendments and Supplements to Official Statement. Until the date which is twenty-five (25) days after the "end of the underwriting period" (as defined below), if any event shall occur of which the City is aware, as a result of which it may be necessary

to supplement the Official Statement in order to make the statements in the Official Statement, in light of the circumstances existing at such time, not misleading, the City shall forthwith notify the Underwriter of any such event of which it has knowledge and shall cooperate fully in furnishing any information available to it for any supplement to said sections and the City shall promptly furnish to the Underwriter a reasonable number of copies of such supplement.

As used herein, the term "**end of the underwriting period**" means the later of such time as (i) the City delivers the Bonds to the Underwriter, or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the "end of the underwriting period" shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be written notice delivered to the City at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the "end of the underwriting period."

(e) No Breach or Default. As of the time of acceptance hereof and as of the time of the Closing, except as otherwise disclosed in the Official Statement, the City is not and will not be in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach or default would materially adversely affect the security of the Bonds or the City's performance under the City Documents; and, as of such times, except as disclosed in the Official Statement, the authorization, execution and delivery of the City Documents and the Bonds and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the City, State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(f) No Litigation. As of the time of acceptance hereof and the Closing, except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending and served or, to the best of the City's knowledge, threatened (i) in any way questioning the existence of the City or the titles of the officers of the City to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds, the City Documents or the consummation of the transactions contemplated thereby or hereby, or contesting the exclusion of the interest on the Bonds from taxation or contesting the powers of the City or its authority to issue the Bonds; (iii) which may result in any material adverse change relating to the City or relating to the financial condition of the Enterprise or the City's ability to pay debt service on the Bonds; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements

therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(g) Preliminary Official Statement. For purposes of the Rule, the City has heretofore deemed final the Preliminary Official Statement prior to its use and distribution by the Underwriter, except for the information specifically permitted to be omitted by paragraph (b)(1) of the Rule.

(h) Continuing Disclosure. Except as disclosed in the Preliminary Official Statement and the Official Statement, the City has not failed in any material respect to comply with any undertaking under the Rule in the past five years.

(i) Existing Senior and Parity Obligations. There are no obligations outstanding that are payable from the Net Revenues on a senior basis to the Bonds or, except as disclosed in the Preliminary Official Statement and the Official Statement, on a parity basis to the Bonds.

(j) Representation to Underwriter. Any certificate signed by any official of the City and delivered to the Underwriter shall be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

(k) Cooperation with Blue Sky. The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, that the City shall not be required to register in any such state or jurisdiction or consent to service of process therein.

7. Closing Conditions. The Underwriter has entered into this Purchase Agreement in reliance upon the representations, warranties and covenants herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the Closing Date. The Underwriter's obligations under this Purchase Agreement to purchase and pay for the Bonds shall be subject to the following additional conditions:

(a) Bring-Down Representations. The representations and warranties of the City contained herein shall be true, complete and correct at the date hereof and at the time of the Closing, as if made on the Closing Date.

(b) Executed Agreements and Performance Thereunder. At the time of the Closing, (i) the City Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter and (ii) there shall be in full force and effect such resolutions as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated by the Official Statement and the City Documents.

(c) Termination Events. The Underwriter shall have the right to terminate this Purchase Agreement, without liability therefor, by notification to the City if at any time at or prior to the Closing:

(i) any event shall occur which causes any material misstatement in the Official Statement or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(ii) the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Agreement in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the Bonds; or

(vi) a general banking moratorium shall have been established by federal or State authorities; or

(vii) there shall have occurred any outbreak of hostilities or other local, national or international calamity or crisis, or a default with respect to the debt obligations of, or the institution of proceedings under the federal bankruptcy laws by or against, any state of

the United States or agency thereof, or any city in the United States having a population of over one million, the effect of which on the financial markets of the United States will be such as in the Underwriter's reasonable judgment, makes it impracticable for the Underwriter to market the Bonds or enforce contracts for the sale of the Bonds; or

(viii) any rating of the Bonds shall have been downgraded, suspended or withdrawn by a national rating service, or there shall have occurred or any notice shall have been given of any intended downgrading, suspension, withdrawal or negative change in credit watch status by any national rating service to any of the City's obligations; or

(ix) the commencement of any action, suit or proceeding described in Section 6(f) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the Bonds; or

(x) there shall be in force a general suspension of trading on the New York Stock Exchange; or

(xi) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially and adversely affected by disruptive events, occurrences or conditions in the securities or debt markets; or

(xii) there shall have been any materially adverse change in the affairs of the City as it relates to the Enterprise which in the Underwriter's reasonable judgment materially adversely affects the ability of the Underwriter to market the Bonds.

(d) Closing Documents. At or prior to the Closing, the Underwriter shall receive with respect to the Bonds (unless the context otherwise indicates) the following documents:

(1) *Bond Opinion*. An approving opinion of Bond Counsel dated the Closing Date and substantially in the form appended to the Official Statement, together with a letter from such counsel, dated the Closing Date and addressed to the Underwriter, to the effect that the foregoing opinion may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it.

(2) *Supplemental Opinion*. A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in substantially the form and to the following effect:

(i) The statements contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "THE SERIES 2018A BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS" and "TAX MATTERS," and in APPENDICES C, D and E, insofar as such statements expressly purport to summarize certain provisions of the Bonds, the Indenture and the Continuing Disclosure Agreement and the final approving opinion of Bond Counsel, fairly and accurately summarize the information presented therein in all material respects; provided, that Bond Counsel is not required to express any opinion with respect to any financial, statistical or numerical information contained therein;

(ii) The Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended; and

(iii) The Purchase Agreement has been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the Underwriter, constitutes the legal, valid and binding agreement of the City enforceable against the City in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally and equitable remedies if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and limitations on remedies against public agencies, and except as the enforceability of the indemnification or waiver provisions may be limited by applicable securities laws or public policy.

(3) *Defeasance Opinion*. An opinion of Bond Counsel dated the Closing Date, to the effect that the City has taken all actions required to defease the Refunded Bond, and that such Refunded Bonds are no longer outstanding under the terms of the indenture pursuant to which they were issued.

(4) *Disclosure Counsel Letter*. A letter of Norton Rose Fulbright US LLP, San Francisco, California, as disclosure counsel to the City ("**Disclosure Counsel**"), dated the Closing Date, addressed to the Underwriter substantially to the effect that on the basis of the information made available to such firm in the course of its participation in the preparation of the Official Statement (but without having undertaken to determine or verify independently, or assuming any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement), no facts have come to the attention of the personnel in such firm directly involved in rendering legal advice and assistance to the City in connection with the preparation of the Official Statement which cause such firm to believe that the Official Statement as of its date (excluding therefrom financial, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; information relating to The Depository Trust Company and the book-entry only system, and Appendices B and F; as to all of which no view need be expressed) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(5) *City Attorney Opinion*. An opinion of Meyers Nave Riback Silver & Wilson, PLC, as City Attorney, dated the Closing Date and addressed to the Underwriter, in form and substance acceptable to the Underwriter, substantially to the following effect:

(i) The City is a charter city and municipal corporation, duly organized and validly existing under the Constitution and the laws of the State;

(ii) The resolution of the City (the "**City Resolution**") approving and authorizing the execution and delivery of the City Documents and approving the Official Statement, was duly adopted at a meeting of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the City Resolution is in full force and effect and has not been modified, amended or rescinded;

(iii) The City Documents have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(iv) The rates, fees and charges for the services provided by the City with respect to the Enterprise have been established in a manner that complies in all material respects with the applicable requirements of Articles XIIIC and XIIID of the California Constitution and other applicable laws of the State;

(v) The execution and delivery of the City Documents and compliance with the provisions thereof, 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 of or default under, any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject;

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the Closing Date for the City to enter into the City Documents, or to perform its obligations thereunder; and

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the City's obligations under the City Documents or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or affects in any manner the right or ability of the City to pay debt service on the Bonds.

(6) *Trustee Counsel Opinion*. The opinion of counsel to the Trustee, dated the Closing Date, addressed to the Underwriter, to the effect that:

(i) The Trustee is a national banking association, duly organized and validly existing under the laws of the United States of America, having full power to enter into, accept and administer the trusts created under the Indenture;

(ii) The Indenture has been duly authorized, executed and delivered by the Trustee, and constitute the legal, valid and binding obligation of the Trustee, enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of

creditors' rights generally and by the application of equitable principles, if equitable remedies are sought; and

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery of the Indenture, or the consummation of the transactions contemplated by the Indenture.

(7) *Letter of Underwriter's Counsel*. A letter of Jones Hall, A Professional Law Corporation, counsel to the Underwriter, dated the Closing Date, and addressed to the Underwriter, in form and substance satisfactory to the Underwriter.

(8) *Trustee's Certificate*. A certificate of the Trustee, dated the Closing Date, in form and substance acceptable the Underwriter, to the following effect:

(i) The Trustee is duly organized and existing as a national banking association in good standing under the laws of the United States of America, having the full power and authority to enter into and perform its duties under the Indenture;

(ii) The Trustee has duly and validly executed the Indenture, and the Indenture constitutes the legal, valid and binding agreement of the Trustee, enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases; and

(iii) To the best knowledge of the Trustee after due inquiry, there is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body served on the Trustee or threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Indenture or contesting the powers of the Trustee or its authority to enter into, accept and perform its obligations under the Indenture.

(9) *City Certificate*. A certificate of the City, dated the Closing Date, signed on behalf of the City by a duly authorized officer of the City to the effect that:

(i) The representation and warranties of the City contained in the Purchase Agreement are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date and the City has complied with all of the terms and conditions of the Purchase Agreement required to be complied with by the City at or prior to the Closing Date; and

(ii) No event affecting the City has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(10) *Documents*. An original executed copy of this Purchase Agreement and of each of the other City Documents (other than the Bonds).

(11) *City Resolution*. A certified copy of the City Resolution.

(12) *Form 8038-G*. Evidence that the federal tax information form 8038-G has been prepared for filing.

(13) *Tax Certificate*. A tax certificate in form satisfactory to Bond Counsel.

(14) *CDIAC Statement*. A copy of the preliminary and final reports of sale to be delivered to the California Debt and Investment Advisory Commission with respect to the Bonds.

(15) *Ratings*. Evidence that the Bonds have been given the ratings shown in the Official Statement.

(16) *Additional Documents*. Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the Closing Date, of the representations contained herein and in the Official Statement and the due performance or satisfaction by the Trustee and the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied in connection with the delivery and sale of the Bonds.

If the City shall be unable to satisfy the conditions contained in this Purchase Agreement, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except as further set forth in Section 8 hereof.

8. Expenses. The Underwriter shall be under no obligation to pay and the City shall pay or cause to be paid the expenses incident to the performance of the obligations of the City hereunder, including but not limited to (a) the costs of the preparation and printing, or other reproduction of the City Documents, and the cost of preparing, printing, issuing and delivering the definitive Bonds, (b) the fees and disbursements of any counsel, municipal advisor, accountants or other experts or consultants retained by the City, including Bond Counsel and Disclosure Counsel, (c) the cost of preparation and printing of the Preliminary Official Statement and the Official Statement, including the requisite number of copies thereof for distribution by the Underwriter, and any supplements and amendments thereto, and (d) charges of rating agencies for the rating(s) of the Bonds.

The Underwriter shall pay all out-of-pocket expenses of the Underwriter, including, without limitation, advertising expenses, the California Debt and Investment Advisory Commission fee, CUSIP Services Bureau charges, and any and all other expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds, including the fees and expenses of Underwriter's counsel.

9. Notice. Any notice or other communication to be given to the City under this Purchase Agreement may be given by delivering the same in writing to the applicable address set forth above. Any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Raymond James & Associates, Inc., One Embarcadero Center, Suite 650, San Francisco, California 94111, Attention: Rob Larkins, Managing Director.

10. Establishment of Issue Price.

(a) The Underwriter agrees to assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at Closing an "issue price" or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as **Appendix C**, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the City, and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds. All actions to be taken by the City under this section to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor, and any notice or report to be provided to the City may be provided to the municipal advisor.

(b) The City will treat the first price at which 10% of each maturity of the Bonds (the "**10% test**") is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). Prior to the execution of this Purchase Agreement, the Underwriter has reported to the City the price or prices at which it has sold to the public each maturity of Bonds, and has reported prices and amounts of each maturity of the Bonds to establish that the 10% test has been satisfied with respect to each maturity of the Bonds. Accordingly, the parties have agreed that the hold-the-offering-price rule shall not apply to any maturity of the Bonds.

(c) The Underwriter confirms that any selling group agreement and any retail distribution agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public.

(d) The Underwriter acknowledges that sales of any Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(i) "**public**" means any person other than an underwriter or a related party,

(ii) "**underwriter**" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "**related party**" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships

(including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "**sale date**" means the date of execution of this Purchase Agreement by all parties.

11. Entire Agreement; Survival. This Purchase Agreement, when accepted by the City, shall constitute the entire agreement among the City and the Underwriter and is made solely for the benefit of the City and the Underwriter (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. The representations and warranties of the parties set forth in or made pursuant to this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Purchase Agreement and regardless of any investigations made by or on behalf of them (or statements as to the results of such investigations) concerning such representations and statements of the parties and regardless of delivery of and payment for the Bonds.

12. Counterparts. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

13. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

14. State of California Law Governs. The validity, interpretation and performance of this Purchase Agreement shall be governed by the laws of the State.

[Signature pages follow]

15. No Assignment. The rights and obligations created by this Purchase Agreement shall not be subject to assignment by the Underwriter or the City without the prior written consent of the other parties hereto.

RAYMOND JAMES & ASSOCIATES, INC.

By: _____
Managing Director

Accepted as of the date first stated above at 5:50 a.m./p.m.

CITY OF MODESTO

By: _____
Authorized Officer

APPENDIX A

Maturity Schedule

Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	Price	10% Test Satisfied*	10% Test Not Satisfied	Subject to the Hold-The-Offering-Price Rule
2025	$710,000	5.000%	2.170%	119.569	Y	-	N
2026	750,000	5.000	2.330	120.552	Y	-	N
2027	780,000	5.000	2.460	121.466	Y	-	N
2028	825,000	5.000	2.550	122.505	Y	-	N
2029	865,000	5.000	2.630	121.680 C	Y	-	N
2030	910,000	5.000	2.730	120.657 C	Y	-	N
2031	955,000	5.000	2.820	119.745 C	Y	-	N
2032	1,005,000	5.000	2.900	118.942 C	Y	-	N
2033	1,055,000	5.000	2.950	118.443 C	Y	-	N
2034	1,110,000	5.000	2.990	118.046 C	Y	-	N
2035	1,160,000	4.000	3.250	106.643 C	Y	-	N
2036	1,215,000	5.000	3.060	117.355 C	Y	-	N

C: Priced to first optional redemption date of November 1, 2028 at par.

* At the time of execution of this Purchase Agreement and assuming orders are confirmed immediately after the execution of this Purchase Agreement.

Redemption Provisions

Optional Redemption from any Source of Available Funds. The Bonds maturing on or after November 1, 2029 are subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2028, at a redemption price equal to 100% of the principal amount of such Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

APPENDIX B

FORM OF RULE 15c2-12 CERTIFICATE

CITY OF MODESTO, CALIFORNIA
Wastewater Revenue Refunding Bonds,
Series 2018A

The undersigned hereby certifies to Raymond James & Associates, Inc. (the "Underwriter") that I am an authorized representative of the City of Modesto (the "City"), and as such, I am authorized to execute and deliver this Certificate and further hereby certify and confirm on behalf of the City to the Underwriter as follows:

(1) This Certificate is delivered to enable the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the above-captioned bonds (the "Bonds").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement, setting forth information concerning the Bonds and the City (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" means the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters, all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule and has been, and the information therein is, accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, the undersigned has executed this certificate as of this 9th day of March, 2018.

CITYOF MODESTO

By:_____
Authorized Representative

APPENDIX C

FORM OF ISSUE PRICE CERTIFICATION

$11,340,000
CITY OF MODESTO, CALIFORNIA
Wastewater Revenue Refunding Bonds,
Series 2018A

CERTIFICATE OF THE UNDERWRITER

This Certificate is furnished by Raymond James & Associates, Inc., as the underwriter (the "Raymond James") in connection with the issuance on April 19, 2018 (the "Issue Date") of the $11,340,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds"), dated April 19, 2018, issued by the City of Modesto, California (the "City").

The undersigned, as authorized representative, based on available records and information which the undersigned believes to be correct, does hereby certify as follows:

A. Issue Price.

1. As of March 20, 2018 (the "Sale Date"), for each Maturity of the Bonds has been the subject of a bona fide offering to the Public at the prices not higher than and yields not lower than shown in the Official Statement (the "Initial Offering Price").

2. As of the Sale Date the first price or yield at which at least 10% of each Maturity of the Bonds was sold by Raymond James to the Public was the Initial Offering Price, as listed in the Official Statement.

For purposes of this certificate the following definitions apply:

"Maturity" shall refer to Bonds with the same maturity date, interest rate and credit terms.

"Public" means any person (including an individual, trust, estate, partnership, association, company or corporation) other than an Underwriter or a Related Party, as defined below, to an Underwriter.

"Underwriter" means (i) Raymond James, (ii) any person that agrees pursuant to a written contract to participate in the initial sale of the Bonds to the Public, and (iii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (ii) of this definition to participate in the initial sale of the Bonds to the Public, including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public.

"Related Party" means any entity if an Underwriter and such entity are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct

ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profit interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

B. Bond Yield.

We have been asked to calculate the arbitrage yield on the Bonds, under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel has advised us that the yield on the Bonds is to be computed under the economic accrual method using an assumed 30-day month/360-day year, semiannual compounding. We have also been advised by the City that no other transaction (such as an interest rate swap or other hedge) has been entered into by the City in connection with the issuance of the Bonds or is otherwise to be taken into account in the computation of the yield on the Bonds. In calculating the yield on the Bonds, the annual debt service amounts used are equivalent to those amounts that generate the lowest yield for the investor. Based on this methodology, to the best of our understanding of the computational methodology imposed by the Code, the arbitrage yield on the Bonds is not less than 2.799274%. For purposes of calculating the yield of the Bonds, with respect to each maturity of the Bonds due on or after November 1, 2029 (the "Callable Premium Bonds"), the lowest yield on each separate maturity of the Callable Premium Bonds was obtained by assuming the Bonds of that maturity are redeemed on November 1, 2028, their first optional redemption date.

C. Weighted Average Maturity.

We have been asked to calculate the weighted average Maturity in the following manner: divide (a) the sum of the products determined by taking the issue price of each maturity of the Bonds times the number of years from the date hereof to the date of such Maturity (treating the mandatory sinking fund redemption of Bonds as a maturity), by (b) the aggregate issue price of the Bonds. Based on this calculation, the weighted average maturity of the Bonds is 13.538 years.

The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Tax Certificate with respect to the Bonds and with respect to compliance with the federal income tax rules affecting the Bonds, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Except as expressly set forth above, the certifications set forth herein may not be relied upon or used by any third party or for any other purpose. All terms not defined herein have the meanings ascribed to those terms in the attached Tax Certificate.

Notwithstanding the foregoing, we remind you that we are not accountants or actuaries, nor are we engaged in the practice of law. Accordingly, while we believe the calculations described above to be correct, we do not warrant them to be so, and the Underwriter makes no representations as to the legal sufficiency of the factual matters set forth herein.

The undersigned is authorized to execute this certificate on behalf of Raymond James & Associates, Inc., and the certifications set forth above are not necessarily based on personal

knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein.

Dated: April 19, 2018

RAYMOND JAMES & ASSOCIATES, INC.

By: _____
Name: _____
Title: _____

NEW ISSUE – BOOK-ENTRY ONLY **RATING: S&P: AA**

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Series 2018A Bonds and requirements of the Internal Revenue Code of 1986 (the "Code"), as amended, as described herein, interest on the Series 2018A Bonds is not includable in the gross income of the owners of the Series 2018A Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Series 2018A Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Series 2018A Bonds 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 Series 2018A Bonds is exempt from personal income taxes imposed by the State of California. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2018A Bonds. See "TAX MATTERS."

$11,340,000
CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2018A

Dated: Date of Delivery **Due: November 1, as shown on the inside front cover hereof**

The Wastewater Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds") are being issued by the City of Modesto (the "City") to provide funds to (i) refund all of the City's outstanding Wastewater Revenue Bonds, Series 2006A and (ii) pay the costs of issuance of the Series 2018A Bonds, as more fully described herein. The Series 2018A Bonds are being issued pursuant to Chapter 6 of Title VIII of the Modesto Municipal Code and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented and amended, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee.

Interest on the Series 2018A Bonds is payable on May 1 and November 1 of each year, commencing on November 1, 2018. Principal of the Series 2018A Bonds is payable on the dates set forth on the inside front cover hereof.

The Series 2018A Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2018A Bonds. Individual purchases of interests in the Series 2018A Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the Series 2018A Bonds. Principal of, redemption premium, if any, and interest on the Series 2018A Bonds are payable directly by The Bank of New York Mellon Trust Company, N. A., San Francisco, California, as successor trustee (the "Trustee"), to DTC, which is obligated in turn to remit such principal, redemption premium, if any, and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2018A Bonds, as described herein.

The Series 2018A Bonds are subject to optional redemption and special mandatory redemption prior to their respective maturities as described herein.

THE SERIES 2018A BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM THE NET REVENUES DERIVED BY THE CITY FROM THE OPERATION OF THE CITY'S WASTEWATER ENTERPRISE. THE PRINCIPAL OF AND INTEREST ON THE SERIES 2018A BONDS, AND ANY PREMIUMS UPON THE REDEMPTION OF ANY THEREOF, ARE NOT A DEBT OF THE CITY, OR A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY PROPERTY OF THE CITY OR UPON ANY OF ITS INCOME, RECEIPTS OR REVENUES EXCEPT THE NET REVENUES AND OTHER FUNDS PLEDGED TO THE PAYMENT THEREOF AS PROVIDED IN THE INDENTURE.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security for or the terms of the Series 2018A 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.

Maturity Schedule
(See inside cover)

The Series 2018A Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of validity by Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California; for the City by the City Attorney and by Norton Rose Fulbright US LLP, Disclosure Counsel; and for the Trustee by its General Counsel. It is anticipated that the Series 2018A Bonds will be available for delivery in book-entry form to DTC in New York, New York on or about April 19, 2018.

Raymond James

Dated: March 20, 2018

MATURITY SCHEDULE

$11,340,000 Series 2018A Serial Bonds

Maturity Date (November 1)	***Principal Amount***	***Interest Rate***	***Yield***	***CUSIP† (Base Number 607802)***
2025	$ 710,000	5.00%	2.17%	BD6
2026	750,000	5.00	2.33	BE4
2027	780,000	5.00	2.46	BF1
2028	825,000	5.00	2.55	BG9
2029	865,000	5.00	2.63[C]	BH7
2030	910,000	5.00	2.73[C]	BJ3
2031	955,000	5.00	2.82[C]	BK0
2032	1,005,000	5.00	2.90[C]	BL8
2033	1,055,000	5.00	2.95[C]	BM6
2034	1,110,000	5.00	2.99[C]	BN4
2035	1,160,000	4.00	3.25[C]	BP9
2036	1,215,000	5.00	3.06[C]	BQ7

† *CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Agency and are included solely for the convenience of the beneficial owners of the applicable Series 2018A Bonds. Neither the City nor the Underwriter is responsible for the selection or uses of the CUSIP number, and no representation is made as to its correctness on the Series 2018A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2018A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2018A Bonds.*

[C] Priced to first optional call date of November 1, 2028.

CITY OF MODESTO, CALIFORNIA
1010 10th Street
P.O. Box 642
Modesto, California 95353
(209) 577-5369

CITY COUNCIL

Ted Brandvold, Mayor
Tony Madrigal, Vice Mayor
Mani Grewal
Kristi Ah You
Bill Zoslocki
Jenny Kenoyer
Douglas Ridenour

CITY OFFICIALS

Joseph Lopez, Interim City Manager
Adam Lindgren, City Attorney
DeAnna Christensen, Acting Director of Finance
William Wong, Acting Director of Utilities

_____

SPECIAL SERVICES

Bond and Disclosure Counsel

Norton Rose Fulbright US LLP
San Francisco, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

Municipal Advisor

PFM Financial Advisors LLC
San Francisco, California

All the information which the City of Modesto intends to present investors regarding the City and the Series 2018A Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision, or to provide any continuing information, with respect to the Series 2018A Bonds or any other obligations of the City. Moreover, none of the information on the website is incorporated herein by reference. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the 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 Series 2018A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2018A 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 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.

The issuance and sale of the Series 2018A Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included in this Official Statement constitute "Forward- Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" and other similar words and include, but are not limited to, statements that describe possible future connections to and revenues and expenses of the Enterprise.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the City has agreed to provide certain on-going financial and operating data (see "CONTINUING DISCLOSURE" and Appendix E hereto), it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

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$11,340,000
CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2018A

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Series 2018A Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

Purpose

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the offering by the City of Modesto (the "City") of its Wastewater Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds"). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions thereof.

The Series 2018A Bonds are being issued by the City to provide funds to (i) refund all of the City's outstanding Wastewater Revenue Bonds, Series 2006A (the "Refunded Bonds") and (ii) pay the costs of issuance of the Series 2018A Bonds, as more fully described herein.

See "ESTIMATED SOURCES AND USES OF FUNDS."

Authority for Issuance

The Series 2018A Bonds are being issued pursuant to (a) the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law"), which was enacted by the City Council on October 2, 1984, pursuant to its authority under the Charter of the City of Modesto, and the constitution and laws of the State of California and (b) a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee"), as amended and supplemented (as amended and supplemented, the "Indenture"), including as supplemented by a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, by and between the City and the Trustee, providing for the issuance of the Series 2018A Bonds.

The City

The City, which has a population of approximately 215,080 as of January 1, 2017, is the county seat of Stanislaus County and was incorporated in 1884. It covers approximately 37.4 square miles. The City operates under a council-manager form of government pursuant to a charter adopted in 1963. The City is located in central California, approximately 93 miles east of the City and County of San Francisco. See Appendix A – "CERTAIN INFORMATION REGARDING THE CITY OF MODESTO."

The Wastewater Enterprise

The City's wastewater facilities are comprised of the wastewater collection system and the treatment and disposal facilities located at its water quality control facilities. The City's wastewater collection and treatment system (the "Enterprise") services the entire City and additionally accepts some sewage flow from parts of the City of Ceres and some unincorporated communities in the County of Stanislaus, including Empire. The service outside the City is described in various individual contracts with the individual agencies. The current population of the area served by the Enterprise is approximately 200,000, but the City estimates that it could grow to approximately 270,900 by 2035.

Security and Sources of Payment for the Series 2018A Bonds

The payment of the principal of, redemption premium, if any, and interest on the Series 2018A Bonds is secured equally and ratably, along with the payment of any additional Bonds and Parity Debt (as defined herein) issued under the Indenture, by a first lien on and pledge of the Net Revenues (as defined herein) derived from the operation of the facilities comprising the Enterprise and the moneys and securities held by the Trustee in the funds under the Indenture. Moneys held by the Trustee under the Indenture secure the Bonds and any Parity Debt. Following the issuance of the Series 2018A Bonds, the City's outstanding Parity Debt (the "Existing Parity Debt") will include: (i) a revolving fund loan from the State of California, issued in 2011 (the "2011 State Loan"), in the initial principal amount of $127,157,943.06, (ii) the City of Modesto, California, Wastewater Revenue Refunding Bond, Series 2015 (the "Series 2015 Bond"), in the initial principal amount of $19,429,912.56, issued to Capital One Public Funding, LLC, and (iii) a revolving fund loan from the State of California, issued in 2016 (the "2016 State Loan"), in the initial principal amount of $41,862,028. The pledge of Net Revenues to the 2011 State Loan, the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. The Series 2018A Bonds and any other Series of bonds to be issued under the Indenture are sometimes collectively referred to herein as the "Bonds." As of the date of issuance, the Series 2018A Bonds will be the only Bonds issued and outstanding under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS—Net Revenue Pledge; Parity Debt."

Parity Debt

The Series 2018A Bonds are being issued on a parity with the Existing Parity Debt. The City may at any time issue or incur Parity Debt payable from the Net Revenues and other funds as provided in the Indenture and secured by a lien and charge on a parity with the lien and charge securing the Bonds and the Existing Parity Debt, subject to the conditions set forth in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS—Additional Bonds and Parity Debt."

Rate Covenant

The City covenants under the Indenture that so long as any of the Series 2018A Bonds are outstanding, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise which are sufficient to yield Net Revenues in each Fiscal Year equal to at least 1.25 times the Debt Service on the Bonds and Parity Debt becoming due and payable during such Fiscal Year. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." However, the City's ability to increase such rates, fees and charges is subject to the limitations imposed by Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution."

Continuing Disclosure

The City has covenanted for the benefit of the owners and beneficial owners of the Series 2018A Bonds to provide certain financial information and operating data relating to the City by not later than the 31st of March following the end of the City's Fiscal Year (presently June 30), commencing with the report for the Fiscal Year 2017-18, which report shall be due March 31, 2019, and to provide notices of occurrence of certain enumerated events, if material. However, the City made similar disclosure commitments in connection with the issuance of the Refunded Bonds. See "CONTINUING DISCLOSURE" herein and Appendix E – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinion contained herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

All references to and summaries of provisions of the Indenture are qualified in their entirety by reference to the full Indenture, copies of which are available for inspection at the offices of the City in Modesto, California or at the corporate trust office of the Trustee in San Francisco, California.

PLAN OF REFUNDING

The Series 2018A Bonds are being issued by the City to provide funds to refund all of the Refunded Bonds. On the date of delivery of the Series 2018A Bonds, the City will deposit a portion of the proceeds of the Series 2018A Bonds with the Trustee to be held in the Redemption Fund under the Indenture. Pursuant to the City's irrevocable instructions to the Trustee, on or about April 19, 2018, such amounts held in the Redemption Fund will be used to pay the Refunded Bonds at a redemption price equal to the principal amount of Refunded Bonds, plus interest accrued thereon to the redemption date.

The Refunded Bonds consist of the following:

Maturity	*Outstanding Principal Amount*	*Interest Rate*	*CUSIP*	*Principal Amount to be Refunded*
2025	$ 960,000	4.20%	607802AZ8	$ 960,000
2026	1,005,000	4.25	607802BA2	1,005,000
2031[(T)]	5,710,000	4.25	607802BB0	5,710,000
2036[(T)]	7,060,000	4.25	607802BC8	7,060,000

(T) Term bond maturity.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Series 2018A Bonds.

Sources of Funds	
Principal Amount of the Series 2018A Bonds	$ 11,340,000.00
Plus: Original Issue Premium	2,083,429.80
Less: Underwriter's Discount	(49,795.76)
Available Funds[(1)]	1,845,954.50
Total Sources	$ 15,219,588.54
Uses of Funds	
Series 2006A Wastewater Enterprise Redemption Fund	$ 15,028,758.38
Series 2018A Costs of Issuance[(2)]	190,830.16
Total Uses	$ 15,219,588.54

(1) Consisting of a release of the prior reserve and debt service funds on hand.
(2) Includes legal and advisory fees, printing costs, rating agency fees and other miscellaneous expenses.

THE SERIES 2018A BONDS

General Description

The Series 2018A Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series 2018A Bonds. Individual purchases of ownership interests in the Series 2018A Bonds will

be made in book-entry form only in denominations of $5,000 or any integral multiple thereof. See Appendix F – "BOOK-ENTRY ONLY SYSTEM."

The Series 2018A Bonds will be dated their date of initial delivery, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside front cover page of this Official Statement. Interest on the Series 2018A Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2018, calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal of, redemption premium, if any, and interest on the Series 2018A Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2018A Bonds.

Redemption

Optional Redemption. The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Series 2018A Bonds are subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of Series 2018A Bonds for Redemption

Pursuant to the Indenture, when less than all of the Series 2018A Bonds of any maturity (and interest rate) is being redeemed, the Trustee selects the Series 2018A Bonds to be redeemed, from all Series 2018A Bonds of the respective maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion deems appropriate

Notice of Redemption

Notice of redemption of any Series 2018A Bonds shall be sent by the Trustee, by approved means, not less than 30 nor more than 60 days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) to the Securities Depositories, and (iii) to the Information Services, which consists of the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System referred to as "EMMA," at www.emma.msrb.org, or in accordance with then current guidelines of the Securities Exchange Commission. Failure by the Trustee to give notice to any one or more of the MSRB or the Securities Depositories or failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Effect of Redemption

Notice of redemption having been duly given as described above, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2018A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2018A Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the date fixed for redemption, interest on the Series 2018A Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS

Net Revenue Pledge; Parity Debt

The Series 2018A Bonds are revenue obligations of the City and are payable, as to both principal and interest and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged under the Indenture. All Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds, including the Series 2018A Bonds, and any Parity Debt, including the 2011 State Loan, the Series 2015 Bond and the 2016 State Loan, in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The pledge of Net Revenues to the Series 2018A Bonds and the Existing Parity Debt is on parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS—Additional Bonds and Parity Debt." The Net Revenues are irrevocably pledged to the punctual payment of the principal of and redemption premium, if any, and interest on the Outstanding Bonds, including the Series 2018A Bonds.

"Net Revenues" are defined under the Indenture to mean, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period.

"Gross Revenues" are defined under the Indenture to mean all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, and (c) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise Fund: but excluding (x) the proceeds of any *ad valorem* property taxes received by the City to pay debt service on any outstanding obligations of the City, (y) any contributed capital (other than connection fees), and (z) any moneys received as a result of litigation arising out of perchloroethylene (PCE) contamination that are to be expended on capital costs of the Enterprise. See "WASTEWATER SYSTEM—PCE Litigation" herein.

"Operating Expenses" are defined under the Indenture to mean the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) interest on the Bonds and any Parity Debt.

The Series 2018A Bonds are special, limited obligations of the City. The Series 2018A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2018A Bonds. The issuance of the Series 2018A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Indenture provides that all funds and accounts created pursuant to the Indenture constitute trust funds in favor of the Owners of the Outstanding Bonds, until so applied for the purpose set forth in the Indenture.

Flow of Funds

The City has covenanted that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City has no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City has covenanted and agreed to maintain the Sewer Enterprise Fund at all times so long as any Bonds are Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited with the Trustee, all as provided in the Indenture, are disbursed, allocated, and applied solely to the uses and purposes described below.

All amounts in the Sewer Enterprise Fund required to pay Operating Expenses of the Enterprise will be applied for such purpose from time to time by the City. So long as any Bonds are Outstanding, the City will transfer the remaining moneys in the Sewer Enterprise Fund to the Trustee as required for deposit into the following respective funds (each of which the Trustee established, maintains and holds in trust for the benefit of the Owners of the Bonds) in the following amounts, in the following order of priority, the requirements of each such fond (including the making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

Interest Fund. The City will transfer to the Trustee and the Trustee will set aside in the Interest Fund on or before the third Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

Principal Fund; Sinking Accounts. The City will transfer to the Trustee and the Trustee shall set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

Parity Reserve Fund. Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to the Indenture, the City will transfer to the Trustee and the Trustee shall set aside in the Parity Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund until there is on deposit in the Parity Reserve Fund an amount equal to the Reserve Fund Requirement. **No deposit into the Parity Reserve Fund will be made upon issuance of the Series 2018A Bonds, and the Series 2018A Bonds will not be secured by the Parity Reserve Fund.** See "—Outstanding Parity Debt" for a description of Parity Debt for which a reserve fund has been established.

Any Net Revenues remaining in the Sewer Enterprise Fund after the foregoing transfers described above, except as otherwise provided in a Supplemental Indenture, will be held free and clear of the Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If on any principal payment date, interest payment date or mandatory sinking fund redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, are insufficient

to make such payments, the Trustee shall immediately notify the City, by telephone or facsimile, of such deficiency and direct that the City transfer the amount of such deficiency to the Trustee on such payment date. The City has covenanted and agreed to transfer to the Trustee from any Net Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

Parity Reserve Fund

The Trustee is required by the Indenture to establish and maintain and hold in trust, so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the "Parity Reserve Fund." **No deposit into the Parity Reserve Fund will be made upon issuance of the Series 2018A Bonds, and the Series 2018A Bonds will not be secured by the Parity Reserve Fund.** Amounts on deposit in the Parity Reserve Fund are pledged to the payment of any Bonds secured thereby (not including the Series 2018A Bonds) and any Parity Debt to be secured by the Parity Reserve Fund and must be applied only for such purposes as permitted in the Indenture. The Trustee is also required to deposit in the Parity Reserve Fund, upon the direction of the City, such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there shall be on deposit therein a sum equal to at least the amount required by the Indenture to be on deposit therein. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement; and such amount shall be increased to the Reserve Fund Requirement as provided for in the Indenture not later than twelve months thereafter. The Trustee must transfer in moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes.

The Trustee will also, from such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

In lieu of a cash deposit, the City may satisfy the Reserve Fund Requirement by depositing to the Parity Reserve Fund a letter of credit, surety bond, or insurance policy as provided in the Indenture.

"Reserve Fund Requirement" means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event shall the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of such Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee. As of the date of delivery of the Series 2018A Bonds (being the only bonds to be outstanding under the Indenture), the Reserve Fund Requirement will be $0.

See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Rate Covenant

The rates for use of the Enterprise are set by the City Council and are not subject to review by any state or local governmental agency. The City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient to pay all Operating Expenses estimated to

become due and payable in such Fiscal Year, Debt Service on the Bonds and any Parity Debt becoming due and payable during such Fiscal Year, all other payments required by the Indenture and any Parity Debt instruments and all payments required to meet any obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or Net Revenues. In addition, the City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges so as to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the Debt Service coming due and payable in such Fiscal Year on the Bonds and any Parity Debt. For a further description of the City's rate covenant, see Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Covenants—Rates and Charges." The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but such fees and charges shall not be reduced so as to be insufficient to provide adequate Gross Revenues for such purposes. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution."

"Parity Debt" is defined in the Indenture as any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

Additional Bonds and Parity Debt

The City may at any time issue additional Series of Bonds or Parity Debt payable from the Net Revenues and other funds and secured by a lien and charge on a parity with the lien and charge securing the Outstanding Bonds on a parity with the Series 2018A Bonds and the Existing Parity Debt, subject to the following conditions precedent, among others: (a) no Event of Default has occurred and is continuing; (b) there is deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or by no reserve fund; and (c) the Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, shall at least equal 125% of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt under the Indenture are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions, of the Enterprise to be made with the proceeds of such additional Series of Bonds or Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such 12-month period, were not in service, all in an amount equal to 95% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by a certificate of the City filed with the Trustee.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional Series of Bonds or Parity Debt but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to 95% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown by a certificate of the City filed with the Trustee.

In the event additional assets or revenues are included within the definition of "Net Revenues" by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations described above, as appropriate, as if such additional assets or revenues had always been included in Net Revenues.

"Maximum Annual Debt Service" is defined under the Indenture as the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any successive Fiscal Year using the principles and assumptions set forth under the definition of Debt Service.

"Debt Service" is defined under the Indenture to mean, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts: (a) the Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period; (b) the minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and (c) the interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding; provided that for purposes of determining compliance with the test for the issuance of additional Bonds or Parity Debt and the rate covenant and the amount of the Reserve Fund Requirement, certain provisions shall be applied as described in Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

Nothing in the Indenture prohibits or impairs the authority of the City to issue (i) Bonds at any time to refund outstanding Bonds or Parity Debt, provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds does not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded; or (ii) bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

Outstanding Parity Debt

Following delivery of the Series 2018A Bonds, which will refund the Series 2006A Bonds, the Existing Parity Debt will consist of the 2011 State Loan, the Series 2015 Bond and the 2016 State Loan. The pledge of Net Revenues to the 2011 State Loan, the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. As of the date of issuance, the Series 2018A Bonds will be the only Bonds issued and outstanding under the Indenture.

The 2011 State Loan is a revolving fund loan from the State of California, in the initial principal amount of $127,157,943.06, and is outstanding in the principal amount of $117,337,522 as of February 1, 2018. Under the terms of the project finance agreement, the City makes approximately equal annual payments of principal and interest each June 1 until maturity in 2035. The 2011 State Loan bears interest at a fixed rate of 2.6% per annum. No further disbursements of the 2011 State Loan will be made. The 2011 State Loan is also secured by a reserve fund, held by the City and funded with cash, equal to one year's annual debt service on the 2011 State Loan. This reserve fund is not security for the Series 2018A Bonds.

The Series 2015 Bond was issued by the City to Capital One Public Funding, LLC in the initial principal amount of $19,429,912.56, and is outstanding in the principal amount of $14,685,381.47 as of February 1, 2018. Under the terms of the related bond purchase agreement, the City makes semi-annual payments of interest on each May 1 and November 1 and annual payments of principal on each November 1 until maturity in 2024. The Series 2015 Bond bears interest at a fixed rate of 2.42% per annum. The purchase agreement for the Series 2015 Bond contains standard covenants and representations, for which a failure by the City to observe or perform will constitute an event of default, and provides for a cross default in an Event of Default under the Indenture. The Series 2015 Bond is not secured by any reserve fund.

The 2016 State Loan is a revolving fund loan from the State of California, available for draw downs in the principal amount up to $41,862,028, with total disbursements of $8,916,161 made as of February 1, 2018. Under the terms of the installment sale agreement and grant, the City makes approximately equal annual payments of principal and interest each December 31 until maturity in 2047. The 2016 State Loan bears interest at a fixed rate of 1.0% per annum. The final disbursement under the 2016 State Loan must be made by the State no later than July 1, 2018, unless the City and the State agree to an extension. The City is seeking an extension until approximately

October 2018 and expects to draw down the full principal amount such that $41,862,028 will be outstanding following the last draw on the 2016 State Loan. The 2016 State Loan is also secured by a reserve fund, held by the City and funded with cash, equal to one year's annual debt service on the 2016 State Loan. This reserve fund is not security for the Series 2018A Bonds.

Debt Service Requirements

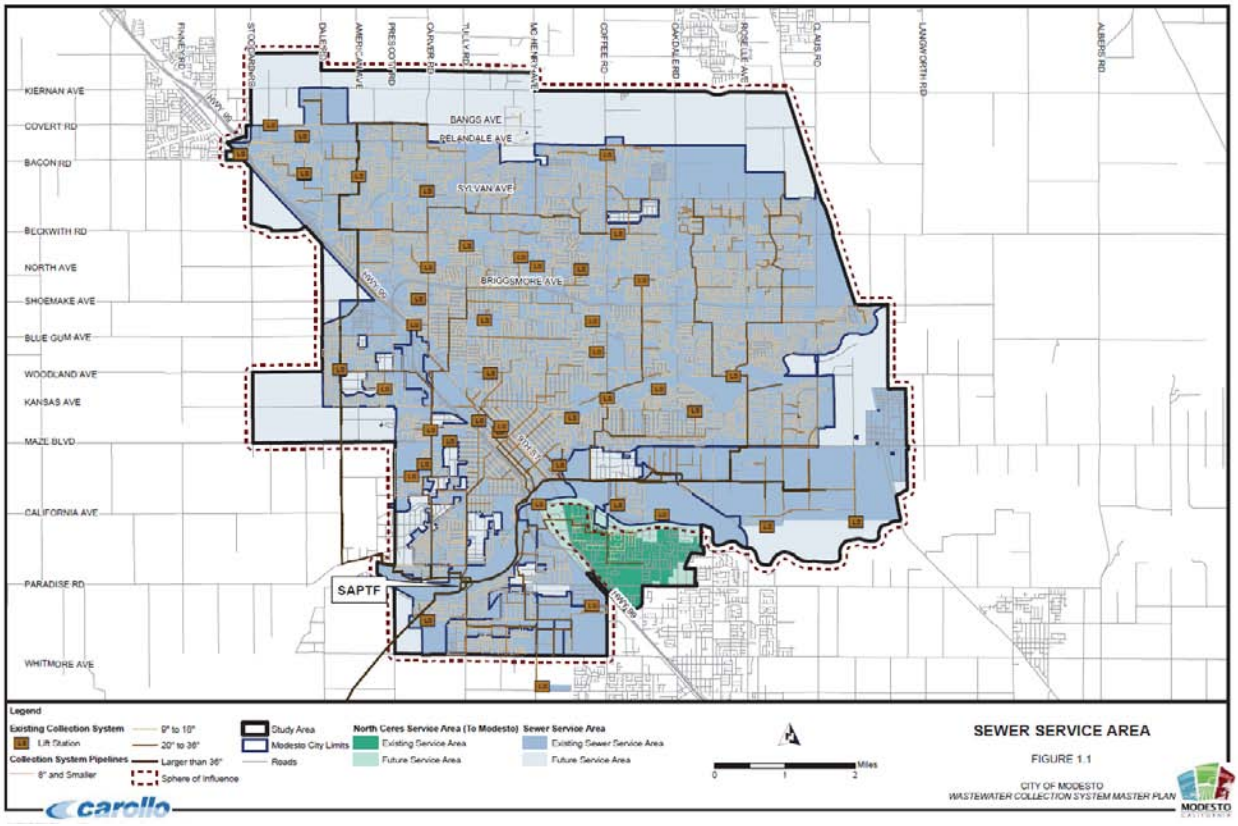
The debt service requirements of the Existing Parity Debt and the Series 2018A Bonds are shown in the following table on a bond year basis, assuming no optional or special mandatory redemption of the Series 2018A Bonds or prepayment of the Existing Parity Debt prior to maturity thereof.

Fiscal Year Ending June 30	*Existing Parity Debt Total*[(1)(2)]	*Series 2018A Principal*	*Series 2018A Interest*	*Total Debt Service*
2019	$12,292,722	-	$573,913	$12,866,635
2020	12,538,846	-	555,400	13,094,246
2021	12,660,289	-	555,400	13,215,689
2022	12,663,577	-	555,400	13,218,977
2023	12,663,333	-	555,400	13,218,733
2024	10,788,105	-	555,400	11,343,505
2025	10,787,605	-	555,400	11,343,005
2026	9,878,975	$ 710,000	537,650	10,416,625
2027	9,878,975	750,000	501,150	11,130,125
2028	9,878,975	780,000	462,900	11,121,875
2029	9,878,975	825,000	422,775	11,126,750
2030	9,878,975	865,000	380,525	11,124,500
2031	9,878,975	910,000	336,150	11,125,125
2032	9,878,975	955,000	289,525	11,123,500
2033	9,878,975	1,005,000	240,525	11,124,500
2034	9,878,975	1,055,000	189,025	11,123,000
2035	9,878,975	1,110,000	134,900	11,123,875
2036	9,878,975	1,160,000	83,950	11,122,925
2037	1,633,411	1,215,000	30,375	2,878,786
2038	1,633,411	-	-	1,633,411
2039	1,633,411	-	-	1,633,411
2040	1,633,411	-	-	1,633,411
2041	1,633,411	-	-	1,633,411
2042	1,633,411	-	-	1,633,411
2043	1,633,411	-	-	1,633,411
2044	1,633,411	-	-	1,633,411
2045	1,633,411	-	-	1,633,411
2046	1,633,411	-	-	1,633,411
2047	1,633,411	-	-	1,633,411
2048	1,633,411	-	-	1,633,411
Total	$212,664,134	$11,340,000	$7,515,763	$231,519,897

(1) Existing Parity Debt includes (i) the 2011 State Loan, of which $117,337,522 remains outstanding as of February 1, 2018, and which bears interest at a fixed rate of 2.60% per annum; (ii) the Series 2015 Bond, of which $14,685,381 remains outstanding as of February 1, 2018 and which bears interest at a 2.42% per annum; and the 2016 State Loan, of which $8,916,161 has been disbursed as of February 1, 2018, and which bears interest at a fixed rate of 1.00% per annum.

(2) Assumes full draw down of the 2016 State Loan in the principal amount of $41,862,0280. Final amortization of the 2016 State Loan will depend on the timing and amount of the final draw.

SERVICE AREA MAP



WASTEWATER SYSTEM

Introduction

The City manages, operates, and maintains four utilities. Two of these are wastewater related—water quality control facilities (the "WQC") and the wastewater collection system (the "WWC"). The Enterprise consists of the treatment and disposal facilities located at the WQC and the piping, pump stations and related appurtenances of the WWC.

Service Area

The Enterprise services the current City limits, a portion of north Ceres, the unincorporated community of Empire, and isolated unincorporated Stanislaus County land within the City limits. Wastewater from north Ceres and unincorporated areas is treated by the City under sewer service agreements with such jurisdictions. Consistent with the City's updated Urban Area General Plan, the service area includes the City's Sphere of Influent ("SOI") boundary, Empire, and north Ceres. The City provides wastewater (sewer) service to a population of over 200,000 within the City limits and to about 900 customers within the now-dissolved Empire Sanitary District. The City collects wastewater from north Ceres but does not bill the customers directly. Ceres bills the customers and the City directly charges Ceres as a single customer.

Population and land use projections prepared for the draft 2016 Wastewater Master Plan ("WWMP") indicate that the areas extending to the SOI boundaries will only be partially developed by the end of 2035. Full build-out of the SOI is not expected until the year 2057. By 2035, the number of municipal customers is projected to increase at an average annual growth rate of 1.3 percent to a total service population of 270,900.

In addition to municipal customers, the City serves the industrial customers in the Beard Industrial Park. The industrial customers include seasonal canneries and year-round food processors. The canneries' wastewater during canning season (July through September) is segregated in a different pipeline from the domestic customers. The canneries pay a different rate than municipal customers. While the wastewater load produced by the canneries is significant, the cannery process water is directly land-applied at the Jennings Ranch (described below) instead of undergoing the wastewater treatment process.

History

Prior to 1910, wastes from the City were discharged without treatment into the Tuolumne River. From 1910 through the late 1940s, the City's wastewater system was comprised of a sewage processing tank with ponds. In 1946, plans were made to take industrial waste into the treatment plant. The City, with a population at that time of 20,000, was faced with constructing a treatment facility to accept wastes equivalent to a contributing population of 400,000 persons during the three-month canning season. Sewer service charges were first collected in the late 1940s, and connection charges were first imposed in 1967. The City continues to be home to a number of food processors, and summer food processing sewer discharges are now equivalent to a contributing population of more than 1,000,000 persons.

System Description

General. The current wastewater system consists of a collection system with over 70 miles of trunk sewers (greater than 15") and approximately 620 miles of sanitary sewers. There are 42 wastewater lift stations. Another 32 miles of sewers that are privately owned or are associated with north Ceres are connected to the City's collection system. Aside from localized septic systems, all wastewater generated within the service area receives treatment at the City's wastewater treatment facilities.

The City's treatment facilities treat over 7.6 billion gallons of wastewater annually. The average daily domestic flow into the City's treatment system is currently about 21 million gallons per day (mgd).

Modesto's treatment facilities consist of two treatment plants that operate in series, connected by two 6.5 mile-long outfall pipelines. The Sutter Primary Treatment Facility ("Sutter Facility") is located at the south end of Sutter Avenue adjacent to the Tuolumne River. The Sutter Facility provides primary treatment and solids handling. At the Sutter Facility, settleable and floatable organic and inorganic constituents are removed from the wastewater, through screening, grit removal and primary clarification. Solids from the primary clarifiers are then processed through the anaerobic digesters. Most of the primary treatment and solids handling facilities at the Sutter Facility are aging and nearing their useful life, and as discussed below, are being upgraded. In addition, the facilities are subject to flooding from high river levels in the adjacent Tuolumne River. Primary effluent from the Sutter Facility is pumped through the two 6.5-mile-long outfall pipelines to the Jennings Treatment Facility ("Jennings Facility"), located next to the San Joaquin River on Jennings Road near West Zeering Road for additional treatment. The Jennings Facility includes secondary treatment, tertiary treatment, and a 2,526-acre ranch (the "Jennings Ranch"). The secondary treatment facilities at the Jennings Facility primarily consist of three fixed-film reactor towers, 334 acres of oxidation ponds, and 126 acres of recirculation channels. Secondary effluent from the Jennings Facility is used for irrigation of the City's ranch land, stored in reservoirs, or discharged to the San Joaquin River during the months of October through May. The 2008 National Pollutant Discharge Elimination System permit (the "2008 NPDES Permit") allowed for this seasonal discharge into the San Joaquin River. However, the 2008 NPDES Permit, including prior extensions thereto, expires in May 2018 and discharge requirements will be subject to the 2016 National Pollutant Discharge Elimination System permit (the "2016 NPDES Permit"), which allows to allow discharge into the Delta Mendota Canal, subject to discharge limits on various constituents. The 2016 NPDES Permit expires in March 2021.

Until expiration of the 2008 NPDES Permit, the City will be required to comply with both the 2008 NPDES Permit and the 2016 NPDES Permit.

In response to the pending expiration of the 2008 NPDES Permit, the City began upgrading its wastewater treatment facilities to provide biological nutrient removal ("BNR") and tertiary treatment, which will produce highly treated water that is suitable for year-round discharge to the San Joaquin River by May 2018, as required by the 2008 NPDES Permit. The 2.3 mgd Phase 1 Tertiary Treatment Facility was built in 2010, and the 12.6 mgd Phase 2 BNR/Tertiary Treatment Facilities were completed in 2015. Both facilities are located at the Sutter Facility and consist of fine screens, biological nutrient removal aeration basins, membrane bio-reactor basins, and ultraviolet disinfection. Because the tertiary water is also suitable for recycling, the City is currently completing the construction of a new recycled water pump station, pipelines and appurtenances for the North Valley Regional Recycled Water Program ("NVRRWP"), which, in the near term, will deliver 14.9 mgd of the City's recycled water to the Del Puerto Water District. This $50 million project is funded by the 2016 State Loan and a $15 million State grant under Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014 ("Proposition 1"). The Del Puerto Water District will pay or reimburse the City for: (1) all 2016 State Loan debt service, (2) one-half of the debt service cost savings resulting from the Proposition 1 grant, (3) costs to operate and maintain the recycled water delivery facilities, and (4) $30 per acre-foot for the recycled water. The Del Puerto Water District revenues are included in the projections provided in the table under the heading, "WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage." Sales to the Del Puerto Water District commenced in February 2018. The project is substantially complete, and the City expects to complete the project in July 2018.

During the three-month canning season, between early July through late September, segregated cannery process water is separately piped to the Sutter Facility for preliminary treatment and then pumped directly to the Jennings Facility, where is it blended with secondary effluent from the storage ponds and used for irrigation at the Jennings Ranch.

The Enterprise currently generates approximately 6.0 mgd of secondary treated effluent. It uses low-capital-intensive irrigation as its primary discharge method. Approximately 3.6 billion gallons of both secondary and tertiary treated wastewater is discharged to the City-owned Jennings Ranch annually. The Jennings Ranch is managed in a public/private partnership in which the lessee uses the reclaimed water to grow fodder crops. Water that is not used for irrigation is stored, disinfected, and discharged to the San Joaquin River in the months of October through May. Discharge to the San Joaquin River must meet numerous requirements under the 2008 NPDES Permit and the 2016 NPDES Permit, including a flow ratio of river water to effluent of at least 20:1.

Sixty-four commercial and industrial facilities are currently permitted under the City's mandatory pre-treatment program. Periodic monitoring is performed to ensure compliance with local and federal limits and to confirm that high quality effluent is available for irrigation, discharge to the San Joaquin River, and to minimize impacts to the treatment facilities.

Permitting Issues

The Central Valley Regional Water Quality Control Board (the "RWQCB") regulates water quality in the Central Valley under the authority of the Federal Clean Water Act and California's Porter-Cologne Water Control Act. The RWQCB issues wastewater discharge permits through the National Pollutant Discharge Elimination System ("NPDES"). Wastewater treatment plants are required under the State and federal law to meet various requirements for the operation, treatment, monitoring and disposal/discharge of wastewater.

The City received an updated NPDES Permit in 2017 (Permit No. CA0079103, Order R5-2017-0064, the "2017 NPDES Permit"), with river discharge limits on various constituents. The City expects its recent wastewater treatment upgrades previously described to meet the 2017 NPDES permit requirements, including salinity requirements. In addition, the 2017 NPDES Permit required progress reports detailing the implementation of NVRRWP outfall pipeline to the Delta Mendota Canal with final completion by September 1, 2019. The 2017 NPDES Permit expires in July 2022.

The NVRRWP recycling plant (described above) is currently permitted to discharge 14.9 mgd average daily discharge flow into the San Joaquin River and may be expanded to 19.1 mgd average daily discharge flow to the San Joaquin River upon completion of the Phase 3 upgrades. With the NVRRWP recycling plant, the City established water rights to its tertiary treated (recycled) water and relocated its primary discharge from the San Joaquin River to the Delta Mendota Canal. However, the 2017 NPDES Permit still allows the City to discharge into the San Joaquin River, under certain conditions, whenever discharge into the Delta Mendota Canal is not allowed due to nonoperation while undergoing repairs or temporary outages.

Land discharge is regulated by a separate Waste Discharge Requirement (the "WDR") permit. About 2.0 billion gallons of wastewater are disposed of each year through evaporation and percolation from the treatment system and from application to pastureland. Approximately 3.6 billion gallons per year of treated secondary effluent, plus 1 billion gallons of cannery waste, are discharged to land. Land discharge limitations onto the Jennings Ranch are based on biochemical oxygen demand ("BOD") loading for the combined secondary-treated and cannery process water and are set forth in the table below.

TABLE 1
BOD Loading

Secondary Effluent Only

BOD 30-day Maximum Loading Rate	50 lbs/day
BOD Daily Maximum	300 lbs/day

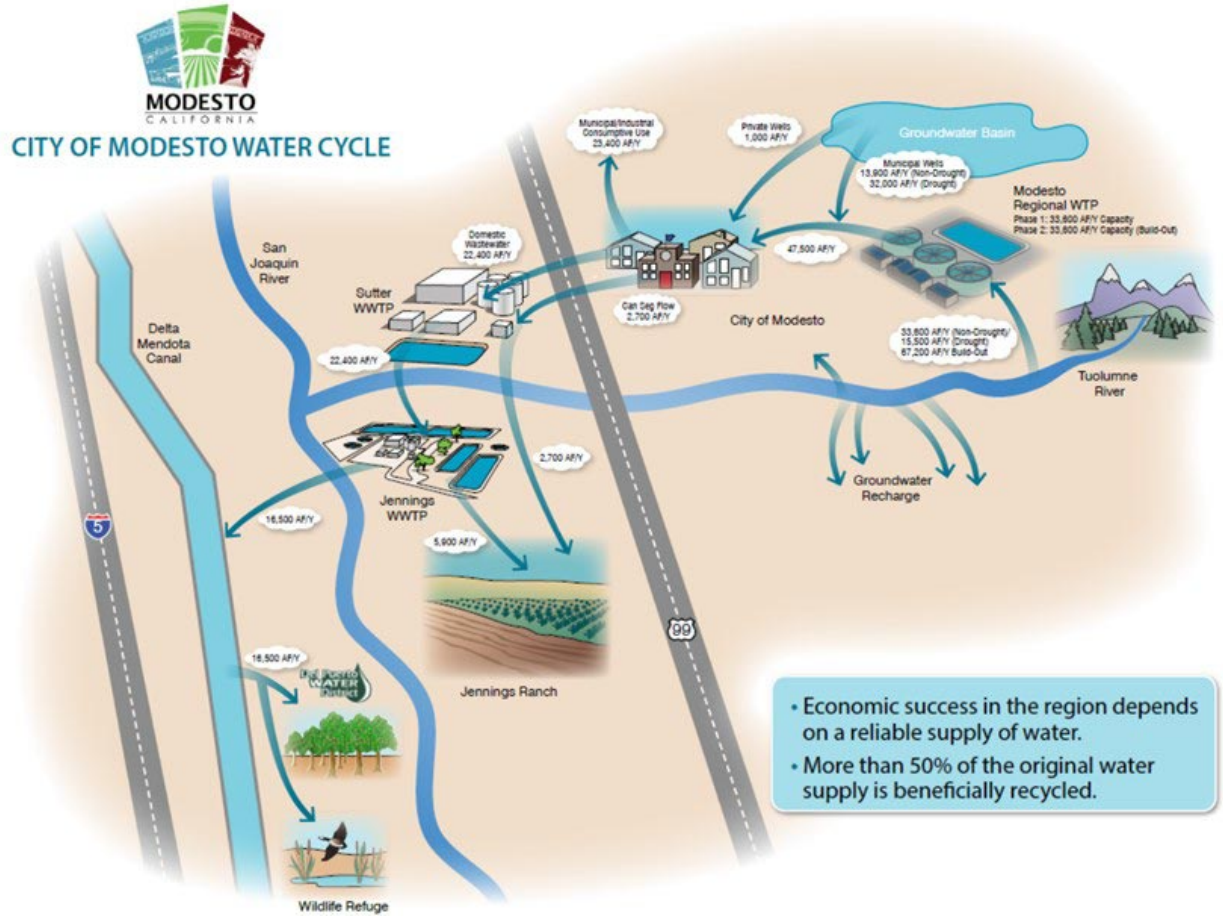
Combined Cannery and Secondary Effluent (During Canning Season Only)

BOD 7-Day Average	400 lbs/day
BOD 30-Day Average	150 lbs/day
BOD Seasonal Average	100 lbs/day

Other reporting requirements include effluent groundwater monitoring and pond monitoring. In addition, the City must ensure that biosolids and other organic residuals are applied in accordance with agronomic rates. This means that the number of tons per hectare or acre is determined based on the amount of nutrients in the

biosolids/residuals and the amount of nutrients needed by the crop being grown which includes salinity. The City closely monitors these requirements and has been in full compliance.

Below is a map of the City's water and wastewater facilities showing the water cycle.



Master Plan Update, Capital Improvement Plan and Future Capital Needs

In 1991, the City recognized that the Enterprise had reached the capacity provided by its last expansion in 1984, which had been funded by a federal Clean Water Grant. The City commenced a wastewater planning process to determine the most cost-effective approach for implementing the next increment of capacity. Based on considerable input from customers, regulators and the community at large, the City developed the 1995 Wastewater Master Plan (the "1995 Master Plan"). As part of its annual budget process, the City prepares a rolling ten-year capital improvement program for the Sewer Enterprise Fund in accordance with the 1995 Master Plan and incorporating current needs which were unknown in 1995. The 1995 Master Plan outlined capital improvements to be undertaken over the ensuing 20 to 40 years. These capital improvements generally fall into two categories: 1) treatment plant improvements and 2) collection system improvements.

The City updates its Master Plan approximately every 5-10 years. The City's Wastewater Treatment Master Plan was most recently updated in 2007 and supplemented in 2008. The 2007 Wastewater Master Plan ("2007 Master Plan") contained several parts: a condition assessment of the existing wastewater treatment facilities, a summary of regulatory requirements, a list of recommended improvements, and a description of the Capital Improvement Plan ("CIP"). Soon after the 2007 Master Plan was adopted, City population growth and corresponding influent wastewater flows dropped with the slowing economy, and the Central Valley Regional Water Quality Control Board ("Regional Board") adopted significantly more restrictive discharge limits. As a result, a

2008 Wastewater Treatment Master Plan Supplement ("2008 Supplement") was prepared to address these changes and revise the CIP for wastewater treatment. Significant system improvements were constructed from the 2007 Master Plan and 2008 Supplement report, including upgrades to the wastewater treatment processes from secondary to tertiary treatment with the Phase 1 and 2 BNR/Tertiary Treatment Plant projects, repair and replacement of deficient pipeline infrastructure with the Emerald Trunk Primary Outfall Rehabilitation projects and recovering pipeline and treatment plant capacity with the Storm Drain Cross Connection Removal at Garrison Park Storm Drain project.

Currently the City's wastewater master plan is being updated. Each wastewater master plan derives its name not from the year of adoption, but from the year in which the initial studies and report are completed. Initial studies and the report for the 2016 Wastewater Master Plan ("2016 Master Plan") began in 2016. The 2016 Master Plan is anticipated to be adopted following completion of the environmental impact report required by the California Environmental Quality Act. The 2016 Master Plan will address current deficiencies and identify improvements that will help the City adapt to changing conditions. Major topics addressed in the 2016 Master Plan include:

- Lower population projections and wastewater flows.
- Changes in the City's Planning Area and General Plan land use.
- Updating the hydraulic model.
- Approach for maximizing production and off-site delivery of recycled water with the Biological Nutrient Removal ("BNR")/Tertiary Treatment Facilities.
- Construction of new primary treatment and solids handling facilities at the Jennings Facility to replace the aging facilities at the Sutter Facility.
- Reliability improvements at the Sutter Plant headworks (screening and grit removal).
- Reduction of domestic wastewater loadings on the existing secondary treatment system resulting from the operation of the BNR/tertiary facilities.
- Improved reliability and expanded capacity for the cannery process water flows.
- Potential regulatory requirements and compliance strategies related to the land application of treated municipal effluent, cannery process water, and biosolids.

In 2016, a cost of service study (the "2016 City of Modesto Sewer Rate and Fee Study") was conducted in order to match projected rate increases to the needed capital improvements for the existing rate base and for new development. The majority of funding for capital wastewater projects is allocated for critical capacity projects and deferred maintenance projects.

Set forth below is a table setting forth projected sources and uses of funds for the Wastewater Master Plan through fiscal year 2024-25, based, in part, on the 2016 Master Plan. City management believes that the capital improvements shown in the table below will maintain the System in compliance with all applicable legal requirements and prudent industry standards. The City continuously re-prioritizes its CIP based on affordability (customer rates), System needs, minimum debt service coverage policy of 1.50x, and a minimum fund balance policy of 25% of operating expenses plus one year of 2016 State Loan and 2011 State Loan debt service. *The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected sources and uses of funds may be material.*

TABLE 2
CITY OF MODESTO
Wastewater System
Capital Improvement Program Projects

Project Detail	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Project Expenditures Included In Pay As You Go (not in Wastewater Master Plan)	$ 3,904,000	$ 5,905,000	$ 8,055,000	$ -	$ -	$ -	$ -	$ -
Project Expenditures Included In Pay As You Go (Included in Wastewater Master Plan) Priority Projects	100,000	30,250,000	15,250,000	15,100,000	15,000,000	-	-	-
Collection System - Capacity	7,689,467	2,450,000	-	1,901,045	3,987,516	2,045,641	5,756,945	4,668,490
Collection System -Rehab	8,236,211	4,035,000	550,461	2,593,093	134,746	11,641,078	-	-
Collection System - Reliability	-	-	-	-	153,660	1,422,340	-	-
Collection System - New Services	2,397,000	2,000,000	-	200,000	147,420	4,085,640	2,898,631	2,904,658
Existing Collections	512,000	-	-	-	-	-	-	-
Existing Wastewater Treatment	2,500,000	-	-	-	-	-	-	-
Cannery Segregation	-	-	-	-	153,383	4,972,913	14,657,126	18,016,046
Reprioritized Wastewater Treatment	5,357,804	16,720,238	0	0	0	11,443,629	32,290,680	56,832,644
Renewal and Replacement Expenditures	1,317,468	2,441,997	1,318,629	1,384,561	1,453,789	3,011,622	2,848,271	2,928,411
Total Capital Improvement Program (excluding Cannery Segregation)[1]	$32,013,950	$63,802,235	$25,174,090	$21,178,699	$20,877,130	$33,649,950	$43,794,527	$67,334,203
Sources of Funding								
- Grants[2]	$ 4,900,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -
- Bonds/Parity Debt[3]	-	20,000,000	20,000,000	-	-	20,000,000	20,000,000	-
- Internally Generated Funds (Wastewater Funds)[4]	27,113,950	43,802,235	5,174,090	21,178,699	20,877,130	13,649,950	23,794,527	67,334,203
Total Sources of Funding	$32,013,950	$63,802,235	$25,174,090	$21,178,699	$20,877,130	$33,649,950	$43,794,527	$67,334,203

(1) Cannery Segregation is funded by the canneries.

(2) Includes a one-time grant of $3,000,000 under State Proposition 84, Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006

(3) The City plans to issue approximately (i) $40 million in new money bonds in late 2018 and (ii) $40 million in new money bonds in 2023

(4) Assumes rate increases of 6% per annum. Rate increases for Fiscal Years ending June 30, 2018 through June 30, 2021 have been approved by the City Council. Rate increases for Fiscal Years ending June 30, 2022 through June 30, 2025 have not yet been approved by the City Council.

Source: City of Modesto Department of Finance.

After conducting a Proposition 218 hearing in April 2016, the City Council adopted a new 5-year sewer rate increase, from Fiscal Year 2016-17 through Fiscal Year 2020-21, and new capacity fees in 2016, reflecting the results and recommendations of the 2016 City of Modesto Sewer Rate and Fee Study. These annual rate increases are capped at approximately 6% per year. The City reviews the rates annually and may revise rates to be lower if excess funds are available. See "WASTEWATER SYSTEM FINANCES—Rates."

Management

The Enterprise is operated under the management and control of the City Council. Currently, day-to-day management is provided by William Wong, Acting Director of Utilities; Laura Anhalt, Water Quality Control Plant Manager; Robert Englent, Wastewater Collection Manager; Thomas Sinclair, Environmental Regulatory Compliance Manager, under the general supervision of Joseph Lopez, Interim City Manager.

Brief resumes of the senior staff of the Enterprise are presented below:

William Wong, P.E. – Acting Utilities Director/Engineering Division Manager. Will Wong has a B.S. in Civil Engineering from University of California at Davis. He has over 23 years of experience working on water and wastewater infrastructure projects, and has been with the City for over 16 years. He is currently the Acting Utilities Director/Engineering Division Manager, overseeing the City's Utilities Department's Engineering Services Division, and Wastewater and Water Operations and Maintenance Divisions.

Laura Anhalt – Wastewater Treatment Plant Manager, Chief Plant Operator. Laura Anhalt has an A.A. degree and over 25 years of experience in Wastewater. She has been with the City of Modesto for approximately 10 years. For the past 10 years, she has managed the Sutter Primary and Jennings Secondary, Tertiary treatment facilities. She has commissioned the Dissolved Air Flotation system, 2.3 mgd Phase I Tertiary MBR, BNR treatment process and is currently managing the commissioning of the 12.6 mgd Phase II Tertiary process. She is assisting in the oversight of the construction project and will manage the NVRRWP station when complete.

Robert Englent – Wastewater Collection System Manager. Robert Englent has been in the wastewater industry for 23 years, holds a California Water Environment Association ("CWEA") wastewater collections Grade IV certification and a California General Engineering Contractors license (inactive). Robert's experience includes management of wastewater collection systems, asset management, computerized maintenance management systems, planning/scheduling, purchasing, and warehouse management. Robert is currently the Wastewater Collection System Manager for the City, overseeing all aspects of operation, maintenance, repair, and replacement of the wastewater and storm water collections systems.

Thomas W. Sinclair – Environmental Regulatory Compliance Manager. Thomas W. Sinclair has a B.S. in Geology and Oceanography from San Jose State University, San Jose, California. He has over 36 years of multi-disciplinary experience in environmental, safety, and regulatory compliance. Thomas's experience includes ISO 14001 certification, laboratory management, hazardous material and waste management, U.S. DOT compliance, groundwater remediation, storm water, and wastewater treatment. He is currently the Environmental Regulatory Compliance Manager of Modesto Utilities Department overseeing safety and regulatory compliance.

The City is in the process of establishing a succession plan for senior management, which includes formal training and lines of succession.

Employees

The Utilities Director has primary responsibility for the management of the water control facilities and wastewater collection system as well as for the water system and streets and storm drains. As of February 5, 2018, the Enterprise has 122 full-time employees. Employees are represented by the Modesto City Employees Association and Modesto Confidential and Management Association whose current Memorandum of Understanding expires in 2019. The City has never experienced a labor strike.

Retirement Programs

Pension Plans. The City's permanent employees, including Enterprise employees, are covered by the California Public Employees Retirement System ("CalPERS") through agent multiple-employer defined benefit plans administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers ca.gov. The foregoing internet address is included for reference only, and the information on the internet site is not incorporated by reference herein.

The City's defined benefit pension plans, the Miscellaneous Plan and the City's Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members (who must be public employees) and beneficiaries. Benefit provisions and all other requirements of the plans are established by State statute, including the Public Employees' Pension Reform Act of 2013 which primarily affects new pension plan members enrolled after 2012, and City resolutions. No employees assigned to the Enterprise participate in the City's Safety Plan.

Set forth below is a table summarizing the funding status of the City's Miscellaneous Plan for the three Fiscal Years ended June 30, 2016:

TABLE 3
CITY OF MODESTO
Funding Status
Fiscal Years 2013-14 through 2015-16

Fiscal Year	*Accrued Liability*	*Market Value of Assets (MVA)*	*Unfunded Liability*	*Funded Ratio*	*Annual Covered Payroll*
2013-14	$391,732,640	$320,028,523	$ 71,704,117	81.7%	$40,352,210
2014-15	403,556,016	314,543,491	89,012,525	77.9	43,890,894
2015-16	421,909,284	304,402,635	117,506,649	72.1	45,374,121

Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016.

The City's required contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Many assumptions are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations. Beginning with the June 30, 2013 valuation, CalPERS no longer uses an actuarial value of assets and instead uses the market value of assets to determine contribution rates per CalPERS' direct rate smoothing policy. Under its direct rate smoothing policy, adopted in April 2013, CalPERS employs an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. In February 2018, CalPERS revised its amortization policy to reduce the amortization period for gains and losses from a 30-year period to a 20-year period. Although CalPERS has not provided the City with revised projected contributions, the reduced amortization period may result in increased required employer contributions.

The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the City's required contributions to CalPERS in future years. One of the most significant factors used in determining the liability and the funding requirements is the rate of return that investments will yield prior to making payments, known as the discount rate. CalPERs has approved an incremental reduction in the discount rate to be used in its actuarial valuation from 7.5% to 7.0% over the three Fiscal Years 2017-18 to 2019-20, which is expected to result in an increase in the unfunded liability and the contributions required to meet those obligations. The City has taken into account future increases in the CalPERS contribution rates in its forecasts of salary and benefit projections shown in the table under the heading, "WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage."

Effective for the Fiscal Year ended June 30, 2015, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, affecting the reporting of pension liabilities for accounting purposes. Under GASB Statement No. 68, the City is required to report the Net Pension Liability (i.e., the difference between the Total Pension Liability and the Pension Plan's Net Position or market value of assets) in its financial statements.

In accordance with applicable State law, the contribution rate for all public employers is determined annually by the actuary and is effective on the July 1 following notice of a change in rate. Funding contribution amounts are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate applied to annual payroll is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the actuarially determined amounts, net of contributions by employees, necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. The cost of the Miscellaneous Plan is funded through bi-weekly contributions from employees and from employer contributions by the City.

The employer contribution rates are established, and may be amended, by CalPERS. Set forth below is a table showing the City's required employer and employee contribution rates for the Miscellaneous Plan (as a percentage of annual covered payroll) for the four Fiscal Years ended June 30, 2017. The City does not pick up any payments on behalf of its employees.

TABLE 4
CITY OF MODESTO
Historical Employer and Employee Contribution Rates
Fiscal Years 2013-14 through 2016-17

Fiscal Year	*Employee Contribution Rate as Percentage of Annual Covered Payroll*	*Employer Contribution Rate as Percentage of Annual Covered Payroll*
2013-14	11.984%	7.0%
2014-15	13.539	7.0
2015-16	15.208	7.0
2016-17	17.290	7.0

Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016.

The Enterprise is allocated its portion of the City's required contribution for the Miscellaneous Plan. This allocation is based on eligible employee wages. Set forth below is a table showing the City's required contributions to its CalPERS Miscellaneous Plan for the four Fiscal Years ended June 30, 2017, 2016, 2015, and 2014 and the amount in each year allocated to the Enterprise:

TABLE 5
CITY OF MODESTO
WASTEWATER SYSTEM
Historical Employer and Employee Contribution Rates
for the City and Enterprise Allocation
Fiscal Years 2013-14 through 2016-17

Fiscal Year	*City Required Contribution*	*Amount Allocated to the Enterprise*
2013-14	$ 7,877,454	$1,155,212
2014-15	8,469,913	1,299,719
2015-16	10,027,256	1,594,033
2016-17	11,664,830	1,836,281

Sources: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016; City of Modesto Finance Department.

The City has made all actuarially required payments to CalPERS for its Pension Plans on a timely basis.

CalPERS provided the City with the following required contribution for Fiscal Year ended June 30, 2019 and projected contributions from Fiscal Year ended June 30, 2020 through June 30, 2025:

TABLE 6
CITY OF MODESTO
Required and Projected Future Employer Contributions[(1)]
Miscellaneous Plan
Fiscal Years 2018-19 through 2024-25

Fiscal Year	*Total Contributions[(2)]*
2018-19	$10,213,795
2019-20	12,052,058
2020-21	13,676,271
2021-22	15,224,320
2022-23	16,629,725
2023-24	17,645,924
2024-25	18,471,316

(1) Assumes 7.375% return for Fiscal Year 2016-17. Does not reflect potential impact of reduced amortization period of 20 years, as described above in "—Retirement Programs—Pension Plans."

(2) Total contribution consists of the normal cost plus the UAL payment. Figures are for the City as a whole for its Miscellaneous Plan only.

Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016.

Approximately 15.74% of these contributions are expected to be allocable to the Wastewater Enterprise and are included in "Total Operating Expenditures, Net of Depreciation" shown in the projected debt service coverage table.

Future increases in required CalPERS contributions will impact the City's reserve levels and require future action to either reduce expenses through service reductions or increase revenues through tax or service rate increases. The City's ability to increase taxes is subject to Constitutional limitations. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES." The City cannot provide any assurances that the City's required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

Retiree Health Benefits. In addition to the defined benefit pension plan described above, the City also maintains its own program providing "other post-employment benefits" ("OPEB") to eligible retirees, including health care and disability coverage and death benefits. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leaves upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion.

Based on eligibility status, retirees may participate in any health plan made available to active City employees. The City has several plans with different contribution levels and benefit provisions. City contributions vary up to 100% of annual premium cost, depending on the employee's Medicare eligibility, year of hire, year of retirement, age and employee group. At June 30, 2016, 313 retirees or surviving spouses met the various eligibility requirements and were receiving medical benefits; 163 retirees are receiving dental benefits.

The City's contributions toward the cost of its OPEB program are generally funded on a pay-as-you-go basis. The City's OPEB plan annual required contributions for the Fiscal Years ended June 30 of 2015, 2016 and 2017 are set forth below:

TABLE 7
CITY OF MODESTO
OPEB Contributions
Fiscal Years 2014-15 through 2016-17

Fiscal Year ended June 30	*Annual Required Contribution (ARC)*	*Interest on Net OPEB Obligations*	*ARC Adjustments*	*Annual OPEB Cost*	*Actual Contribution*	*Net OPEB Obligation*	*Percentage of Annual OPEB Cost Contribution*
2015	$3,189,054	$2,382,790	$(4,383,246)	$1,188,598	$3,806,476	$56,951,862	320.25%
2016	3,189,054	2,382,790	(4,383,246)	1,188,598	1,949,129	56,191,331	163.99
2017	2,806,942	2,247,653	(4,134,656)	919,939	2,611,886	54,499,384	283.92

Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2016.

The following table provides a schedule of funding progress for the City's OPEB liability is based on the most recent actuarial valuation as of January 1, 2017.

TABLE 8
CITY OF MODESTO
OPEB Funding Progress
As of January 1, 2017

Actuarial Valuation Date	*Actuarial Value of Assets (A)*	*Entry Age Actuarial Accrued Liability (B)*	*(Underfunded) Actuarial Accrued Liability (A-B)*	*Funded Ratio (A/B)*	*Covered Payroll (C)*	*(Underfunded) Actuarial Liability as Percentage of Covered Payroll ((A-B)/C)*
1/01/2017	$0	$28,645,234	$(28,645,234)	0.00%	$43,842,302	(65.34%)

Source: City of Modesto, Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2017.

Governmental Accounting Standards Board Statement No. 45 has required the City to account for and disclose its OPEB liability since the Fiscal Year ended June 30, 2009.

Additional information regarding the City's retirement plans and OPEB, including information regarding the assumptions used to determine the pension and OPEB liabilities and the funding requirements therefor, can be found in Notes III(F) and III(G) and the Required Supplementary Information to the City's audited financial statements included in the City's comprehensive annual financial report for the Fiscal Year ended June 30, 2017, attached hereto as Appendix B.

The Enterprise is allocated its portion of the City's required contribution for OPEB. This allocation is based on eligible employee wages. Set forth below is a table showing the City's required and actual contributions to its OPEB Plan for the four Fiscal Years ended June 30, 2013 through 2017. Approximately 8.368% of the actual contributions in each year were allocated to the Enterprise.

TABLE 9
CITY OF MODESTO
Other Post-Employment Benefits (OPEB)
Historical Employer and Employee
Contribution Rates for the City
Fiscal Years 2013-14 through 2016-17

Fiscal Year	*City Required Contribution*	*Actual Contribution*	*Actual Amount Allocated to the Enterprise*
2013-14	$8,564,803	$4,818,434	$403,207
2014-15	3,189,054	3,806,476	318,526
2015-16	3,189,054	1,949,129	163,103
2016-17	2,806,942	2,611,886	218,563

Source: City of Modesto Finance Department.

The City projects the following OPEB contributions for calendar years 2018 through 2024:

TABLE 10
CITY OF MODESTO
Projected Future Employer OPEB Contributions
Calendar Years 2018 through 2024

Calendar Year	*Total Contribution*
2018	$3,012,079
2019	3,003,412
2020	2,864,123
2021	2,750,598
2022	2,604,920
2023	2,445,397
2024	2,277,791

Source: City of Modesto Department of Finance.

Approximately 8.368% of these contributions are expected to be allocable to the Wastewater Enterprise and are included in "Total Operating Expenditures, Net of Depreciation" shown in the projected debt service coverage table.

Future increases in OPEB contributions will impact the City's reserve levels and require future action to either reduce expenses through service reductions or increase revenues through tax or service rate increases. The City's ability to increase taxes is subject to Constitutional limitations. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES." The City cannot provide any assurances that the City's required contributions OPEB in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

Insurance

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim/occurrence as follows: workers' compensation $500,000; liability $1,000,000. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts. For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability risk pool. This pool covers City claims between $1 million and $5 million. Commercial insurance covers claims over $5,000,000 in four excess layers, of $10,000,000 each and one additional layer of $5,000,000 above $45,000,000; for additional total coverage of $50,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five Fiscal Years.

The City currently maintains insurance against damage to the Enterprise. Coverage thereunder is covered by a commercial property insurance policy with a blanket limit of $480,302,683 but damage resulting from earthquakes is not covered.

Wastewater System Users

The Enterprise's customer base consists primarily of residential accounts although a portion of revenues comes from industrial customers. The breakdown of accounts by category and percentage of total operating revenues are as follows for Fiscal Year 2016-17:

TABLE 11
CITY OF MODESTO
WASTEWATER SYSTEM
Customer Base by Type of Account

Category	*Number of Accounts*	*Percentage of Total Accounts*	*Percentage of Total Operating Revenues*
Residential	57,947	94.61%	49.56%
Commercial	3,259	5.32	10.45
Industrial	42	0.07	29.80
Total	61,248	100.00%	89.82%

Source: City of Modesto Finance Department.

The 10 largest users of the Enterprise accounted for approximately 19.60% of total service charge revenue in Fiscal Year 2016-17, nine of which are included in the industrial category in the prior table. The largest users, in terms of amounts billed to each during the past Fiscal Year, are listed below:

TABLE 12
CITY OF MODESTO
WASTEWATER SYSTEM
Ten Largest Users of Sewer Facilities
As of June 30, 2017

	Users	*Sewer Fee Operating Revenue*	*% of Sewer Fee Operating Revenue*
1)	Stanislaus Food Products	$ 1,409,172	3.17%
2)	E & J Gallo Winery	1,358,209	3.06
3)	Foster Farms	1,152,448	2.59
4)	Frito Lay, Inc.	1,088,277	2.45
5)	Del Monte Foods	1,062,966	2.39
6)	City Of Ceres	1,020,714	2.30
7)	Seneca	452,282	1.02
8)	Sunopta	430,868	0.97
9)	Nestle Food Company	395,568	0.89
10)	Rizo Lopez Foods	334,130	0.75
	Total (Top Ten Customers)	$ 8,704,634	19.60%
	Total (All Customers)	$ 44,410,464	

Source: City of Modesto Finance Department.

Beginning in Fiscal Year 2017-18, the Del Puerto Water District is expected to provide revenues of approximately $800,000 per year. In addition the Del Puerto Water District will pay or reimburse the City for: (1) all 2016 State Loan debt service, (2) one-half of the debt service cost savings resulting from the Proposition 1 grant, (3) costs to operate and maintain the recycled water delivery facilities, and (4) $30 per acre-foot for the

recycled water. The Del Puerto Water District revenues are included in the projections provided in the table under the heading, "WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage."

PCE Litigation

The City of Modesto Redevelopment Agency brought an action in 1998 against numerous defendants, alleging causes of action for strict liability, negligence, negligence per se, continuing trespass, private and public nuisance, private and public nuisance per se, response costs and declaratory relief under the Carpenter-Presley-Tanner Hazardous Substance Account Act (Health & Safety Code Section 25300 *et seq.*), ultrahazardous activity, and cost recovery under the Polanco Redevelopment Act (Health & Safety Code Section 33459 *et seq.*) (San Francisco County Superior Court Case No. 999345). Because the City had to provide certain related cleanup efforts, simultaneously with the filing of that action, the City, along with the City of Modesto Sewer District No. 1, brought another action against a nearly identical group of defendants seeking damages for solvent contamination under many of the same legal theories; but this action did not include a Polanco Redevelopment Act cause of action (San Francisco County Superior Court Case No. 999643). The defendants included chlorinated solvent manufacturers, distributors of solvents and dry cleaning equipment, chlorinated solvent equipment manufacturers, and dry cleaning retailers.

The complaints alleged that two cleaning solvents, perchloroethylene ("PERC" or "PCE") and trichloroethylene, cause risks to health and the environment, that dry cleaners customarily dumped solvent wastewater into the public sewer systems, and that dry cleaners experienced a habitual problem of chlorinated solvents leaking into the environment. According to the complaints, the defendants who manufactured and supplied solvents and equipment instructed dry cleaners that chlorinated solvents could be discharged into sewers and/or failed to issue recalls or warnings regarding the equipment and solvents.

The plaintiffs tried five "bellweather" suits before a jury from February to June of 2006, and won a verdict for compensatory damages of $3.1 million and a verdict for punitive damages of $175 million, later lowered to $12 million. This result has stalled settlement negotiations while both sides appeal various liability and damage issues. The litigation remains active, but previous settlements and insurance payments have rendered the litigation essentially cost neutral to the City's Water and Sewer Enterprise Funds, which have funded the litigation to date on a roughly equal basis. It is not anticipated that the cost/settlement ratio will change dramatically in the 15 months following the issuance of the Series 2018A Bonds, which is as far as the City believes reasonable forecasting may be done on the cost issue.

WASTEWATER SYSTEM FINANCES

Rate Setting and Budget Process

The City reviews its budgetary progress on a quarterly basis. In accordance with California law, the City Council may, from time to time and at its discretion, fix, alter, change, amend or revise any user fees, connection charges and all other fees related to the Enterprise. Proposition 218, passed by the California electorate in 1996 potentially affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution."

Proposition 218 Process

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218. This amendment changed the process for increasing property-related fees within the state. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution" herein. For the City, sewer rates are treated as a property-related fee and, pursuant to Proposition 218, require a protest hearing by the property owners prior to instituting a rate increase. Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property

owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If a significant number of protests are returned to the City no later than the end of the protest hearing, the City may not approve the proposed rate increase. If the protest fails with 50% or less, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form. The rate increases for the services of the Enterprise which took effect on July 1, 2016 were all approved following the procedures required by Proposition 218. The City expects to undertake its next rate review process in the next two years.

Rates

The Enterprise collects its sewer service charges on the City's monthly utility bill, which includes water, sewer, storm drain and garbage. If charges are not paid, the City begins the process of initiating a lien on the user's property and may discontinue sewer service to the user. Historically, less than 1% of billed amounts for sewer service charges has been written off as bad debt.

For the average single-family residence, the current monthly sewer charge is $33.76 as of July 1, 2017. A schedule of commercial sewer rates is set forth below as of July 1, 2017:

TABLE 13
CITY OF MODESTO
Schedule of Commercial Sewer Rates

Commercial Group	*Monthly Account Charge*	*Additional Charge Per 100 cubic feet (ccf) of Waste*
Group 1[(1)]	$4.40	$2.76
Group 2[(2)]	4.40	3.78
Group 3[(3)]	4.40	4.80
Group 4[(4)]	4.40	6.03

(1) No food, just toilets or working facilities.
(2) Commercial laundromats, service stations, hotels without food.
(3) Industrial laundromats, hotels with food.
(4) Restaurants, bakeries, auto steam, markets.

Source: City of Modesto.

A schedule of industrial sewer rates is set forth below as of July 1, 2017:

TABLE 14
CITY OF MODESTO
Schedule of Industrial Sewer Rates

Flow Per Million Gallons	$2,604
Excess Biochemical Oxygen Demand (BOD) Per 1,000 Pounds	213
Excess Suspended Solids (SS) Per 1000 Pounds	441

Source: City of Modesto.

Residential, commercial and industrial rates have increased during the past five years. Below are the residential rate increases for the last five years, as well as approved increases through 2020-2021. As part of its annual budget process, the City may lower rates if its excess revenues allow the City to maintain its covenants and compliance with its coverage and reserve policies while imposing such lower rates.

TABLE 15
CITY OF MODESTO
Schedule of Residential Sewer Rate Increases

Fiscal Year	*Residential Rate Percent Increase*
2012–13	6.0%
2013–14	6.0
2014–15	2.0
2015–16	3.0
2016–17	5.8
2017-18	6.0
2018-19	5.8
2019-20	6.1
2020-21	5.7

Source: City of Modesto.

Comparative Monthly Wastewater Service Charges. The City's residential charges as of September 1, 2017 are set forth in the table below with a comparison to other Central Valley cities.

TABLE 16
CITY OF MODESTO
WASTEWATER SYSTEM
Monthly Sewer Charge Comparison
Residential Service
As of September 1, 2017

City	*Monthly Residential Charge*
Fresno	$ 25.75
Waterford	31.53
Tracy	34.00
Modesto	**35.78**
Stockton	38.36
Turlock	44.16

Source: City of Modesto.

Connection Fees. The Enterprise imposes connection fees on a one-time basis to new users of the sewer system and to users that significantly expand their usage. The fees have three components:

Connection charge:	$2,643 per Equivalent Dwelling Unit for residential. Commercial and industrial property are charged based on type of business.
Sub-trunk sewer charge:	Approximately $645/acre
Connection (lateral) charge:	$33 per linear foot of lot frontage adjacent to the sewer line

Connection fees are treated as contributed capital and are used only for capital projects, not for operations.

The most recent cost of service study and a connection fee study made recommendations for new rate structures for the next five years to fund the capital improvement program. Such new rate structures were adopted in April 2016.

Comparative Connection Fees. The current Connection Fees and a comparison of the City's Connection Fees to those of other Central Valley and Northern California cities are set forth in the table below.

TABLE 17
CITY OF MODESTO
WASTEWATER SYSTEM
Wastewater Connection Fees Comparison
As of July 1, 2016

City	*Connection Fee*
Fresno[(1)]	$3,438.50
Lodi[(2)]	2,932.00
Modesto	**2,643.00**
Stockton	635.00
Tracy	6,727.00
Turlock	2,636.66

(1) Connection fees are based on the size of the lot & location.
(2) Connection fees are based on the size of the water meter.

Source: City of Modesto.

Financial Information

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into seven generic funds within three broad fund types, and a fourth category of accounting entities, the account groups, as follows:

Governmental Funds	General Fund Special Revenue Funds Capital Project Funds
Proprietary Funds	Debt Service Funds Enterprise Funds Internal Service Funds
Fiduciary Funds	Agency Funds

Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises in that the costs of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges. The City accounts for the operations of the sewer, storm drain, and water systems, airport, golf, community center, parking, compost, and bus service systems on this basis. Enterprise funds are accounted for using the accrual basis of accounting. Unbilled utility services receivables are recorded at year-end. Property and equipment owned by enterprise funds are stated at historical cost where available and at estimated cost when original cost is not available. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets, which are 30 years for buildings, 20 years for improvements, 10 years for furnishings and equipment and 75 years for pipelines.

See Appendix B – "CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2016-17" for the City's comprehensive annual financial report.

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Historical Debt Service Coverage

The following table shows debt service coverage for the Sewer Enterprise Fund for the Fiscal Years ended June 30, 2013 through June 30, 2017.

TABLE 18
CITY OF MODESTO SEWER ENTERPRISE
HISTORICAL DEBT SERVICE COVERAGE
Fiscal Years Ended June 30, 2013 through June 30, 2017
(In Thousands of Dollars)

	2013	*2014*	*2015*	*2016*	*2017*[1]
GROSS REVENUES:					
Operating Revenue					
Connection Charges[2]	$41,529,223	$43,838,996	$43,408,271	$44,796,050	$46,042,925
Interest Income	320,026	583,079	453,271	579,520	609,224
Rental Income	497,700	501,671	501,959	502,627	503,969
Miscellaneous Income	2,591,922	2,309,283	2,489,867	3,086,225	3,764,820
GROSS REVENUES	$44,938,871	$47,233,029	$46,853,368	$48,964,422	$50,920,938
OPERATING EXPENSES:					
Operating Expenditures, Net of Depreciation	$18,311,400	$18,627,002	$20,383,489	$24,115,325	$24,402,900
Allocated Indirect Administration Costs	999,819	681,209	615,916	665,616	642,202
Property Taxes[3]	151,015	144,245	138,980	142,526	136,993
Other Uses (Transfers Out)	89,592	407,975	68,640	68,640	68,640
TOTAL OPERATING EXPENSES[4]	$19,551,826	$19,860,430	$21,207,025	$24,992,107	$25,250,735
NET OPERATING REVENUES	$25,387,045	$27,372,599	$25,646,343	$23,972,315	$25,670,203
DEBT SERVICE[5]:					
Series 2005 Bonds[6]	$3,356,954	3,533,248	$3,539,469	$3,721,135	-
Series 2006A Bonds[7]	712,560	728,732	729,721	849,151	629,476
2011 State Loan	-	-		-	7,894,560
Series 2015 Bond	-	-		-	2,787,062
2016 State Loan[8]	-	-		-	-
TOTAL DEBT SERVICE	$4,069,514	$4,261,980	$4,269,190	$4,570,286	$11,311,098
NET REVENUES AFTER DEBT SERVICES	$21,317,531	$23,110,619	$21,377,153	$19,402,029	$14,359,105
DEBT SERVICE COVERAGE[9]	6.24x	6.42x	6.01x	5.25x	2.27x
(Net Operating Revenues/ Total Debt Service)					
Fund Balance	$59,973,324	$73,500,856	$78,109,157	$76,416,372	$76,760,080

(1) Reflects estimated, unaudited amounts.
(2) Connection charges include service charges.
(3) Property taxes paid for property outside of City limits.
(4) Increase of approximately 17.8% from Fiscal Year ended June 30, 2015 to Fiscal Year ended June 30, 2016 largely driven by the 12.6 mgd Phase 2 BNR/Tertiary Treatment Facilities completed in 2015. See 'WASTEWATER SYSTEM—System Description—General."
(5) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS—Outstanding Parity Debt."
(6) Refunded.
(7) To be refunded by the Series 2018A Bonds.
(8) Debt service commences when the full loan amount has been drawn. Payments expected to commence in Fiscal Year ended 2018-19 are shown in Table 19 – "CITY OF MODESTO SEWER ENTERPRISE—PROJECTED DEBT SERVICE COVERAGE."
(9) Decline in debt service coverage for Fiscal Year ended June 30, 2017 reflects first payment of 2011 State Loan, which funded the Phase 2 BNR/Tertiary Treatment Facilities. Results differ in minor respects from the summary table in the City's CAFR. See Appendix B – "CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2016-17."

Source: City of Modesto Finance Department.

Projected Debt Service Coverage

The following table sets forth projected operating revenues, Operating Expenses and debt service coverage for the Sewer Enterprise Fund for the Fiscal Years ending June 30, 2018 through June 30, 2022. The projections of amounts, and timing for receipts and disbursements in the table, are updated for growth assumptions and assume projected rate increases (See "—Rates"). The following table also assumes full drawn down of the 2016 State Loan by July 1, 2018 and no optional or special mandatory redemption of the Series 2018A Bonds or prepayment of the Existing Parity Debt. *The following projections are based on the City's current circumstances and currently available information and are believed to be reasonable. The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected operating results may be material.*

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TABLE 19
CITY OF MODESTO WASTEWATER ENTERPRISE
PROJECTED DEBT SERVICE COVERAGE
Fiscal Years Ending June 30, 2018 through June 30, 2022
(In Thousands of Dollars)

	2018	*2019*	*2020*	*2021*	*2022*[1]
GROSS REVENUES:					
Operating Revenue					
Connection Charges[2]	$48,567,750	$51,481,815	$54,570,724	$57,844,967	$57,844,967
Recycled Water Sale/Del Puerto Water District[3]	397,500	2,389,058	2,639,214	2,772,158	2,778,400
Interest Income	330,000	330,000	330,000	330,000	330,000
Rental Income	479,700	479,700	479,700	479,700	479,700
Direct Charges/Cost Distribution	3,580,192	3,641,066	3,713,888	3,788,166	3,863,929
Transfers from Other Funds	378,000	378,000	378,000	378,000	378,000
Developmental Fees	565,500	565,500	565,500	565,500	565,500
GROSS OPERATING REVENUES	$54,298,642	$59,265,140	$62,677,025	$66,158,490	$66,240,496
OPERATING EXPENSES					
Total Operating Expenditures, Net of Depreciation	$32,977,284	$34,272,518	$34,957,968	$35,657,128	$36,370,270
Property Taxes[4]	152,560	155,611	158,723	161,898	165,136
Recycled Water	1,098,042	300,000	306,000	312,120	318,362
Other Uses (Transfers Out)	68,640	68,640	68,640	68,640	68,640
TOTAL OPERATING EXPENSES	$34,296,526	$34,796,769	$35,491,332	$36,199,786	$36,922,409
NET OPERATING REVENUES	$20,002,116	$24,468,371	$27,185,694	$29,958,705	$29,318,088
DEBT SERVICE[5]					
Series 2006A Bonds[6]	$ 625,757	-	-	-	-
2011 State Loan	8,245,564	$8,245,564	$8,245,564	$8,245,564	$8,245,564
Series 2015 Bond	2,778,864	2,784,727	2,786,695	2,781,314	2,784,602
2016 State Loan	-	1,262,431	1,506,587	1,633,411	1,633,411
Series 2018A Bonds	-	573,913	555,400	555,400	555,400
Bonds/Parity Debt	-	905,000	2,335,000	2,335,000	2,335,000
TOTAL DEBT SERVICE	$11,650,185	$13,771,636	$15,429,246	$15,550,689	$15,553,976
NET REVENUES AFTER DEBT SERVICE	$8,351,931	$10,696,735	$11,756,448	$14,408,016	$13,764,112
DEBT SERVICE COVERAGE (Net Operating Revenues/ Total Debt Service)	1.72x	1.78x	1.76x	1.93x	1.88x
Fund Balance Applied to fund Capital Projects	$27,113,950	$43,802,235	$5,174,090	$21,178,699	$20,877,130
Projected Ending Fund Balance	$57,998,061	$24,892,560	$31,474,918	$24,704,236	$17,591,217
Minimum Reserve Required by City Policy[7]	$16,819,696	$18,207,188	$18,624,984	$18,928,921	$19,109,577

(1) Rate increases for Fiscal Year ending June 30, 2022 have not yet been approved by the City Council.
(2) Connection charges include service charges.
(3) Includes reimbursement by the Del Puerto Water District for the 2016 State Loan payments and half of the Proposition 1 savings grant. See 'WASTEWATER SYSTEM—System Description—General."
(4) Property taxes paid for property outside of City limits, including north Ceres and the former Empire Sanitation District.
(5) See "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2018A BONDS—Outstanding Parity Debt."
(6) To be refunded by the Series 2018A Bonds.
(7) Per City Policy, the City maintains a minimum reserve of 25% of Operating Expense plus one 2016 State Loan Payment and one 2011 State Loan Payment.

Source: City of Modesto Finance Department.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Series 2018A Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Series 2018A Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Series 2018A Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the Series 2018A Bonds is secured solely by a pledge of the Net Revenues and certain funds under the Indenture. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide wastewater services to its users, and the ability of the City to establish and maintain wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Operating Expenses.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City. See "System Demand" below.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could interrupt operation of the Enterprise and cause increased costs and thereby interrupt the ability of the City to realize Net Revenues. The City is not obligated under the Indenture to have earthquake or flood insurance. According to the California Geological Survey website, the City is not one of the 100 incorporated cities within California on an Earthquake Fault Zone. The primary treatment plant site that was impacted by the 1997 Tuolumne River flooding was upgraded in Fiscal Year 1998-99 with a new Headworks and Cannery Segregation Project. This project mitigated the critical functions of the facility and the impact on those critical process and functional units at the facility from a hundred year flood event. Both the City's treatment facilities were affected by both the Tuolumne and San Joaquin Rivers flooding in 2016. A collapsed River Sewer Trunk line increased the hydraulic flows and overloaded the treatment facilities. The River Trunk Realignment project, currently completing design, will mitigate this issue in the future. The City maintains flood insurance for areas surrounding the Toulumne River.

Natural disasters could also adversely affect the service area of the Enterprise, leading to reduced demand for wastewater service.

System Demand/Concentrated Customers

There can be no assurance that the demand for wastewater services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the covenants to fix rates and charges so as to produce Net Revenues equal to 125% of Debt Service. Moreover, although industrial users account for only 43 of the over 61,000 accounts utilizing the Enterprise as of January 2018, they are responsible for approximately 30% of the sewer fee operating revenues of the Enterprise; and the overwhelming majority of the industrial users are associated with the food or beverage industries. Nine of the ten largest customers of the Enterprise in Fiscal Year 2016-17 are in this category and accounted for 17.3% of sewer fee operating revenue as of June 30, 2017. See "WASTEWATER SYSTEM—Wastewater System Users." Thus, any changes in these industries and/or the particular customers who utilize the services of the Enterprise which would reduce their wastewater discharge could adversely affect the revenues of the Enterprise.

The City allocates capacity in the Enterprise to major industrial users through the issuance of Wastewater Discharge Permits. Pursuant to Section 5-6.403 of the City's Municipal Code, whenever the annual flow from a major industrial user for a calendar year falls below 80% of the capacity allocation shown in the applicable Wastewater Discharge Permit, the major industrial user must pay a minimum sewer service charge for such calendar

year based on 80% of such capacity allocation. This requirement is intended to assure that the City will receive at least 80% of the sewer service charges based on the capacity allocated to major industrial users. However, it may limit the ability of the City to reallocate unused allocated capacity in order to maximize the potential sewer fee revenue of the Enterprise.

System Expenses

There can be no assurance that the City's expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require a significant increase in rates or charges in order to pay for City wastewater projects and comply with the rate covenant. The treatment needs are expected to be affected by growth and tightened regulatory requirements in the future. Preliminary cost estimates for capital improvements required to service build out in the City (currently expected in 2035) are in the range of $505.3 million based on current build out and permit requirements assumptions and measured in June 1, 2017 dollars. As stated above, the City is in the process of implementing a plan for capital improvements, including the preparation of a detailed updated Master Plan, which is currently in progress and which will provide a framework for future wastewater discharge permit requirements. See "WASTEWATER SYSTEM—Master Plan Update, Capital Improvement Plan and Future Capital Needs."

Rate Process

The passage of Proposition 218 by the California electorate potentially affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution."

Permits and Regulation

The wastewater operations of the City are subject to discharge permits from the State Water Resources Control Board. A number of these permits will be modified from time to time to show increased capacity. The major sewer permits are two Waste Discharge Requirements, one centered on river discharge and the other on land discharge. See "WASTEWATER SYSTEM—Permitting Issues."

The City-treated effluent discharge to the San Joaquin River is regulated by the State through a NPDES permit. The renewal process includes specific "effluent limitations" that are typically maximum allowable discharge concentrations for certain constituents. Those constituents that require effluent limitations, and the process for determining the effluent limitation concentration are based on water quality objectives on the San Joaquin River, the implementation of these objectives using the State Implementation Plan (SIP), and observed concentrations in the wastewater treatment facility effluent and the San Joaquin River. The SIP also allows the City to perform additional water quality studies related to permit compliance and effluent limitations. These can be considered during the permit renewal process and can be critical to establishing accurate effluent limitations that are protective of the San Joaquin River and based on the best available science. Each permit-adopted effluent limitation violation is subject to a maximum mandatory penalty.

During the last several years, the City has successfully completed several water quality studies that should be considered in the upcoming permit renewal. The completed study list includes a copper translator study, a dilution/mixing zone study, a dissolved oxygen "far-field" modeling study, a dynamic regulatory compliance model study, and continued water quality monitoring using state-of-the-art analytical methods. To provide the best available science to permit renewal process, the City intends to collect data and perform several additional water quality studies. The City will also increase effluent and San Joaquin River monitoring of key constituents that have been identified as ongoing and new permit issues.

In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state agencies, should impose stricter water quality standards upon the Enterprise, the City's expenses could increase accordingly and rates and charges would have to be increased significantly to offset those expenses. It is not possible to predict the

direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs.

See "WASTEWATER SYSTEM—Permitting Issues."

Limitations on Remedies and Bankruptcy

The ability of the City to increase sewer services charges and to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Series 2018A Bonds and Parity Debt may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID of the California Constitution." Furthermore, any remedies available to the owners of the Series 2018A Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Series 2018A Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Series 2018A Bonds will be so qualified. In addition, the opinion to be delivered by Norton Rose Fulbright US LLP, Bond Counsel, concurrently with the issuance of the Series 2018A Bonds, will also state that the enforceability of the Indenture is subject to the limitations on the imposition of fees and charges by the City relating to the Enterprise under Article XIIIC and XIIID of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto. In the event the City fails to comply with its covenants under the Indenture or to pay principal of or interest on the Series 2018A Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2018A Bonds.

The enforcement of the remedies provided in the Indenture could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the City were to file a petition under Chapter 9 ("Chapter 9") of the Bankruptcy Code (Title 11, United States Code), the Series 2018A Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture.

Chapter 9 provides certain protections for bonds secured by "special revenues." "Special revenues" includes "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems. "' The City believes that the Net Revenues and other funds pledged under the Indenture constitute "special revenues" under Chapter 9. Section 928(a) of Chapter 9 provides that special revenues received by a municipal debtor after the commencement of a Chapter 9 case remain subject to any lien resulting from the pre-petition pledge provided under the Indenture. Further, Section 922 provides that the automatic stay imposed by Chapter 9 does not stay the application of special revenues to the payment of bonded indebtedness. However, a bankruptcy court may determine that the Net Revenues and other funds pledged under the Indenture are not special revenues, or that the bankruptcy court has no power to control the municipality's use of such special revenues during the pendency of the bankruptcy case.

In a recent bankruptcy court decision, entitled Opinion and Order Granting Motion to Dismiss Plaintiffs' Complaint Pursuant to Fed. R. Civ. P. 12(B)(1) and (B)(6), and filed in U.S.D.C. (Puerto Rico) Case Nos. 17-00155 and 17-00156, respectively, involving instrumentalities of the Commonwealth of Puerto Rico, the bankruptcy court reiterated that the Bankruptcy Code could not be used to invalidate consensual prepetition liens on special revenues acquired by a debtor post-petition. However, the bankruptcy court held that the "special revenue" provisions of the Bankruptcy Code (made applicable to the Commonwealth by provisions of special legislation known as PROMESA) do not require the turnover of those special revenues to bondholders during the course of a bankruptcy

proceeding. Rather, the court found that Section 922(d) of the Bankruptcy Code merely authorized the debtor to permit special revenues to be turned over to bondholders to keep itself in compliance with state law, but did not give bondholders the right to compel such payments. The court further found that bondholders were prohibited by the automatic stay from enforcing their liens against the special revenues. The decision has now been appealed to the U.S. Court of Appeals for the First Circuit.

In addition, Chapter 9 provides that any application of "special revenues" to the payment of the municipality's debt obligations is subject to prior use of such moneys for the payment of "necessary operating expenses" of the municipal enterprise. There can be no assurance that a bankruptcy court would not interpret the term "necessary operating expenses" to be more expansive than the meaning afforded "Operating Costs" under the Indenture, thus potentially reducing Net Revenues available to pay the Series 2018A Bonds.

In order to confirm a plan of adjustment in any bankruptcy proceeding of the City, it must still comply with the requirements of Section 943 of the Bankruptcy. This requires the City to demonstrate, among other things, that it is not prohibited by state law from taking any action necessary to carry out the proposed plan, including with respect its use of special revenues. However, because Section 943 was not likewise amended by Congress when the "special revenues" provisions were enacted, it is possible that, without the consent and over the objection of the Trustee and the Bondholders, the bankruptcy court may permit the alteration of the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources and uses, covenants (including tax-related covenants and call protection), and other terms or provisions of the Indenture as amended and the Series 2018A Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

Limited Obligations

The Series 2018A Bonds are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues of the Enterprise. The obligation of the City to make debt service payments on the Series 2018A Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Indenture to make debt service payments on the Series 2018A Bonds solely from Net Revenues. There is no assurance that the City can succeed in operating the Enterprise such that the Net Revenues in the amounts projected in this Official Statement will be realized.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES

Tax Limitations – Proposition 13

Article XIIIA of the State Constitution, known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, and (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further

provides that each county will levy the maximum tax permitted by Article XIIIA, which is $1.00 per $100 of assessed market value. The legislation further establishes the method for allocating the taxes collected by each county among the taxing agencies in the county.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

The effect of Article XIIIA on the City's finances has been to restrict *ad valorem* tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy *ad valorem* taxes in whatever rate or amount may be required to pay debt service on its outstanding general obligation bonds and unissued bonds authorized prior to July 1, 1978. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Spending Limitations

At the statewide special election of November 6, 1979, the voters approved an initiative entitled "Limitation of Government Appropriations" which added Article XIIIB to the California Constitution. Under Article XIIIB, State and local governmental entities have an annual "appropriations limit" which limits the ability to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations."

Proposition 62

A statutory initiative ("Proposition 62") was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIIIA, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIID. Article XIIID established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by

mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City does not currently impose standby charges or assessments for its Wastewater System.

Article XIIID conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIIID defines "fee" or "charge" to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." One of the requirements of Article XIIID is that before a property-related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and notice must be mailed to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

Article XIIID provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) ("Richmond"), and *Bighorn Desert View Water Agency v. Verjil*, 39 Cal. 4th 206 (2006) ("Bighorn") have clarified uncertainty surrounding the applicability of Section 6 of Article XIIID to service fees and charges. In Richmond, the California Supreme Court upheld a Court of Appeal decision that water connection fees (which included a capacity charge for capital improvements to the water system and a fire suppression charge) imposed by the Shasta Community Services District were not property related fees or charges subject to Article XIIID because a water connection fee results from the property owner's voluntary decision to apply for the connection. In both Richmond and Bighorn, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIIID, rejecting, in Bighorn, the water agency's argument that consumption based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

The City has followed the notice, hearing and protest procedures in Article XIIID in connection with wastewater rate increases since its Fiscal Year 2016–17 rate increases, and plans to follow such notice, hearing and protest procedures in connection with future rate increases.

In addition to the procedural requirements of Article XIIID, under Article XIIID all property-related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

(1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.

(2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.

(3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.

(4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIIID (relating to assessments).

(5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

On April 20, 2015, the California Fourth District Court of Appeal issued a decision in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal.App.4th 1493 (2015), holding that the City of San Juan Capistrano's tiered water rates (or inclining block rates) that were in effect from February 1, 2010 through June 30, 2014 violated the requirement of Proposition 218 that a fee or charge for property-related services, such as water delivery, must be proportional to the cost of providing service. In interpreting Proposition 218, the Court of Appeal emphasized that tiered water rates, or inclining block rates, that go up progressively in relation to usage are compatible with Proposition 218. However, the court concluded that Article XIIID requires that each tier must reflect the actual costs of service for property owners falling in each of the tiers. The court further concluded that the city had the burden of proof to demonstrate compliance with Proposition 218 and that the city failed to meet its burden of proof in demonstrating that its tiered water rates corresponded to the actual costs of providing service to each tier.

It is City policy to conduct periodic cost of service studies and as part of the most recent study, completed in January 2016, the City focused efforts on developing a strong and clear administrative record for its rates and charges. The City believes that its established and proposed rates for wastewater service comply with the substantive standards of Article XIIID. However, due to the uncertainties of evolving case law and potential future judicial interpretations of Proposition 218, the City is unable to predict at this time whether Proposition 218 could be interpreted, for example, to further limit fees and charges for wastewater services and/or to require stricter standards for the allocation of costs among customers and customer classes. See "WASTEWATER SYSTEM FINANCES—Rates."

Article XIIIC. Article XIIIC 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 XIIIC does not define the terms "local tax," "assessment," "fee" or "charge." On July 24, 2006, the California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The City and its City Attorney do not believe that Article XIIIC grants to the voters within the City the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the City.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and the City is unable to predict the outcome of such determinations, or what, if any, further implementing legislation will be enacted. No assurance can be given that that the courts will not further interpret Article XIIIC and Article XIIID to limit the ability of the City to impose, levy, charge and collect increased fees and charges for wastewater services, or the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's wastewater service fees and charges, which are the source of Subordinated Wastewater Revenues pledged to the payment of debt service on the Series 2018A Bonds.

Proposition 26

Proposition 26, which amended Articles XIIIA and XIIIC of the California Constitution, was approved by the electorate at the November 2, 2010 election. Proposition 26 imposes a majority voter approval requirement on local governments such as the City with respect to certain fees and charges for general purposes, and a two-thirds voter approval requirement with respect to certain fees and charges for special purposes, unless the fees and charges are expressly excluded. Proposition 26, according to its supporters, was intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIIIA, XIIIC and XIIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures. Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the local government of providing the service or product" and "assessments and property-related fees imposed in accordance

with the provisions of Article XIIID." The City believes that its wastewater fees and charges meet the criteria for exclusion under Proposition 26 and that the initiative is not intended to, and would not, apply to fees for wastewater services charged by the City. The City is unable to predict, however, how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

Other Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID and Propositions 62 and 26 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the City's revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the City.

TAX MATTERS

General

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel to the City, based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the City with certain covenants in the Indenture and other documents pertaining to the Series 2018A Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Series 2018A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2018A Bonds is not includable in the gross income of the owners of the Series 2018A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2018A Bonds to be included in gross income retroactive to the date of issuance of the Series 2018A Bonds.

In the further opinion of Bond Counsel, interest on the Series 2018A Bonds is not treated as an item of tax preference for purposes of the alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Series 2018A Bonds is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Series 2018A 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 or in other documents pertaining to the Series 2018A Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the Series 2018A Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Bond Counsel or in reliance upon the advice of counsel other than Bond Counsel, with respect to the exclusion from gross income of the interest on the Series 2018A Bonds for federal income tax purposes.

Original Issue Premium

The excess, if any, of the tax adjusted basis of Series 2018A Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such Series 2018A Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Series 2018A Bonds for federal income tax purposes (or, in the

case of a Series 2018A Bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Series 2018A Bond). Owners of Series 2018A Bonds with bond premium are required to decrease their adjusted basis in such Series 2018A Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2018A Bonds are held. The amortizable bond premium on such Series 2018A Bonds attributable to a taxable year is not deductible for federal income tax purposes. Owners of Series 2018A Bonds sold with bond premium should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Series 2018A Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2018A Bonds.

Information Reporting and Backup Withholding

Interest paid on the Series 2018A Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Series 2018A Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Bond Counsel, interest on the Series 2018A Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Series 2018A Bonds to be subject, directly or indirectly, to federal income taxation or to state or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or state tax exemption or the market value of the Series 2018A Bonds. Prospective purchasers of the Series 2018A 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.

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Series 2018A Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the City taken with respect to any of the foregoing. There is no action, suit or proceeding known by the City to be pending or threatened, restraining or enjoining the City in any way which could have a material adverse effect on the Enterprise, the ability of the City to increase rates or to pay scheduled debt service on the Series 2018A Bonds.

FINANCIAL STATEMENTS

The City's Comprehensive Annual Financial Report ("CAFR") for the Fiscal Year ended June 30, 2017, is included in Appendix B to this Official Statement. The CAFR as of and for year ended June 30, 2017 has been audited by Macias Gini & O'Connell LLP, certified public accountants (the "Auditor"), as stated in its report

appearing in Appendix B. The Series 2018A Bonds are special, limited obligations of the City payable solely from the Net Revenues and other funds pledged under the Indenture.

The financial statements of the City are public documents and the City has not requested nor did the City obtain permission from the Auditor to include the CAFR and the Auditor's report in an Appendix to this Official Statement. Accordingly, the Auditor has made no representation in connection with inclusion of the audit herein that there has been no material change in the financial condition of the City or the System since the most recent audit was concluded. The Auditor has not been engaged to perform and have not performed, since the date of its report included in Appendix B, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

RATING

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign its rating of "AA" to the Series 2018A Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such rating may be obtained from S&P Global Ratings, a Standard & Poor's Financial Services LLC business, 55 Water Street, New York, New York 10041. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2018A Bonds.

UNDERWRITING

The Series 2018A Bonds are being purchased by Raymond James & Associates, Inc. (the "Underwriter") at a purchase price of $13,373,634.04, such amount being equal to the principal amount of the Series 2018A Bonds, plus an original issue premium of $2,083,429.80, less an underwriting discount of $49,795.76. The Underwriter will purchase all of the Series 2018A Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the purchase contract related to the Series 2018A Bonds.

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, San Francisco, California, as municipal advisor with respect to the issuance of the Series 2018A Bonds. PFM Financial Advisors LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. PFM Financial Advisors LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

LEGAL PROCEEDINGS

The validity of the Series 2018A Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. A copy of the proposed form of the opinion of Bond Counsel is attached as Appendix D hereto. Bond Counsel has undertaken no responsibility for the accuracy, completeness and fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Jones Hall, A Professional Law Corporation; for the City by the City Attorney and by Norton Rose Fulbright US LLP, San Francisco, California, Disclosure Counsel; and for the Trustee by the Law Offices of Samuel D. Waldman.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the owners of the Series 2018A Bonds to provide certain financial information and operating data and the City by not later than the 31st of March following the end of the City's Fiscal Year (presently June 30) commencing with the report for the City's Fiscal Year 2017-18 (the "Annual Reports"), which shall be due March 31, 2019, and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. The Annual Reports will be filed by Digital Assurance Certification, L.L.C. ("DAC"), as Dissemination Agent on behalf of the City, with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access System ("EMMA"). The notices of material events will be filed by DAC, as Dissemination Agent on behalf of the City, with the MSRB through EMMA with copies to the City and the Underwriter. The specific nature of the information to be contained in the Annual Reports or the notices of material events is set forth in Appendix E – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule"). The City's Department of Finance has taken responsibility for ongoing compliance with the Rule.

In Fiscal Years 2011-12 through 2013-14, the City failed to file timely its annual budget as part of its annual reports for such Fiscal Years. Such annual budgets have since been filed on EMMA.

MISCELLANEOUS

Reference is made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and complete statement of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holder of any Series 2018A Bonds.

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The execution and delivery of this Official Statement has been duly authorized by the City Council of the City.

CITY OF MODESTO, CALIFORNIA

By: /s/ DeAnna Christensen
Finance Director

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APPENDIX A

CERTAIN INFORMATION REGARDING THE CITY OF MODESTO

The following information with respect to the City is presented for information purposes only. The Series 2018A Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter limitations and the City is not obligated to levy any *ad valorem* taxes therefor or to use any other funds of the City to pay debt service on the Series 2018A Bonds.

General Description

The City, which is the county seat of Stanislaus County, was incorporated in 1884. It covers approximately 37.4 square miles. The City operates under a council-manager form of government pursuant to a charter adopted in 1963. The City is located in central California approximately 93 miles east of the City and County of San Francisco.

The City Council (the "Council") appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements Council directives and policies, and manages the administrative and operational functions through the various department heads who are appointed by the City Manager.

The City provides the full range of services normally associated with a municipality, including public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. The City also provides parking and airport facilities and water, sewer and bus service. The school districts in the City are separate governmental entities which receive no funding from the City.

Population

The following table represents historical population statistics for the City, the County and the State.

TABLE A-1
CITY OF MODESTO
Population Estimate[(1)]

Calendar Year	*City of Modesto*	*Stanislaus County*	*State of California*
2017	215,080	548,057	39,523,613
2016	212,287	541,466	39,189,035
2015	210,147	535,125	38,915,880
2014	208,542	529,994	38,572,211
2013	206,844	525,845	38,238,492

(1) As of January 1.

Source: California State Department of Finance, Population Estimates for City, County and State Population, 2011-2017 with 2010 Benchmark.

Employment

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2012 through 2016. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

TABLE A-2
MODESTO METROPOLITAN STATISTICAL AREA
Industry Employment and Labor Force
(Annual Averages)

	2016	*2015*	*2014*	*2013*	*2012*
Civilian Labor Force					
Employment	223,700	218,700	214,100	209,800	205,900
Unemployment	20,800	22,800	26,900	31,200	36,000
Unemployment Rate	8.5%	9.5%	11.2%	12.9%	14.9%
Wage and Salary Employment:					
Total Farm	14,900	14,600	14,100	14,100	13,400
Total Nonfarm	172,100	166,400	161,700	157,100	153,000
Natural Resources, Mining and Construction	8,900	8,500	7,500	7,000	6,300
Manufacturing	21,700	21,300	21,200	20,900	20,700
Wholesale Trade	6,200	5,900	5,900	5,900	5,800
Retail Trade	23,000	22,400	21,800	21,500	20,800
Transport., Warehousing, Utilities	8,200	7,500	7,200	7,100	6,800
Information	1,000	900	900	900	1,000
Financial Activities	5,300	5,200	5,300	5,400	5,400
Professional and Business Services	14,700	14,200	13,800	13,400	12,800
Educational and Health Services	31,600	30,700	29,800	28,800	28,100
Leisure and Hospitality	18,600	17,800	16,900	15,800	14,900
Other Services	5,500	5,300	5,200	5,000	4,900
Federal Government	800	800	800	800	900
State Government	2,000	1,900	1,900	1,800	1,800
Local Government	24,700	23,900	23,400	22,900	22,700
Total All Industries	187,000	181,000	175,800	171,800	166,300

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department. March 2016 benchmark.

Major Employees

The following table summarizes the largest employers in the County of Stanislaus as of June 30, 2017.

TABLE A-3
COUNTY OF STANISLAUS
Largest Employers
as of June 30, 2017

No.	*Company Name*	*No. Employees*
1.	Gallo Vineyards, Inc	3,000
2.	Doctors Medical Center	2,260
3.	Memorial Medical Center	2,056
4.	Carlo Rossi Winery	2,000
5.	E & J Gallo	2,000
6.	Ecco Domani Winery	2,000
7.	Peter Vella Winery	2,000
8.	Zabaco Winery	2,000
9.	DelMonte Foods, Inc	1,500
10.	City of Modesto	1,219
11.	Modesto Junior College	1,007
12.	Copperidge Winery	1,001
13.	Community Services Agency	1,000
14.	Modesto Bee	651

Source: City of Modesto.

Commercial Activity

The following table shows the dollar volume of taxable transactions in the City of Modesto from 2011 through 2015.

TABLE A-4
CITY OF MODESTO
Taxable Transactions
Calendar Years 2011 through 2015
(in Thousands of Dollars)

Retail Outlets	***2015***	***2014***	***2013***	***2012***	***2011***
Motor Vehicle and Parts Dealers	$246,567	$206,465	$192,196	$168,412	$141,665
Home Furnishings and Appliance Stores	137,561	129,571	122,936	115,499	104,938
Building Material And Garden Equip. and Supplies	154,052	140,928	140,599	132,773	123,509
Food and Beverage Stores	149,024	145,982	148,237	153,584	152,366
Gasoline Stations	200,713	233,089	229,962	219,847	205,418
Clothing and Clothing Accessories Stores	260,777	248,965	244,711	233,542	212,019
General Merchandise Stores	398,374	420,149	411,823	404,660	399,048
Food Services and Drinking Places	366,841	335,853	310,919	296.436	283,815
Other Retail Group	239,830	234,558	235,937	227,963	226,031
Total Retail and Food Services	**$2,153,739**	**$2,095,560**	**$2,037,320**	**$1,952,716**	**$1,848,808**
All Other Outlets	552,799	658,558	688,859	661,903	686,264
Totals All Outlets	**$2,706,538**	**$2,754,118**	**$2,726,179**	**$2,614,619**	**$2,535,072**

Source: State of California, Board of Equalization.

The following table shows the dollar volume of taxable transactions in the County of Construction Trends Stanislaus from 2011 through 2015.

TABLE A-5
COUNTY OF STANISLAUS
Taxable Transactions
Calendar Years 2011 through 2015
(in Thousands of Dollars)

Retail Outlets	***2015***	***2014***	***2013***	***2012***	***2011***
Motor Vehicle and Parts Dealers	1,284,466	1,123,975	1,000,000	889,642	$759,797
Furniture and Home Furnishings Stores	240,145	90,637	88,925	83,035	80,300
Electronics and Appliance Stores	-	132,505	123,608	116,625	107,390
Building Material and Garden Equip. and Supplies	550,161	512,589	508,131	448,514	408,346
Food and Beverage Stores	319,287	310,157	308,161	315,747	307,077
Health and Personal Care Stores	-	121,041	120,984	118,762	110,367
Gasoline Stations	612,070	717,834	724,159	743,890	714,239
Clothing and Clothing Accessories Stores	384,484	352,475	333,964	309,278	275,708
Sporting Goods, Hobby, Book, and Music Stores	-	123,420	125,989	120,748	118,191
General Merchandise Stores	809,500	847,521	828,653	787,196	772,310
Miscellaneous Store Retailers	-	192,785	189,961	178,912	177,496
Nonstore Retailers	-	62,651	56,487	39,072	35,001
Food Services and Drinking Places	702,234	638,703	589,606	558,223	527,790
Other Retail Group	531,071	-	-	-	-
Total Retail and Food Services	**5,433,420**	**5,226,290**	**4,998,626**	**4,709,642**	**$4,394,011**
All Other Outlets		2,677,318	2,641,366	2,468,630	$2,268,455
Totals All Outlets		**7,903,608**	**7,639,992**	**7,178,273**	**$6,662,466**

Source: State of California, Board of Equalization.

Construction Trends

"Single Family Housing," includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. "Multi-Family Housing," includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multifamily housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. "Residential Alterations and Additions," means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

"New Commercial," includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. "New Industrial," includes manufacturing plants and affiliated buildings. "Other New Nonresidential," includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works

and utilities buildings, and miscellaneous nonresidential structures. "Nonresidential Alterations and Additions," means alterations, additions, and conversions to nonresidential structures, excluding special installation permits for electrical, plumbing, healing, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

Provided below are the building permits and valuations for the City of Modesto for calendar years 2012 through 2016.

TABLE A-6
CITY OF MODESTO
Residential and Nonresidential Building Permit Valuations
and Total Residential Building Permits

	2016	*2015*	*2014*	*2013*	*2012*
Permit Valuation					
New Single-family	$16,336,546	$9,237,773	$3,519,048	$706,530	$2,041,348
New Multi-family	$1,500,000	$50,000	$8,020,000	$1,500,000	$6,470,002
Res. Alterations & Additions	$12,867,524	$9,876,377	$11,084,255	$9,362,550	$11,474,393
Total Residential	$30,704,070	$19,164,150	$22,623,303	$11,569,080	$19,985,743
New Commercial	$5,353,755	$1,450,810	$62,551,899	$2,978,136	$11,119,857
New Industrial	0	0	0	$460,000	$2,124,739
New Other	0	0	0	0	0
Non-Res. Alterations & Additions	$21,427,842	$13,512,391	$14,435,997	$15,266,616	$20,213,654
Total Nonresidential	$88,189,737	$53,291,501	$122,234,502	$41,842,912	$73,429,736
Total All Building					
New Dwelling Units					
Single Family	158	79	20	6	19
Multiple Family	5	1	3	1	9
Total	163	80	23	7	28

Note: Totals may not add up because of rounding.

Source: Building Permit Summary, Construction Industry Research Board and City of Modesto.

Agriculture

The following table summarizes historical agricultural production within the County for calendar years 2011 through 2015.

TABLE A-7
STANISLAUS COUNTY
Agricultural Production
2011-2015

Commodity	*2015*	*2014*	*2013*	*2012*	*2011*
Apiary	$ 74,794,900	$ 70,490,000	$ 64,506,000	$ 58,122,000	$ 50,643,000
Field Crops	256,892,000	342,084,000	267,929,000	297,856,000	319,359,000
Fruit and Nut Crops	1,647,390,000	1,889,943,000	1,645,446,000	1,249,413,000	1,061,047,000
Livestock & Poultry	731,506,000	752,301,000	510,204,000	541,401,000	500,480,000
Livestock & Poultry Products	729,031,000	1,022,212,000	848,178,000	778,652,000	807,321,000
Nursery Products	169,887,000	138,884,000	141,801,000	109,432,000	95,645,000
Organic Products	89,413,000	30,301,000	25,243,000	14,572,000	41,244,000
Other Agriculture	22,019,000	17,116,000	16,435,000	25,801,000	26,194,000
Seed Crops	740,000	1,113,000	774,000	1,266,000	1,470,000
Vegetable Crops	157,659,000	132,842,000	142,484,000	186,907,000	166,420,000
TOTALS	**$3,879,331,900**	**$4,397,286,000**	**$3,663,000,000**	**$3,263,422,000**	**$3,069,823,000**

Source: Stanislaus County Department of Agriculture.

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APPENDIX B

CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2016-17

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City of Modesto

Comprehensive Annual Financial Report

FY 2016-2017 | Fiscal Year Ended June 30, 2017

CITY OF MODESTO CALIFORNIA

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CITY OF

Modesto, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2017

Prepared by
Finance Department

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CITY OF MODESTO
June 30, 2017
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INTRODUCTORY SECTION

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City of Modesto
1010 Tenth Street
P.O. Box 642
Modesto, CA 95353
209/577-5369

Hearing and Speech
Impaired Only
TDD 209/526-9211

December 18, 2017

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Modesto:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto (City). The City of Modesto City Charter and Municipal Code require that a complete CAFR, which is comprised of financial statements and reports on the finances of the City, be submitted to the City Council at the end of each fiscal year. This report fulfills that requirement for the year ended June 30, 2017.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represents the financial position and results of operations of the City. The disclosures necessary to enable the reader to understand the City's financial affairs have been included. The City's accounting system has been developed and maintained with due consideration given to the adequacy of internal controls. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The evaluation of the costs and benefits of a particular control requires estimates and judgments by management.

The Modesto City Charter also requires an annual audit be performed by an independent certified public accountant selected by the Modesto City Council. The accounting firm of Macias Gini & O'Connell LLP was selected in 2015 to perform the City's annual financial audits. The auditors have issued an unmodified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2017, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The 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 follow the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A is designed to be read in conjunction with this transmittal letter.

City of Modesto Profile

Modesto is located in the heart of California's San Joaquin Valley and is the County Seat of Stanislaus County. It is also the retail, service and financial center of Stanislaus County. The City currently occupies a land area of 37.4 square miles and serves a population of 212,287. The City has a diverse economy and population with a strong sense of community pride.

Incorporated as a municipal city in 1884, the City adopted its City Charter on March 12, 1951, with a Council-Manager form of government. The Modesto City Council (Council) is the City's legislative body and is made up of seven elected officials serving overlapping 4-year terms. The Mayor is elected at-large by the entire City; while the six Councilmembers are elected by district and are limited to two terms.

The Council sets policy and tax rates, approves budgets, and passes ordinances and resolutions, which govern the City. The Council also appoints citizens to advisory boards, committees and commissions as well as appoints the City Manager, City Attorney, City Clerk and City Auditor. The City Manager is responsible for carrying out Council policy and managing the day-to-day affairs of the City.

The City is a "full-service" city including police and fire; public works; water and sewer; community and economic development; parks, recreation and neighborhoods; public transportation; and cultural and convention visitor services.

The City's financial reporting entity includes all funds and activities of the City as the primary government and its component units, which are legally separate entities that operate under the auspices of the City and provide services that supplement City services. The City's component units are blended into the City's funds because there is a financial benefit/burden relationship with the City or management has operational responsibility over the component unit. These component units are the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for City's financial planning and control. The proposed budget is adopted annually prior to July 1, by City Council ordinance. The Council's legally adopted budget level is at the fund level. Throughout the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delineate the delegated budget control authority to the following parties: the City Council, the City Manager and the Director of Finance.

Local Economy

Modesto is the county seat for fast-growing Stanislaus County. A major center for local commerce, the City attracts thousands to its environs for work, shopping and entertainment. Major employment sectors include manufacturing, healthcare, education and retail. Modesto and its surrounding communities contain canneries, packing plants and warehouses which ship agricultural products across the nation and the world. An active farm to table movement has been spearheaded by the area's large production of nuts, dairy, poultry and other locally grown products.

The unemployment rate within the county-wide Modesto Statistical Area decreased during the 2016-2017 fiscal year. As of June 30, 2017, the MSA's unemployment rate was recorded at 7.8%, which is down from the 9.1% rate of a year ago. The total non-farm employment in the MSA is projected to reach 190,600 jobs by 2024. The industry sector consisting of construction and extraction occupations has the highest percentage increase at 36.5% adding 369 jobs to the area. The following three top industry sectors are expected to grow by almost 30 percent, adding 1,741 jobs to the area. These include: Personal Care and Service occupations, Food Preparation and Serving Related occupations, and Healthcare Support occupations.

The 2017-18 Stanislaus County assessment roll, on which property taxes are based, is $46.8 billion, which is an increase of nearly 6 percent over the previous year. The 2017 median home sales price in Stanislaus County is approximately $289,000 or $180 per square foot, up from a square foot price of $166 a year ago. Modesto building permit activity during fiscal year 2016-2017 ended with a total of 4,973 permits issued with a valuation of $118,527,812.

Modesto is a prime and central location for business, and has attracted both start-ups and expanding firms. Specialized health care facilities like HealthSouth and Central Valley Specialty Hospital have chosen to expand their services and operations in Modesto. There is also a strong culture of entrepreneurship and innovation. Datapath, a technology management company with headquarters in Modesto, has been recognized by Inc. Magazine as one of the fastest-growing private companies in America. E&J Gallo Winery, also based in Modesto, is the world's largest privately owned winery and the leading US exporter of California wines. The Gallo Glass Company is a state of the art glass manufacturer and a leading producer of wine and spirits glass bottles in the US.

Entertainment and Tourism

Modesto features vibrant arts, entertainment, sports and cultural expression. Downtown Modesto is home to the world-class Gallo Center that brings national and international entertainment, arts and multicultural programming to the Central Valley region. Downtown, you can experience the Historic Graffiti Cruise Route, the Legends of the Cruise Walk of Fame, and the Classic Community Mural Series celebrating the cruising culture phenomenon born in Modesto and immortalized by native son George Lucas in American Graffiti. Live entertainment is a prominent feature in the Civic Plaza and nearby clubs, and a busy calendar of entertaining and educational events can be experienced just across the street at the Modesto Centre Plaza.

Baseball with the Modesto Nuts baseball team is just minutes from city center, and golfers enjoy two-highly rated 18-hole courses and a municipal course year-round. Modesto is gaining recognition for its bike routes and trails, and is a frequent host city for the Tour-de-France rated Amgen Tour of California bicycle race. Water lovers have river parks and kayaking.

The McHenry Mansion and McHenry Museum anchor the city's loving preservation of its historical heritage, drawing visitors from all over the world. The city's annual Architectural Festival offers free tours, exhibits, workshops and films in the iconic State Theatre featuring one of the best collections of mid-century modernism in the nation. Arts live year round with monthly Art Walks, and seasonal activities including the Graffiti Cruise, parades, the Modesto on Ice downtown skating rink, the Dickens Faire, ModShop arts and crafts walk, and PorchFest community music stroll bring joy to residents and visitors. Modesto truly offers something great for everyone.

Our Strategic Priorities

During 2017, the City updated its 2015-2018 Strategic Plan to incorporate input from newly elected Councilmembers and to reaffirm our strategic priorities. Our priorities bring the City's vision and values to life in our community and define our overall direction as a city. It also confirms our commitment to our citizens. While the priorities are individually important, they are also interconnected and cannot be addressed in isolation. In addition, they are the basis of our scorecard that measures success and upon which our performance metrics are built.

- **Healthy Economy and Great Quality of Life:** Increase the City's proactive economic development efforts by creating and preserving jobs, strengthening our economic base and enhancing the City's revenue base.

- **Vibrant Infrastructure and Sustainable Environment:** Strengthen and maintain a safe infrastructure of City roads, water supply, storm sewers, transit and airport needs for residents, businesses and visitors.

- **Great Safe Neighborhoods:** Explore new approaches to public safety, working in partnership with the community to reduce crime and maintain a safe and inviting community in which to live, work and play. Increase collaboration with neighborhoods and school districts to achieve quality of life improvements, and safe neighborhoods through supporting community self-reliance, problem solving and public/private partnerships.

- **Effective, Responsive and Transparent Government:** Enhance the organization's commitment to develop new and creative methods to leverage technology, market organization strengths and remain dedicated to seeking efficiencies and continuous improvement.

Long-Term Financial Planning

The City continues to refine its 10-year forecasting model and update estimates and assumptions used to project future operations. At the end of fiscal year 2016-17, General Fund Balance was as follows:

Restricted and Nonspendable - $4.5 million; Committed - $15.8 million; Assigned - $4.9 million; and Unassigned $4.5 million. The Committed Fund Balance allows the City to respond to unplanned circumstances and maintain adequate working capital to meet its cash flow needs.

The City's long-term maintenance of a stable fund balance is a direct reflection of the Mayor and Council's leadership and prudent fiscal management.

SIGNIFICANT EVENTS and ACCOMPLISHMENTS

Local Initiatives and Accomplishments

Healthy Economy & Great Quality Of Life

- In its second year, over 40,000 visitors attended Modesto On Ice skating rink
- The return of the Amgen Tour of California, a world-class cycling road race and largest annual spectator sporting event in California
- Facilitated the UCMerced Venture Lab at the Centre Plaza to assist with entrepreneurship in the City
- Relocated a minor league basketball team from Yuba to Modesto now named The Modesto SuperKats
- The City will be administering the Continuum of Care component of the Stanislaus Community System of Care Collaborative/Continuum of Care to focus on prevention and homelessness bringing in $3 million of regional HUD funding
- Comprehensive Fee Study Task Force is meeting and reviewing development fees and assumptions
- Over 150,000 participants were served through Modesto's recreation and neighborhood programming
- More than 26,000 participants were served through the Modesto Senior Citizen Center's health and wellness programming as well as over 5,000 others who enjoyed free services such as meals, tax-preparation and special events
- Modesto Senior Citizens Center leveraged over $21,000 in in-kind donations and services in the pursuit of Active Aging opportunities for Modesto's Seniors
- Developed Tenant Improvement Tuesdays ("TI Tuesdays") to streamline certain interior development to issue permits same-day
- Completed the State Housing Update Requirement
- Completed the 2016 General Plan Annual Report for submittal to State.
- Successfully completed all land entitlements for the Valley Children's Hospital project on Pelandale
- Redefined the Opportunity Map to show available land and level of infrastructure/entitlements and make the information available online

Great Safe Neighborhoods

- Increased Neighborhood Watch Groups by 10%
- Increased Crime Free Multi-Housing properties by 1% along with the number of properties inspected
- Ranked 1st in California and 5th in the nation for areas with a population of 100,000 to 299,000 for participation in National Night Out with a total of 181 parties hosted in 2017
- Modesto Police Department (MPD) hosted 5 Town Hall Meetings, one for each area command as well as multiple Coffee with Cops events throughout the City
- Stanislaus County is ranked number 30 out of 3111 counties in the United States for "Natural aspects of attractiveness" according to the USDA
- Americans with Disabilities Act Plan was adopted by City Council
- MOU made with the County for tagging abatement along highway 99 approved by Council
- Council approved relocation expenses to multiple legal tenants of condemned building at 624 9th Street. City partnered with County and EOS to find solutions for residents and remove them from building
- After School Program staff partner with Modesto City Schools to motivate, encourage, and empower over 760 youth daily to recognize and achieve their full individual potential and become productive community members
- REACH Summer Camp (Recreation, Education, Arts, Culture and Health for youth 6 - 13 years old) offers games, sports, community service and other high-interest activities to over 140 unduplicated participants sparking a life-long appreciation of positive leisure activities and provide opportunities for leadership
- Eight firefighter paramedics completed their probation at the end of 2016. An additional 16 firefighters were hired to fill current vacancies and grant funded positions to reinstate Engine 11 which returned to service in April after being eliminated during the economic downturn
- The City Council approved the purchase of five engines and two ladder trucks at the end of 2016 – when the apparatus arrive in late 2017, they will provide much needed replacement of the oldest apparatus in the MFD fleet – some of which are 27 years old
- MFD crews assisted numerous communities throughout the State during the wildfires of 2016. Modesto Fire crews responded to 12 different fires through the State Wide Mutual Aid System where they provided fire suppression and filled leadership positions
- Our Public Education Program coincides each year with Fire Prevention Week in October – this educational characterization program featured 20 shows over a two-week period reaching 6,200 students
- A partnership with Modesto City Schools and American Medical Response enabled MFD crews to train more than 2,000 junior high students in "hands-only" CPR
- In late 2016, MFD teamed up with the American Red Cross to provide and install smoke alarms in one and two-family dwellings. This program is intended to target the "at risk" population in Modesto – the elderly and persons of a low socioeconomic status

Vibrant Infrastructure & Sustainable Environment

- Successfully obtained a commitment for up to $10 million of Measure L funding from StanCog towards the Route 132 project
- Started workshops, and design concept(s) for the design of J Street/Implementation to be presented to Council Committee
- Construction is nearly complete on the Tuolumne River Regional Park (TRRP) Gateway Parcel Phase 2 project which will complete the habitat restoration along the Tuolumne River at the Gateway Parcel and will add to the current trail system in TRRP
- Worked with various neighborhood groups in the City to provide park improvements throughout Modesto through the City's Park Partners Program (such as Native Gardens, Soccer Fields, Pickleball Courts, Fitness Equipment, Benches and Park Signs)
- Received a $1 million grant for development of three soccer fields adjacent to Bellenita Park to support the volunteer efforts started by the Stanislaus Youth Soccer League
- The City is partnering with a local irrigation district interested in purchasing recycled water from the City, as part of the North Valley Regional Recycled Water Program. Construction is expected to be complete by February 2018
- Construction of the 6 million gallon North Tank is complete. This is the largest tank in the City's water system
- Construction of the 4 million gallon Industrial Tank is underway and expected to be complete in 2018
- Partnered with other local water agencies to form a regional Groundwater Sustainability Agency to collaboratively manage groundwater resources
- The Water and Wastewater Master Plans and supporting environmental documents are almost complete

Effective Responsive & Transparent Government

- Provided staff support to the Mayor's 100 Day Review Committee as they examined City process for efficiencies and cost-saving reductions
- Continue to prepare Action Plans to achieve recommendations from the Mayor's 100 Day Review Committee and updated the 2015-2018 Strategic Plan
- Council approved the purchase of new Business License software
- Finance Customer Services launched the online payment and appeals module for Parking Citations which will allow customers to pay and submit appeals online
- Business License increased collection and code enforcement efforts resulting in an increase in revenue for the General Fund
- The City went live with the new budget software was part of the budget preparation for Fiscal Year 2017-2018 budget

Awards / Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the 34th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Comprehensive Annual Financial Report (CAFR) is the result of the cooperative work of many people. We wish to convey our appreciation to all of the City departments and members of the Finance Department team who prepared and contributed to its successful completion. Without their hard work, this report would not be possible.

In addition, the City submitted and received an award from the GFOA for its second year for the Popular Annual Financial Report (PAFR) for fiscal year ended June 30, 2016. A PAFR presents financial information in a manner that appeals to the reader, is understandable and shows creativity and usefulness. The PAFR award is valid for one year and the City intends to submit its 2017 PAFR to the GFOA for consideration.

Finally, we would like to express our appreciation to the City Council, City employees, and community for their leadership and support. We look forward to the next year's challenges and opportunities.

Respectfully submitted,

Joseph P. Lopez
Interim City Manager

DeAnna Christensen
Acting Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto

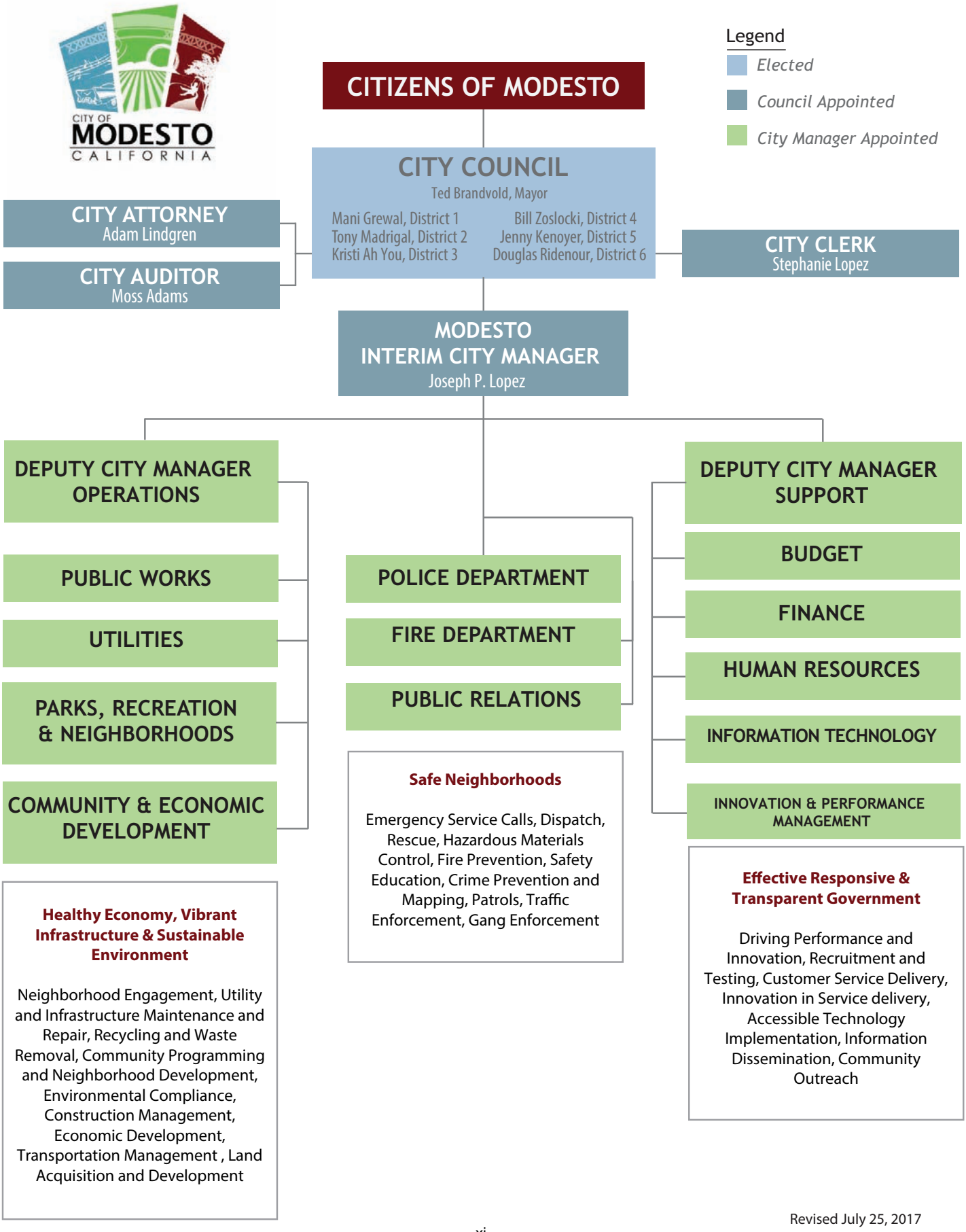
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

CITY OF MODESTO ORGANIZATIONAL CHART



Revised July 25, 2017

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FINANCIAL SECTION

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Independent Auditor's Report

City Council of the City of Modesto
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (City), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of plan contributions, schedule of funding progress for OPEB, schedule of revenues – budget (GAAP basis) and actual – General Fund, schedule of expenditures by function – budget (GAAP basis) and actual – General Fund, and schedule of revenues, expenditures, and changes in fund balance – budget (GAAP basis) and actual – Housing and Community Development special revenue fund, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

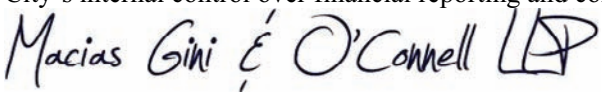
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining and individual fund statements and schedules, the statistical section, and the continuing disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, statistical, and continuing disclosure sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Walnut Creek, California
December 18, 2017

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, 2017. 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 2017 fiscal year by $999,396,169 (*total net position)*. Of this amount, $145,377,043 is restricted for a specific purpose (*restricted net position*), $931,906,773 is invested in capital assets, net of related debt and ($77,887.647) is unrestricted (*unrestricted net position)*.
- The City's total net position increased by $20,966,047 compared to the prior year. This increase is attributed to additions made to the City's infrastructure and improvements.
- As of June 30, 2017, the City's governmental funds reported combined fund balances of $120,081,372, an increase of $3,027,618 in comparison with the prior year.
- As of June 30, 2017, 15.2% of the General fund balance of $4,509,693 is available to meet the City's current and future needs (*General Fund unassigned fund balance).*
- At the end of the fiscal year, the General Fund balance was $29,649,768 or 25.4% of total General Fund expenditures. Of this, $1,970,622 is the restricted fund balances. The unassigned fund balance of $4,509,693 represents 3.8% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unassigned fund balance amount based on General Fund outflows.
- The City's total long-term liabilities showed a net decrease of $1,539,278 in comparison with the prior year. This decrease was attributed to the principal payments made during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all City assets and liabilities, deferred outflows of resources and deferred inflow of resources, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities).* The governmental activities of the City include general government, community development, highways and streets, public works, parks and recreation, and public safety. The business-type activities of the City include the Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance operations.

Component units are included in our basic financial statements and consist of legally separate entities for which the City is financially accountable and that have substantially the same board as the City Council, or provide services entirely to the City or the City has operational responsibility for the entities. Examples are the Community Facilities Districts, Redevelopment Successor Agency of the City of Modesto and the Modesto Public Financing Authority.

The government-wide financial statements can be found on pages 19-21 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: *governmental funds, proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City reports 16 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 and Housing and Community Development Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental funds financial statements can be found on pages 22-25 of this report

Proprietary funds are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements with the exception of portions of the net OPEB obligation and compensated absences that have been included within business-type activities. The rest of internal services benefiting business-type functions have been allocated as "internal balances".

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water, Sewer and Bus funds are considered to be major funds of the City. The City's six internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The proprietary funds financial statements can be found on pages 26-29 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds.

The fiduciary fund financial statements can be found on page 30-31 of this report.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on **pages 32-74** of this report.

Required Supplementary Information is also presented. The City adopts an annual appropriated budget. Budgetary comparison schedules for the major governmental funds have been provided to demonstrate compliance with this budget. This section also includes the schedules for net pension liability and OPEB.

Required supplementary information can be found on pages 77-85 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 90-123** of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $999,396,169 at the close of the most recent fiscal year.

Net Position

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	$234,821,516	$242,284,397	$244,685,705	$243,332,330	$479,507,221	$485,616,727
Capital assets	419,668,957	421,005,457	870,561,610	854,078,506	1,290,230,567	1,275,083,963
Total assets	654,490,473	663,289,854	1,115,247,315	1,097,410,836	1,769,737,788	1,760,700,690
Deferred outflows of resources	56,076,070	29,527,963	44,831,198	49,190,388	100,907,268	78,718,351
Current and other liabilities	292,651,623	260,520,365	132,908,806	144,402,121	425,560,429	$404,922,486
Long-term liabilities	98,300,219	90,656,679	334,536,847	343,719,665	432,837,066	434,376,344
Total liabilities	390,951,842	351,177,044	467,445,653	488,121,786	858,397,495	839,298,830
Deferred inflows of resources	10,503,691	17,408,971	2,347,701	4,281,118	12,851,392	21,690,089
Net position:						
Net investment in capital assets	376,743,556	381,887,289	555,163,217	539,821,175	931,906,773	921,708,464
Restricted net position	123,851,082	115,619,807	21,525,961	22,052,595	145,377,043	137,672,402
Unrestricted net position	(191,483,628)	(173,275,294)	113,595,981	92,324,550	(77,887,647)	(80,950,744)
Total net position	$309,111,010	$324,231,802	$690,285,159	$654,198,320	$999,396,169	$978,430,122

The largest portion of the City's net position, $931,906,773 (93.2 percent), reflects its investment in capital assets (e.g. land, water rights, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of debt and related deferred outflows and inflows, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City's net position represents *unrestricted net position* of ($77,887,647) (-7.8 percent).

The remaining balance of the City's net position of $145,377,043 (14.6 percent) represents resources that are subject to external restrictions on how they may be used.

The City's net position increased by $20,966,047 during the current fiscal year was largely due to the additions associated with the City's infrastructure and reduction on the City's long-term liabilities.

The long-term liabilities decrease was attributed to the principal payments of about $14.8 million made during the fiscal year.

The following table indicates the changes in net position for governmental and business-type activities, as well as comparative data for the prior year:

Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$28,933,906	$24,689,546	$141,588,536	$124,982,742	$170,522,442	$149,672,288
Operating grants and contributions	5,050,771	3,630,185	15,975,703	14,153,568	21,026,474	17,783,753
Capital grants and contributions	2,117,867	1,708,602	19,617,513	4,753,223	21,735,380	6,461,825
General revenues:						
Taxes	57,045,850	54,965,459	199,124	206,854	57,244,974	55,172,313
Intergovernment revenue not restricted for specific purposes	68,415,868	65,234,052	-	-	68,415,868	65,234,052
Unrestricted investment earnings	362,856	582,565	872,935	2,247,061	1,235,791	2,829,626
Settlements and recoveries	-	-	-		-	
Miscellaneous	515,206	2,440,696	1,316,801	1,368,761	1,832,007	3,809,457
Total revenues	162,442,324	153,251,105	179,570,612	147,712,209	342,012,936	300,963,314
Expenses:						
General government	13,945,824	12,838,583	-	-	13,945,824	12,838,583
Community development	15,419,529	12,552,115	-	-	15,419,529	12,552,115
Highw ays and streets	22,481,002	20,149,011	-	-	22,481,002	20,149,011
Public w orks	13,169,149	10,749,465	-	-	13,169,149	10,749,465
Parks and recreation	3,947,898	3,493,743	-	-	3,947,898	3,493,743
Public safety	104,348,464	86,907,876	-	-	104,348,464	86,907,876
Interest on long-term debt	2,500,849	2,691,894	-	-	2,500,849	2,691,894
Water	-	-	63,008,231	59,127,625	63,008,231	59,127,625
Sew er	-	-	36,248,877	33,093,921	36,248,877	33,093,921
Bus	-	-	21,979,360	19,709,745	21,979,360	19,709,745
Parking	-	-	1,628,226	1,625,943	1,628,226	1,625,943
Storm drain	-	-	6,119,472	5,312,896	6,119,472	5,312,896
Compost	-	-	9,648,481	11,998,345	9,648,481	11,998,345
Airport	-	-	1,744,557	1,787,081	1,744,557	1,787,081
Golf	-	-	2,871,167	3,130,536	2,871,167	3,130,536
Community center	-	-	1,934,179	1,981,307	1,934,179	1,981,307
Abatement and Pubic Nuisance	-	-	51,624	84,152	51,624	84,152
Total expenses	175,812,715	149,382,687	145,234,174	137,851,551	321,046,889	287,234,238
Increase in net position before transfers	(13,370,391)	3,868,418	34,336,438	9,860,658	20,966,047	13,729,076
Transfers	(1,750,401)	(567,177)	1,750,401	567,177	-	-
Total transfers	(1,750,401)	(567,177)	1,750,401	567,177	-	-
Change in net position	(15,120,792)	3,301,241	36,086,839	10,427,835	20,966,047	13,729,076
Net position - beginning, as previously reported	324,231,802	319,680,597	654,198,320	647,857,327	978,430,122	967,537,924
Adjustment to capital assets	-	256,569	-	(4,086,842)	-	(3,830,273)
Adjustment to unearned revenue and accruals	-	(190,305)	-		-	(190,305)
Adjustment to loans payable	-	1,183,700	-	-	-	1,183,700
Net position - beginning, as restated	324,231,802	320,930,561	654,198,320	643,770,485	978,430,122	964,701,046
Net position - ending	$309,111,010	$324,231,802	$690,285,159	$654,198,320	$999,396,169	$978,430,122

Governmental activities. Governmental activities decreased the City's net position by $15,120,792. This decrease was mainly due an increase in the Workers Comp unfunded liability in the amount of $4.1 million and the claims for the Insurance Fund increasing compared to the prior year. Miscellaneous revenue decreased by $1.9 million due to one-time revenue settlements received in 2016. Charges for service revenues increased by $4.2 million mainly due to on-going efforts to promote the City of Modesto program. Operating and capital grants contributions increased by $1.8 million due to receiving additional Department of Transportation grants, Fire Staffing for Adequate Fire and Emergency Response grants and a 2016 Community Oriented Policing Services grant.

Expenses in total were higher compared to the prior year by $26,430,028, or 17.7%, due to increase claim payments made for our Insurance funds. Additionally, the volume of grant expense activity was significantly higher compared to the prior year due to new grant funded projects and construction phase projects started in 2017.

Business-type activities. Business-type activities increased the City's net position by $36,086,839. This increase is attributed to a healthy net position in our Water and Sewer Fund which generated an increase in net position by $34.3 million and increase in our business-type capital assets. The Sewer fund has been able to manage their operational revenues due to rate increases to ensure they meet the debt ratio requirements set by Council. In addition, the Water Fund implemented a rate increase of 25.0% in FY 16-17 to manage their debit ratio requirements and their capital needs for the City's water infrastructure.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses ***fund accounting*** to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The general government functions are contained in the general, special revenue, capital projects, and debt service funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2017, the City's governmental funds reported combined fund balances of $120,081,372 an increase of $3,027,618 from the prior year. The total unassigned fund balance for the governmental funds was $1,353,014, which includes a positive $4,509,693, which represents the General Fund unassigned fund balance that is available to meet the City's current and future needs. The remainder of fund balance is *nonspendable, restricted, committed and assigned* to indicate that it is *not* available for new spending because certain constraints have been placed on the use of the balances. The unassigned fund balance for the General Fund decreased due to the Council approving $12.8 million being accounted for as emergency reserves which required Council authority to utilize these funds.

The General Fund is the chief operating fund of the City. At June 30, 2017, unassigned fund balance of the General Fund was $4,509,693 while total fund balance was $29,649,768. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 2.8% of total General Fund expenditures, while total fund balance represents 25.4% of that same amount. The prior year ratios were 11.6% and 24.5%, respectively.

The Housing and Community Development fund accounts for the grants and funds received to disburse for projects developed and administered under the Housing and Community Development Act. At June 30, 2017, total fund balance was $27,231,611, an increase of $1,698,378 from prior year. This increase is attributed to new program income received to fund future low income project activity.

Revenues of governmental funds totaled $159,396,110 in fiscal year 2016-17, which represents a decrease of $262,877 from fiscal year 2015-16.

Expenditures of governmental funds totaled $161,183,448 in fiscal year 2016-17, representing an increase of $5,111,612 from fiscal year 2015-16.

The following table presents governmental fund revenues from various sources, with comparisons to the prior year:

Revenues Classified by Source – Governmental Funds

	FY 2017		FY 2016		
Revenues by Source	Amount	Percent	Amount	Percent	% Change
Taxes	$57,045,850	35.8%	$54,965,459	34.3%	3.8%
Licenses and permits	201,445	0.1%	186,624	0.1%	7.9%
Intergovernmental	72,069,739	45.2%	76,317,229	47.8%	-5.6%
Charges for services	24,454,286	15.3%	20,429,860	12.8%	19.7%
Special assessments	3,014,768	1.9%	3,168,260	2.0%	-4.8%
Interest and rent	1,402,387	0.9%	1,297,734	0.8%	8.1%
Net increase (decrease) in fair value	(572,616)	-0.4%	102,422	0.1%	-659.1%
Fines and forfeits	1,263,407	0.8%	904,802	0.6%	39.6%
Miscellaneous	516,844	0.4%	2,286,597	1.5%	-77.4%
Total	$159,396,110	100.0%	$159,658,987	100.0%	-0.2%

- Taxes – Revenues for property and business license taxes came in higher than the prior year due to an ongoing positive upturn in the economy and increased collection and compliance efforts by City staff.

- Intergovernmental – Revenues decreased by $4.2 million due to a decrease in funding from the various Housing and Urban Development programs. Additionally, in our Capital Grants the Pelandale Interchange project continued to decrease in grant funding by $3.2 million due to the project approaching the completion.

- Charges for Services – Revenues increased by $4.0 million due to the Capital Facility Funds collecting an increase in revenue for the building permits issued for all new construction or additional square footage built within the City of Modesto.

- Interest and rent – Revenues increased due to increases to our interest earnings based on on-going improvements to the City's investment strategy which has increased our return on investment in the City's portfolio.

The following table presents expenditures by function compared to prior year amounts.

Expenditures by Function – Governmental Funds

	FY 2017		FY 2016		
Exp by Function	Amount	Percent	Amount	Percent	% Change
General government	$11,542,131	7.2%	$12,414,982	8.0%	-7.0%
Community development	13,264,050	8.2%	12,453,678	8.0%	6.5%
Highways and streets	9,240,654	5.7%	8,498,783	5.4%	8.7%
Public works	10,919,102	6.8%	10,393,169	6.7%	5.1%
Parks and recreation	3,269,360	2.0%	3,385,484	2.2%	-3.4%
Public safety	86,475,891	53.7%	84,022,670	53.8%	2.9%
Capital outlay	21,431,186	13.3%	19,817,025	12.7%	8.1%
Debt Service-principal retirement	2,535,093	1.6%	2,345,362	1.5%	8.1%
Debt Service-interest charges	2,075,202	1.3%	2,043,278	1.3%	1.6%
Debt Service-other	430,779	0.3%	697,405	0.4%	-38.2%
Total	$161,183,448	100.0%	$156,071,836	100.0%	3.3%

The following provides an explanation of the expenditures by function that changed significantly over the prior year:

- Public Works – Expenditures increased by $525,933 or 5.1% due to increase cost related to the park maintenance services contract for landscaping services. Personnel cost increased due to pay increase and employer retirement cost.

- Highways and Streets – Expenditures increased by $741,871 or 8.7% over the prior year, due to staff pay increases and employer retirement cost.

- Public safety – Expenditures increased by $2,453,221 or 2.9% over the prior year, due to an increase of expenses for police services. These increases were attributed to continuous increases to workers' compensation cost for police, information technology and police equipment and salary and benefit increase for the police department.

- Capital outlay – Expenditures increased by $1,614,161 or 8.1% reflects an increase for the General Fund due to a new capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers in the amount of $5,883,756.

Other financing sources and uses are presented below to illustrate changes from the prior year:

			Increase/(Decrease)	
	FY 2017	FY 2016	Amount	Percent
Transfers in	$5,559,720	$6,960,425	($1,400,705)	-20.1%
Transfers out	(6,659,759)	(10,572,346)	3,912,587	-37.0%
Capital leases	5,883,756	330,947	5,552,809	1678%
Sale of assets	31,239	106,582	(75,343)	-70.7%
Net financing (uses)	$4,814,956	($3,174,392)	$7,989,348	-251.7%

Transfers - The City uses interfund transfers to: (1) move resources from a fund to other funds that will utilize them in accordance with statutory and budgetary requirements, (2) utilize unrestricted resources collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to pay debt service to the funds that are responsible for payment as those payments become due.

- The net financing (uses) *from* governmental funds for 2017 were $4,814,956 compared to $(3,174,392) in the prior year. This net transfer is *to* various City funds including transferring funds from the General Fund, Capital Facility Fee funds, Fleet Fund and the Public Financing Authority to cover the debt service payments, fleet replacement and various transfers to cover City grant matches.

Debt transactions – A lease was issued in 2017 for the purchase of five Velocity Pumpers and two Velocity Tillers in the amount of $5,883,756.

The fund balance of the City's General Fund increased by $2,584,047 during the fiscal year. This result is consistent with the City Council's budgetary direction to reduce spending and identify additional revenue sources that would allow the General Fund to retain an unrestricted reserve that meets the City Council's adopted 8% unassigned fund balance amount based on General Fund outflows.

Proprietary funds. The City's proprietary fund disclosures provide the same type of information found in the government-wide financial statements, but in more detail.

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds			Nonmajor Funds	
	Water	Sewer	Bus	Other	Total
Operating revenues	$69,075,873	$48,560,533	$3,253,046	$19,354,539	$140,243,991
Operating expenses	(54,702,478)	(31,487,425)	(20,980,818)	(24,109,645)	(131,280,366)
Operating income (loss)	14,373,395	17,073,108	(17,727,772)	(4,755,106)	8,963,625
Nonoperating revenues (expenses), net	(7,922,243)	(2,782,442)	13,896,138	1,381,648	4,573,101
Income (loss) before capital contributions and transfers	6,451,152	14,290,666	(3,831,634)	(3,373,458)	13,536,726
Contributions and transfers	(491,672)	14,034,751	4,021,589	3,803,246	21,367,914
Changes in net position	$5,959,480	$28,325,417	$189,955	$429,788	$34,904,640

The Water fund had a 25.0% rate increase in September 2016 and the Sewer fund had a rate increase of 6.0% in fiscal year 2016-17. Based on these rate increases the Water and Sewer funds had an increase in their operating revenue which increased their net position.

A pollution remediation liability was reported for the Water and Sewer fund in the amounts of $8,677,433 and $7,495,053, respectively based on net recoveries the City has received from various settlements. Additional information regarding these liabilities can be found under Note II-M.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the General Fund is presented as Required Supplementary Information, beginning on **page 81-82** of this report.

While the City Council amended the budget several times through the year, the differences between the original budget and the final amended budget for the General Fund were increased overall mainly due to an increase in intergovernmental revenue, charges for services and fines and forfeit revenue. The estimated revenues increased about $351,897 while total appropriations were increased $6,459,381. These amendments were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in $3,716,114 more than final estimates. Variances in Property Taxes $939,277, Business License Taxes $775,834, Other Intergovernmental $724,586 and Charges for Services Revenue $1,005,197 were due to an increase in collection and compliance efforts and increases in property values.

Expenditures, overall, were $6,269,336 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, 2017, amounted to $1,290,230,567 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2016 was 1.0%.

Capital assets net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year.

	Governmental		Business-type		Total		Increase (decrease) Percent	
	2017	2016	2017	2016	2017	2016	Change	$ Change
Land	$28,267,446	$33,219,069	$33,854,403	$33,515,655	$62,121,849	$66,734,724	-7%	($4,612,875)
Capitalized interest	-	-	8,248,418	9,223,227	8,248,418	9,223,227	-11%	(974,809)
Buildings	12,940,877	14,603,828	37,386,768	40,330,338	50,327,645	54,934,166	-8%	(4,606,521)
Improvements	54,172,467	57,067,075	144,507,172	143,743,848	198,679,639	200,810,923	-1%	(2,131,284)
Furnishings and equipment	3,095,376	3,330,779	5,139,465	5,204,484	8,234,841	8,535,263	-4%	(300,422)
Intangible assets	3,583,041	4,022,157	118,222	155,976	3,701,263	4,178,133	-11%	(476,870)
Equipment pool	13,980,519	13,053,646	-	-	13,980,519	13,053,646	7%	926,873
Service animals	17,334	25,844	-	-	17,334	25,844	-33%	(8,510)
Water rights	-	-	274,640,462	286,581,352	274,640,462	286,581,352	-4%	(11,940,890)
Streets	203,598,507	211,616,811	-	-	203,598,507	211,616,811	-4%	(8,018,304)
Signalization	4,630,398	5,043,639	-	-	4,630,398	5,043,639	-8%	(413,241)
Bridges	29,213,408	29,947,394	-	-	29,213,408	29,947,394	-3%	(733,986)
Buses & fareboxes	25,103	25,103	16,298,419	14,192,976	16,323,522	14,218,079	15%	2,105,443
Pipelines	-	-	118,596,803	119,208,492	118,596,803	119,208,492	-1%	(611,689)
Construction in progress	66,144,481	49,050,112	231,771,478	201,922,158	297,915,959	250,972,270	19%	46,943,689
Total	$419,668,957	$421,005,457	$870,561,610	$854,078,506	$1,290,230,567	$1,275,083,963	1%	$15,146,604

Major capital asset events during the current fiscal year included the following:

- Equipment Pool – Over 80 equipment vehicles were purchased or placed in service in fiscal year 2016-17 in the amount of $2.7 million.
- Buses and fareboxes – 11 new buses or refurbish buses were purchased or placed in service in fiscal year 2016-17.
- Construction in progress – On-going water and wastewater construction projects related to improvements to our water and wastewater system were made in fiscal year 2016-17. Additionally, the Pelandale Interchange project is close to completion and continually cost increased by $10.2 million.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City's capital assets can be found in note II-B on pages **45-46** of this report.

The City had major capital commitments for contracts awarded for various construction projects. As of June 30, 2017, there were major contracts awarded for water, sewer system improvements, State Route 132 Project, and major street improvements throughout the City in the amount of $32.4 million for both governmental and business-type funds. Additional information on the City's commitments can be found in note III-D on page **64** of this report.

Long-term debt

At June 30, 2017, the City had total long-term liabilities outstanding of $432,837,066 net of unamortized discounts and premiums, as compared to $434,376,344 in the prior year. This amount was comprised of $54,470,000 of lease revenue bonds, $47,630,552 of certificates of participation, $31,605,936 of revenue bonds payable, $127,484,358 of reimbursement agreement related to Modesto Irrigation District bonds, $9,141,881 of estimated compensated absences, $27,884,781 of claims liability, $124,780,500 of loans payable, $1,145,338 of developer advances, $6,358,720 of capital leases, and $2,335,000 of notes payable.

Overall, the long-term debt decreased was mainly due to the principal payments made during the fiscal year. Additional information on the City's long-term debt can be found in Note II-C on pages **47-57** of this report.

The City maintains a current bond rating for the various bonds listed below.

BONDS	Moody's Rating	S & P Rating	Fitch Rating
1993 Golf Certificates of Participation		AA-	
Wastewater Revenue Bonds, Series 2006A	A2	AA	AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa3	AA+/A-1	

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. As of June 30, 2017, the net OPEB obligation amounts to approximately $54.5 million. This contributes significantly to the Employee Benefit Fund's $55.0 million deficit net position. Additional information on the City's EBF can be found in Notes II-H, III-F and III-G.

Economic Factors and Next Year's Budget and Rates

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past ten years and serves as a measure for the growth in the cost for supplies and services used by the City. In the fiscal year ended June 30, 2017, the CPI-Western Urban Index increased by 2.6%.
- *Utility Service Charges* - Water and Sewer utility rates have a 25.0% and 6.0% scheduled rate increase for fiscal year 2016-17. For the Water and Sewer utility rates, these planned rate increases was effective on

July 2016 for Sewer and September 2016 for Water. These rate increases will be used to assist with maintaining the debt coverage ratio requirements and related capital improvements for the utility funds.

All of these factors were considered in preparing the City's budget for fiscal year 2017-18.

During the current fiscal year, fund balance in the General Fund increased by $2,584,047, to $29,649,768, which represents 24.1% of total General Fund outflows which exceeds the City Council's target value of 8% unassigned fund balance amount based on General Fund outflows. The budget adopted for fiscal year 2017-18 reflects the Council policy reserve level of 8% of the fund's total operating expenditures. This amount is reported as part of the unassigned fund balance.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353.

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BASIC FINANCIAL STATEMENTS

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CITY OF MODESTO
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 54,015,114	$ 177,408,853	$ 231,423,967
Accounts receivable, net	2,395,270	1,457,094	3,852,364
Interest receivable	397,988	514,820	912,808
Utility billings receivable, net	786,504	13,210,981	13,997,485
Taxes receivable	11,912,425	1,752	11,914,177
Due from governments, net	11,028,508	17,968,968	28,997,476
Prepaid expenses	547,337	2,633,422	3,180,759
Internal balances	7,251,572	(7,251,572)	-
Inventories	19,142	34,616	53,758
Investments in joint ventures	9,508,617	-	9,508,617
Restricted assets:			
Cash and cash equivalents	61,097,903	24,044,617	85,142,520
Cash and cash equivalents with fiscal agent	5,744,571	14,662,154	20,406,725
Due from governments, net	111,743	-	111,743
Reimbursement agreement	15,796,300	-	15,796,300
Notes and loan receivable, net	54,208,522	-	54,208,522
Capital assets:			
Land and construction in progress	94,411,927	265,625,881	360,037,808
Other capital assets, net of accumulated depreciation	325,257,030	604,935,729	930,192,759
Total assets	654,490,473	1,115,247,315	1,769,737,788
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	46,619,235	10,683,150	57,302,385
Loss on refunding	-	940,799	940,799
Accumulated decrease in fair value of hedging derivatives	9,456,835	33,207,249	42,664,084
Total deferred outflows of resources	56,076,070	44,831,198	100,907,268
Total assets and deferred outflows of resources	710,566,543	1,160,078,513	1,870,645,056
LIABILITIES			
Accounts payable	5,634,080	10,589,858	16,223,938
Accrued salaries and benefits	2,024,650	597,281	2,621,931
Approved loans payable	246,654	-	246,654
Interest payable	29,239	223,592	252,831
Unearned revenue	2,081,389	7,538,904	9,620,293
Refundable deposits	3,664,085	2,518,656	6,182,741
Derivative instrument - interest swap	9,456,835	33,207,249	42,664,084
Pollution remediation liability	-	18,772,486	18,772,486
Long-term liabilities:			
Due within one year	11,378,420	13,682,442	25,060,862
Due in more than one year	86,921,799	320,854,405	407,776,204
Net OPEB obligation	40,250,410	14,248,974	54,499,384
Net pension liability	229,264,281	45,211,806	274,476,087
Total liabilities	390,951,842	467,445,653	858,397,495
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	10,503,691	2,347,701	12,851,392
Total liabilities and deferred inflows of resources	401,455,533	469,793,354	871,248,887
NET POSITION			
Net investment in capital assets	376,743,556	555,163,217	931,906,773
Restricted for:			
Capital projects	49,191,971	-	49,191,971
Housing and community development	55,297,487	-	55,297,487
Other purposes	19,361,624	21,525,961	40,887,585
Unrestricted	(191,483,628)	113,595,981	(77,887,647)
Total net position	$ 309,111,010	$ 690,285,159	$ 999,396,169

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2017

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Governmental activities:				
General government	$ 13,945,824	$ 5,082,405	$ -	$ -
Community development	15,419,529	10,378,999	4,293,247	-
Highways and streets	22,481,002	1,101,813	-	2,096,237
Public works	13,169,149	5,908,332	-	-
Parks and recreation	3,947,898	1,614,443	-	21,630
Public safety	104,348,464	4,847,914	757,524	-
Interest on long-term debt	2,500,849	-	-	-
Total governmental activities	175,812,715	28,933,906	5,050,771	2,117,867
Business-type activities:				
Water	63,008,231	69,075,873	80,920	-
Sewer	36,248,877	49,905,078	245,540	13,823,598
Bus	21,979,360	3,253,046	15,020,647	4,020,089
Parking	1,628,226	1,284,269	-	-
Storm drain	6,119,472	5,910,988	-	-
Compost	9,648,481	8,903,917	325,147	-
Airport	1,744,557	596,152	303,449	1,773,826
Golf	2,871,167	2,236,100	-	-
Community center	1,934,179	305,436	-	-
Abatement and public nuisance	51,624	117,677	-	-
Total business-type activities	145,234,174	141,588,536	15,975,703	19,617,513
Total	$ 321,046,889	$ 170,522,442	$ 21,026,474	$ 21,735,380
General revenues:				
Taxes:				
Utility users tax				
Property taxes, levied for general purposes				
Property taxes, generated by and allocated to the airport				
Transient occupancy tax				
Franchise tax				
Business license tax, levied for general purposes				
Business license tax, levied for downtown improvement district				
Intergovernmental revenue:				
Sales tax (state appropriation)				
Motor vehicle license fee				
Gas tax funding				
Community facilities district fees				
Special assessments, levied				
Other				
Unrestricted investment earnings				
Miscellaneous				
Transfers, net				
Total general revenues and transfers				
Changes in net position				
Net position, July 1				
Net position, June 30				

The notes to basic financial statements are an integral part of this statement.

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
	$ (8,863,419)	$ -	$ (8,863,419)
	(747,283)	-	(747,283)
	(19,282,952)	-	(19,282,952)
	(7,260,817)	-	(7,260,817)
	(2,311,825)	-	(2,311,825)
	(98,743,026)	-	(98,743,026)
	(2,500,849)	-	(2,500,849)
	(139,710,171)	-	(139,710,171)
	-	6,148,562	6,148,562
	-	27,725,339	27,725,339
	-	314,422	314,422
	-	(343,957)	(343,957)
	-	(208,484)	(208,484)
	-	(419,417)	(419,417)
	-	928,870	928,870
	-	(635,067)	(635,067)
	-	(1,628,743)	(1,628,743)
	-	66,053	66,053
	-	31,947,578	31,947,578
	(139,710,171)	31,947,578	(107,762,593)
	20,113,023	-	20,113,023
	15,384,518	-	15,384,518
	-	199,124	199,124
	2,669,484	-	2,669,484
	6,431,223	-	6,431,223
	12,255,062	-	12,255,062
	192,540	-	192,540
	30,204,125	-	30,204,125
	15,385,069	-	15,385,069
	3,968,029	-	3,968,029
	1,830	-	1,830
	3,014,768	-	3,014,768
	15,842,047	-	15,842,047
	362,856	872,935	1,235,791
	515,206	1,316,801	1,832,007
	(1,750,401)	1,750,401	-
	124,589,379	4,139,261	128,728,640
	(15,120,792)	36,086,839	20,966,047
	324,231,802	654,198,320	978,430,122
	$ 309,111,010	$ 690,285,159	$ 999,396,169

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Housing and Community Development	Other Governmental	Total Governmental
ASSETS				
Cash and cash equivalents	$ 13,137,675	$ 3,657,936	$ 9,218,022	$ 26,013,633
Receivables:				
Accounts, net	622,180	22,331	436,094	1,080,605
Interest	91,031	7,447	127,939	226,417
Utilities, net	786,504	-	-	786,504
Taxes	11,508,097	-	404,328	11,912,425
Due from governments	1,612,050	778,929	8,592,238	10,983,217
Due from other funds	5,212,884	-	-	5,212,884
Prepaid expenditures	54,842	-	1,007	55,849
Restricted assets:				
Cash and cash equivalents	1,970,622	-	50,312,569	52,283,191
Cash and cash equivalents with fiscal agent	-	-	5,594,309	5,594,309
Due from governments	-	-	111,743	111,743
Notes receivable, net	-	51,927,343	2,281,179	54,208,522
Advances to other funds	2,460,304	-	80,000	2,540,304
Total assets	$ 37,456,189	$ 56,393,986	$ 77,159,428	$ 171,009,603
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 1,737,760	$ 832,327	$ 1,982,116	$ 4,552,203
Accrued salaries and benefits	1,647,546	10,740	239,313	1,897,599
Accrued interest payable	-	6,778	1,634	8,412
Approved loans payable	-	246,654	-	246,654
Due to other funds	-	-	4,682,858	4,682,858
Unearned revenue	425,631	-	1,559,372	1,985,003
Refundable deposits	3,643,905	-	20,180	3,664,085
Advances from other funds	188,647	-	1,226,414	1,415,061
Total liabilities	7,643,489	1,096,499	9,711,887	18,451,875
Deferred inflows of resources:				
Unavailable revenue	162,932	28,065,876	4,247,548	32,476,356
Fund balances:				
Nonspendable	2,515,146	-	81,007	2,596,153
Restricted	1,970,622	27,231,611	58,299,800	87,502,033
Committed	15,800,000	-	-	15,800,000
Assigned	4,854,307	-	7,975,865	12,830,172
Unassigned	4,509,693	-	(3,156,679)	1,353,014
Total fund balances	29,649,768	27,231,611	63,199,993	120,081,372
Total liabilities, deferred inflows of resources, and fund balances	$ 37,456,189	$ 56,393,986	$ 77,159,428	$ 171,009,603

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total fund balances - total governmental funds		$ 120,081,372
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
General capital assets:		
Nondepreciable	$ 91,923,693	
Depreciable	154,317,507	
Accumulated depreciation on general capital assets	(83,253,824)	
Infrastructure:		
Depreciable	569,094,750	
Accumulated depreciation on infrastructure	(331,652,437)	400,429,689
Other long-term assets are not available to pay for current-period expenditures and, therefore, are:		
Deferred in the governmental funds	$ 32,476,356	
Reimbursement agreement with Successor Agency	15,796,300	
Investments in joint ventures	9,508,617	57,781,273
Derivative instruments:		
Rate swaps are not reported in governmental funds.	$ (9,456,835)	
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivatives also are not reported in governmental funds.	9,456,835	-
Internal service funds are used by management to charge the costs of activities to individual funds. The assets, liabilities, and deferred inflows of resources of internal service funds are included in governmental activities in the statement of net position.		(20,971,112)
Deferred outflows and inflows of resources for pension items in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Deferred outflows of resources	$ 44,238,755	
Deferred inflows of resources	(9,833,502)	34,405,253
Some liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
Net pension liability	$ (218,930,918)	
Bonds payable, and other long-term debt	(63,663,720)	
Accrued interest	(20,827)	(282,615,465)
Net position of governmental activities		$ 309,111,010

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	General	Housing and Community Development	Other Governmental	Total Governmental
REVENUES:				
Taxes	$ 55,259,431	$ -	$ 1,786,419	$ 57,045,850
Licenses and permits	109,784	-	91,661	201,445
Intergovernmental	48,821,026	4,277,482	18,971,231	72,069,739
Charges for services	13,362,353	-	11,091,933	24,454,286
Special assessments levied	-	-	3,014,768	3,014,768
Interest and rent	819,908	-	582,479	1,402,387
Net decrease in fair value of investments	(206,156)	-	(366,460)	(572,616)
Fines and forfeits	560,250	-	703,157	1,263,407
Miscellaneous	85,573	3,242	428,029	516,844
Total revenues	118,812,169	4,280,724	36,303,217	159,396,110
EXPENDITURES:				
Current:				
General government	11,269,221	-	272,910	11,542,131
Community development	6,355,248	2,120,560	4,788,242	13,264,050
Highways and streets	-	-	9,240,654	9,240,654
Public works	6,516,710	-	4,402,392	10,919,102
Parks and recreation	3,203,519	-	65,841	3,269,360
Public safety	82,664,376	-	3,811,515	86,475,891
Capital outlay	6,438,534	-	14,992,652	21,431,186
Debt service:				
Principal retirement	467,093	233,000	1,835,000	2,535,093
Interest	15,884	50,951	2,008,367	2,075,202
Other	-	-	430,779	430,779
Total expenditures	116,930,585	2,404,511	41,848,352	161,183,448
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,881,584	1,876,213	(5,545,135)	(1,787,338)
OTHER FINANCING SOURCES (USES):				
Transfers in	836,204	-	4,723,516	5,559,720
Transfers out	(6,021,176)	(177,835)	(460,748)	(6,659,759)
Capital leases	5,883,756	-	-	5,883,756
Sale of assets	3,679	-	27,560	31,239
TOTAL OTHER FINANCING SOURCES (USES)	702,463	(177,835)	4,290,328	4,814,956
CHANGES IN FUND BALANCES	2,584,047	1,698,378	(1,254,807)	3,027,618
FUND BALANCES, JULY 1	27,065,721	25,533,233	64,454,800	117,053,754
FUND BALANCES, JUNE 30	$ 29,649,768	$ 27,231,611	$ 63,199,993	$ 120,081,372

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds		$ 3,027,618
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	$ 21,431,186	
Depreciation expense	(17,811,385)	3,619,801
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 position differs from the change in fund balances by the cost of the assets sold.		(5,678,850)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unearned revenues	$ 4,046,917	
Change in investments in joint ventures	(697,409)	3,349,508
Recognition of Successor Agency annual payment for their Reimbursement Agreement receivable associated with long-term debt.		(532,150)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Principal retirement	$ 2,535,093	
Proceeds of long-term debt	(5,883,756)	(3,348,663)
Some expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest	$ 5,132	
Approved loan payable disbursement	575,000	
Pension expense associated with net pension liability	(3,481,394)	(2,901,262)
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.		(12,656,794)
Change in net position of governmental activities		$ (15,120,792)

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
ASSETS						
Current assets:						
Cash and cash equivalents	$ 76,319,916	$ 77,052,149	$ 6,612,999	$ 17,423,789	$ 177,408,853	$ 28,001,481
Receivables:						
Accounts, net	6,793	39,013	93,013	1,318,275	1,457,094	1,314,665
Interest	213,480	232,073	14,809	54,458	514,820	171,571
Taxes	-	-	-	1,752	1,752	-
Utilities, net	7,819,393	4,582,431	-	809,157	13,210,981	-
Prepaid expenses	2,539,751	27,072	42,339	24,260	2,633,422	491,488
Due from governments	803,454	12,426,232	4,441,449	297,833	17,968,968	45,291
Inventories	-	95	-	34,521	34,616	19,142
Total current assets	87,702,787	94,359,065	11,204,609	19,964,045	213,230,506	30,043,638
Noncurrent assets:						
Advances to other funds	110,814	889,200	-	-	1,000,014	88,647
Restricted cash and cash equivalents	9,770,756	14,273,861	-	-	24,044,617	8,814,712
Restricted cash and cash equivalents with fiscal agent	12,502,170	1,474,998	-	684,986	14,662,154	150,262
Land and construction in progress	64,869,479	182,252,098	4,283,145	14,221,159	265,625,881	2,488,234
Other capital assets, net of accumulated depreciation	381,369,510	156,163,134	34,879,740	32,523,345	604,935,729	16,751,034
Total noncurrent assets	468,622,729	355,053,291	39,162,885	47,429,490	910,268,395	28,292,889
Total assets	556,325,516	449,412,356	50,367,494	67,393,535	1,123,498,901	58,336,527
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pensions	3,913,247	3,901,518	675,680	2,192,705	10,683,150	2,380,480
Loss on refunding	452,045	488,754	-	-	940,799	-
Accumulated decrease in fair value of hedging derivatives	33,207,249	-	-	-	33,207,249	-
Total deferred outflows of resources	37,572,541	4,390,272	675,680	2,192,705	44,831,198	2,380,480
Total assets and deferred outflows of resources	$ 593,898,057	$ 453,802,628	$ 51,043,174	$ 69,586,240	$ 1,168,330,099	$ 60,717,007
LIABILITIES						
Current liabilities:						
Accounts payable	$ 2,886,278	$ 2,905,953	$ 2,694,636	$ 2,102,991	$ 10,589,858	$ 1,081,877
Accrued salaries and benefits	209,281	216,882	37,515	133,603	597,281	127,051
Interest payable	3,765	185,937	-	33,890	223,592	-
Due to other funds	-	-	-	530,026	530,026	-
Current portion - compensated absences	-	-	-	-	-	3,176,739
Current portion - claims liability	-	-	-	-	-	5,682,904
Current portion - long-term debt	4,925,149	7,478,616	-	355,000	12,758,765	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Unearned revenue	4,635	737,926	6,337,253	459,090	7,538,904	96,386
Total current liabilities	8,122,220	11,525,314	9,069,404	3,614,600	32,331,538	10,164,957
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,408,341	1,110,315	-	-	2,518,656	-
Advances from other funds	-	-	-	2,213,904	2,213,904	-
Compensated absences	-	-	-	-	-	5,965,142
Claims liability	-	-	-	-	-	22,201,877
Derivative instrument - interest swap	33,207,249	-	-	-	33,207,249	-
Pollution remediation liability	8,677,433	7,495,053	-	2,600,000	18,772,486	-
Long-term debt:						
Reimbursement agreement related to MID debt	122,949,358	-	-	-	122,949,358	-
Revenue bonds payable	-	29,211,432	-	-	29,211,432	-
Loans payable	426,398	118,744,841	-	-	119,171,239	-
Certificates of participation	44,345,552	-	-	2,565,000	46,910,552	-
Developer advances	1,052,226	-	-	-	1,052,226	-
Net OPEB obligation	-	-	-	-	-	54,499,384
Net pension liability	16,822,777	16,367,801	2,759,942	9,261,286	45,211,806	10,333,363
Total noncurrent liabilities	228,889,334	172,929,442	2,759,942	16,640,190	421,218,908	92,999,766
Total liabilities	237,011,554	184,454,756	11,829,346	20,254,790	453,550,446	103,164,723
DEFERRED INFLOWS OF RESOURCES						
Deferred pensions	971,135	815,014	124,743	436,809	2,347,701	670,189
NET POSITION						
Net investment in capital assets	286,546,747	184,944,095	39,162,885	44,509,490	555,163,217	19,239,268
Restricted for other purposes	8,362,415	13,163,546	-	-	21,525,961	8,814,712
Unrestricted	61,006,206	70,425,217	(73,800)	4,385,151	135,742,774	(71,171,885)
Total net position	355,915,368	268,532,858	39,089,085	48,894,641	712,431,952	(43,117,905)
Total liabilities, deferred inflows of resources, and net position	$ 593,898,057	$ 453,802,628	$ 51,043,174	$ 69,586,240		$ 60,717,007
Adjustment to reflect the consolidation of internal service fund activities					(22,146,793)	
Net position of business-type activities					$ 690,285,159	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
OPERATING REVENUES:						
Charges for services	$ 68,896,549	$ 48,559,686	$ 2,777,228	$ 19,330,481	$ 139,563,944	$ 39,780,791
Sales	-	-	-	-	-	1,486,322
Miscellaneous	179,324	847	475,818	24,058	680,047	-
Total operating revenues	69,075,873	48,560,533	3,253,046	19,354,539	140,243,991	41,267,113
OPERATING EXPENSES:						
Salaries and wages	8,377,197	8,304,335	1,430,275	5,234,975	23,346,782	4,582,141
Cost of sales	-	-	-	-	-	1,111,541
Contractual services	8,223,537	2,117,430	12,873,108	5,164,224	28,378,299	5,576,258
Utilities	2,012,949	3,092,743	160,043	605,763	5,871,498	260,957
Maintenance and supplies	2,869,316	2,605,825	2,046,094	4,559,210	12,080,445	2,683,893
Water purchases	10,436,459	-	-	-	10,436,459	-
Insurance	183,037	420,836	34,319	264,086	902,278	16,355,662
Claims	-	-	-	-	-	13,619,346
Employee benefits	3,226,818	2,063,081	569,719	2,004,893	7,864,511	4,244,621
Administration services	985,297	3,185,779	839,572	3,173,510	8,184,158	643,735
Allocated indirect administrative costs	1,193,621	642,202	265,638	440,394	2,541,855	274,466
Depreciation	17,194,247	9,055,194	2,762,050	2,662,590	31,674,081	3,028,262
Total operating expenses	54,702,478	31,487,425	20,980,818	24,109,645	131,280,366	52,380,882
OPERATING INCOME (LOSS)	14,373,395	17,073,108	(17,727,772)	(4,755,106)	8,963,625	(11,113,769)
NONOPERATING REVENUES (EXPENSES)						
Operating grants	80,920	245,540	15,020,647	628,596	15,975,703	-
Gain (loss) on disposition of capital assets	33,239	14,247	(1,155,602)	42,248	(1,065,868)	36,800
Tax revenue	-	-	-	199,124	199,124	-
Tax expense	(79,795)	(136,993)	-	(20,649)	(237,437)	-
Interest income	678,239	791,151	(18,507)	114,069	1,564,952	660,080
Net increase (decrease) in fair value of investments	77,762	(618,319)	(41,433)	(110,027)	(692,017)	(429,586)
Connection fees	-	1,344,545	-	-	1,344,545	-
Rental income	38,208	503,969	91,033	683,591	1,316,801	-
Interest expense and amortization	(8,306,138)	(4,922,906)	-	(151,666)	(13,380,710)	-
Trustee and letter of credit fees	(444,678)	(3,676)	-	(3,638)	(451,992)	-
Total nonoperating revenues (expenses)	(7,922,243)	(2,782,442)	13,896,138	1,381,648	4,573,101	267,294
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	6,451,152	14,290,666	(3,831,634)	(3,373,458)	13,536,726	(10,846,475)
Capital contributions	-	13,823,598	4,020,089	1,773,826	19,617,513	22,242
Transfers in	315,500	286,441	1,500	2,143,776	2,747,217	280,937
Transfers out	(807,172)	(75,288)	-	(114,356)	(996,816)	(931,299)
CHANGES IN NET POSITION	5,959,480	28,325,417	189,955	429,788	34,904,640	(11,474,595)
NET POSITION, JULY 1	349,955,888	240,207,441	38,899,130	48,464,853		(31,643,310)
NET POSITION, JUNE 30	$ 355,915,368	$ 268,532,858	$ 39,089,085	$ 48,894,641		$ (43,117,905)
Adjustment to reflect the consolidation of internal service funds					1,182,199	
Change in net position of business-type activities					$ 36,086,839	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	$ 66,561,254	$ 40,502,227	$ 3,205,164	$ 20,524,381	$ 130,793,026	$ 1,488,493
Receipts from interfund services provided	56,852	592,985	-	50,277	700,114	39,960,356
Payments to suppliers	(20,264,040)	(8,348,014)	(15,892,986)	(7,919,492)	(52,424,532)	(27,113,476)
Payment of insurance claims	-	-	-	-	-	(9,331,096)
Payments to employees	(11,714,198)	(10,455,703)	(2,013,527)	(7,303,167)	(31,486,595)	(10,228,381)
Payments for interfund services used	(5,808,557)	(6,521,778)		(7,117,090)	(19,447,425)	(1,878,025)
Net cash provided (used) by operating activities	28,831,311	15,769,717	(14,701,349)	(1,765,091)	28,134,588	(7,102,129)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	80,920	245,540	15,024,531	628,596	15,979,587	-
Taxes received	-	-	-	199,124	199,124	-
Transfers in	315,500	131,719	1,500	2,143,776	2,592,495	279,785
Transfers out	(807,172)	(75,288)	-	(114,356)	(996,816)	(157,334)
Payments on advances from other funds	-	-	-	(34,200)	(34,200)	-
Receipts on advances to other funds	60,846	34,200	-	-	95,046	75,000
Net cash provided (used) by noncapital financing activities	(349,906)	336,171	15,026,031	2,822,940	17,835,236	197,451
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(15,132,918)	(27,899,450)	(3,699,403)	(2,630,145)	(49,361,916)	(4,045,577)
Proceeds from sale of capital assets	40,996	767,271	45,245	45,073	898,585	199,087
Proceeds of debt issues	-	3,254,000	-	-	3,254,000	-
Principal repayments	(4,802,643)	(7,086,336)	-	(340,000)	(12,228,979)	-
Interest paid	(7,904,142)	(4,213,149)	-	(117,776)	(12,235,067)	-
Trustee and letter of credit fees	(444,678)	(3,676)	-	(3,638)	(451,992)	-
Capital contributions	-	11,618,005	1,165,053	1,773,826	14,556,884	-
Connection fees for capital purposes	-	1,344,545	-	-	1,344,545	-
Net cash provided (used) by capital and related financing activities	(28,243,385)	(22,218,790)	(2,489,105)	(1,272,660)	(54,223,940)	(3,846,490)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	644,253	782,312	(57,338)	75,344	1,444,571	636,149
Net increase (decrease) in the fair value of investments	77,762	(618,319)	-	(110,027)	(650,584)	(429,586)
Rental income received	38,208	503,969	91,033	683,591	1,316,801	-
Net cash provided (used) by investing activities	760,223	667,962	33,695	648,908	2,110,788	206,563
Net increase (decrease) in cash and cash equivalents	998,243	(5,444,940)	(2,130,728)	434,097	(6,143,328)	(10,544,605)
CASH AND CASH EQUIVALENTS, JULY 1	97,594,599	98,245,948	8,743,727	17,674,678	222,258,952	47,511,060
CASH AND CASH EQUIVALENTS, JUNE 30	$ 98,592,842	$ 92,801,008	$ 6,612,999	$ 18,108,775	$ 216,115,624	$ 36,966,455
RECONCILIATION TO STATEMENT OF NET POSITION:						
Cash and cash equivalents	$ 76,319,916	$ 77,052,149	$ 6,612,999	$ 17,423,789	$ 177,408,853	$ 28,001,481
Restricted cash and cash equivalents	9,770,756	14,273,861	-	-	24,044,617	8,814,712
Restricted cash and cash equivalents with fiscal agent	12,502,170	1,474,998	-	684,986	14,662,154	150,262
TOTAL CASH AND CASH EQUIVALENTS	$ 98,592,842	$ 92,801,008	$ 6,612,999	$ 18,108,775	$ 216,115,624	$ 36,966,455

(continued)

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2017

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	$ 14,373,395	$ 17,073,108	$ (17,727,772)	$ (4,755,106)	$ 8,963,625	$ (11,113,769)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,194,247	9,055,194	2,762,050	2,662,590	31,674,081	3,028,262
Taxes paid	(79,795)	(136,993)	-	(20,649)	(237,437)	-
Change in assets, liabilities, and deferred resources:						
(Increase) decrease in accounts receivable	6,853	36,392	(22,353)	(34,634)	(13,742)	168,916
Increase in taxes receivable	-	-	-	(1,752)	(1,752)	-
Increase in utilities receivable	(1,890,496)	(576,954)	-	(32,383)	(2,499,833)	-
(Increase) decrease in due from governments	(675,090)	(6,766,127)	-	1,063,602	(6,377,615)	(26,448)
(Increase) decrease in prepaid expenses	(52,906)	9,077	(25,529)	40,018	(29,340)	(208,984)
Decrease in inventories	-	-	-	1,804	1,804	314,097
Increase (decrease) in accounts payable	285,294	38,884	325,788	(850,568)	(200,602)	(2,190,102)
Decrease in accrued salaries and benefits	(47,138)	(24,687)	(2,369)	(27,715)	(101,909)	(23,394)
Increase in compensated absences	-	-	-	-	-	351,931
Decrease in net OPEB obligation	-	-	-	-	-	(1,691,947)
Decrease in net pension liability and deferred resources	(63,045)	(63,600)	(11,164)	(35,584)	(173,393)	(38,209)
Increase in claims liability	-	-	-	-	-	4,288,250
Decrease in pollution remediation liability	(320,975)	(2,715,946)	-	-	(3,036,921)	-
Increase in due to other funds	-	-	-	187,646	187,646	-
Increase (decrease) in unearned revenue	4,635	(239,022)	-	37,640	(196,747)	39,268
Increase in refundable deposits	96,332	80,391	-	-	176,723	-
Total adjustments	14,457,916	(1,303,391)	3,026,423	2,990,015	19,170,963	4,011,640
Net cash provided (used) by operating activities	$ 28,831,311	$ 15,769,717	(14,701,349)	$ (1,765,091)	$ 28,134,588	$ (7,102,129)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Capital asset transfers	$ -	$ 154,722	$ -	$ -	$ 154,722	$ (154,722)
Capital contribution from transfer of Empire Sanitary District	-	2,205,593	-	-	2,205,593	-
Interfund loan transfer correction	-	-	-	-	-	(618,091)
Amortization of debt items	600,014	10,447	-	-	610,461	-

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2017

	Private-Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	$ 3,213,643	$ 3,050,868
Cash and cash equivalents held with fiscal agent	1,977,938	2,942,479
Interest receivable	14,816	-
Other assets	9,924	-
Total assets	5,216,321	$ 5,993,347
LIABILITIES		
Due to special district bondholders	$ -	$ 3,408,080
Deposits held as agent for others	-	2,585,267
Other payables	168,936	-
Due to other agencies	1,192,004	-
Loans payable:		
Due within one year	2,091,550	-
Due in more than one year	23,869,750	-
Total liabilities	27,322,240	$ 5,993,347
NET POSITION		
Unrestricted	$ (22,105,919)	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUND
FISCAL YEAR ENDED JUNE 30, 2017

		Private-Purpose Trust
ADDITIONS:		
Redevelopment Agency Property Tax Trust Fund	$	3,271,733
Gain on capital assets		568,950
Interest and Investment Revenue:		
Use of money and property		233,683
Total additions		4,074,366
DEDUCTIONS:		
Distribution of property taxes to other taxing entities		768,933
Obligation retirements:		
Interest on note payable		597,708
Administrative expenses:		
City administrative expenses		215,560
Depreciation expense		43,729
Total administrative expenses		259,289
Total deductions		1,625,930
Change in net position		2,448,436
Net position, July 1		(24,554,355)
Net position, June 30	$	(22,105,919)

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

The City of Modesto (the City) was incorporated in 1884 and operates under a Council-Manager form of government as authorized by its charter adopted in 1951. The City Council consists of seven elected members. The following services are provided by the City to its citizens: public safety (fire and police), highways and streets, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation, public improvements, community development, planning and zoning, and general administrative services.

These financial statements present the financial status of the City and its component units. The component units discussed in the following paragraphs are included in the City's reporting entity because the City is financially accountable for their operations.

1. The MPFA (Modesto Public Financing Authority) was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.

2. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently nine active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

The Redevelopment Successor Agency (Successor Agency) operates under the auspices of a legislatively formed Oversight Board comprised of representatives of the local agencies that serve the development project area. The Oversight Board, in its fiduciary capacity, has authority over the operations and the timely dissolution of the former Redevelopment Agency (RDA). It is tasked with fulfilling the obligations of the former RDA, and is also responsible for revenue collection, maintaining necessary loan reserves and disposing of excess property. This agency is reported as a private-purpose trust fund based on the generally accepted accounting standards requirement.

Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of all seven members of the City Council and operational responsibility. There is an operational responsibility for the City related to these component units and for the MPFA it provides services solely for the City. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organizations described in Note III-E are not considered part of the reporting entity because the City is not financially accountable for their operations.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. For grant revenues, the City considers this type of revenue to be available if collected within 180 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest, compensated absences, claims and judgement expenditures are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees, and gas taxes), interest, special assessments levied, state and federal grants, and charges for current services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Revenues from licenses, permits, and fines and forfeits are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Housing and Community Development Fund accounts for various grant funds received from Federal Community Development Block grants to be used for a variety of housing related programs primarily targeted at low-income housing. Additionally, this fund accounts for the City's revolving fund, which provides housing loans to low-income individuals and accounts for emergency shelter grant revenue received from the Housing and Urban Development Department.

The City reports the following major proprietary funds:

The Water Fund accounts for all revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City water distribution system. Revenues are derived from water service charges and various installation fees.

The Sewer Fund accounts for revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City sewer system. Revenues include, but are not limited to, sewer service charges and sewer lateral charges.

The Bus Fund accounts for operations, maintenance, and capital expenditures of the City's mass transportation service. This system operates pursuant to the terms of a Federal grant agreement. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract provides Dial-a-Ride service for the elderly and handicapped.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, information and technology services, insurance, employee benefits management, and building services provided to other departments or agencies of

the City on a cost-reimbursement basis.

Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

Private-purpose Trust Fund accounts as the fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. The fund reports the assets, liabilities, and net position of the Successor Agency.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The Sewer Fund also recognize as non-operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including the note disclosures. Actual results could differ from those estimates.

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

1. Cash and Cash Equivalents

Cash and investments (including restricted assets) held in the City's investment pool are reported as cash and cash equivalents on the statement of net position and balance sheet because funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid and have maturities of 3 months or less at the time of purchase. Investments are stated at fair value. Valuations are obtained based on various levels identified further under Note II-A – Fair value measurements.

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Legal or contractual obligations associated with the nonmajor governmental funds have been reported as restricted assets due to the restrictions identified on the revenue sources generated from these funds. Refundable deposits in the Water and Sewer funds are also reported as restricted assets on the proprietary funds statement of net position. In addition, certain proceeds of Water certificates of participation and Sewer revenue bonds are considered restricted assets because their use is limited by applicable debt covenants. These proceeds are reported as part of "restricted assets – cash and cash equivalents" on the proprietary funds statement of net position. The Employee Benefits Management Fund collects funds which are restricted for future payouts for leave balances due to employees who terminate or retire from the City as well as any severance payouts. These assets are restricted due to management's designation of assets for future payments for employee uses.

3. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due from/due to other funds" (amounts due within one year), or "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Advances to other funds and prepaid items are offset by a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources to indicate that they are not in spendable form.

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. Property taxes are recognized in governmental funds when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end; therefore, revenue from taxpayer-assessed taxes is accrued if it is received by August 31.

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred inflow of resources. The corresponding proprietary fund revenues are recorded as nonoperating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received. The total amount due from governments for grants, entitlements, and shared receivables and revenues at June 30, 2017 is $29,109,219.

Utility service accounts receivable are $13,997,485 net of an allowance for doubtful collections of $735,430 and include unbilled receivables using actual amounts billed in July for June services for all City funds. City accounts receivable of $3,852,364 are reported net of an allowance for doubtful collections of $1,079,037, and are based on miscellaneous receivables from the City’s invoice system as well as other receivables accrued at year-end.

4. Inventories and Prepaid Expenses/Expenditures

Inventories of material and supplies held by governmental and proprietary funds are stated at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

5. Capital Assets

Capital assets, which include property, plant and equipment, intangible assets and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets received in a service concession agreement and all other types are recorded at acquisition value rather than fair value.

In the case of the initial capitalization of infrastructure assets reported by governmental activities, the City chose to include them regardless of their acquisition date or amount. Historical values were estimated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and enterprise funds are included as part of the capitalized value of the assets constructed. The amount of interest capitalized is determined by offsetting interest expense incurred from the date of borrowing until completion of the project, against interest earned on invested proceeds of tax-exempted debt over the same period.

Depreciation is recorded using the straight line method over the estimated useful lives of the assets, which are 75 years for pipelines, 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, 2 to 10 years for vehicles, 5 to 15 years for intangible assets, 30 to 50 years for streets, 20 years for signalization, 30 years for water rights, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

Capital leases are recorded as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term.

6. Deferred Outflows and Inflows of Resources

The Governmental Accounting Standards Board (GASB) establishes criteria for recognizing deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note II. N for a detail listing of the deferred outflows and inflows of resources the City has recognized.

7. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the GASB Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination. As of June 30, 2017, the total estimated liability for all compensated absences, including vacation and sick leave, is $9,141,881.

8. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

- *Assigned fund balance* – amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, which includes City Council or by an official designated such as the City Manager for such purpose.

- *Unassigned fund balance* – the residual classification for the City's General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or

assigned to those purposes.

The City establishes and modifies or rescinds fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the City through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

9. Fund Balance Policy

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its City funds sufficient to fund cash flows of the City and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The City has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of a flat $7 million for fiscal year 2016-2017.

E. OTHER SIGNIFICANT ACCOUNTING POLICIES

1. Employee Benefits

The City established the Employee Benefits Management Internal Service Fund to account for all compensated absences and non-insurance benefits. Insurance benefits for current employees are paid from the Insurance Internal Service Fund. The Employee Benefits Management Fund is reimbursed based on actual benefits paid and leave taken, through payroll charges to the City's operating funds. Leave earned but not taken is being funded over a reasonable period of time.

2. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) Safety (police and fire) and Miscellaneous (all other) Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB 68 requires that the reported results must pertain to the liability and asset information within certain defined timeframes. For this report, the following:

Valuation Date: June 30, 2015
Measurement Date: June 30, 2016
Measurement Period: June 30, 2015 to June 30, 2016

3. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund services provided and used, such as equipment pool rental, are accounted for as revenues and expenditures or expenses. Transactions to reimburse a fund for expenditures/expenses initially made from it that are applicable to another fund are recorded as expenditures/expenses in the correct fund and as reductions of expenditures/expenses in the original fund. All other interfund transactions are reported as transfers.

F. NEW ACCOUNTING STANDARDS

During the fiscal year ended June 30, 2017, the City implemented the following GASB standards:

In June 2015, GASB issued **Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**. This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement did not have any impacts to the City's financial statements.

In August 2015, GASB issued **Statement No. 77, Tax Abatement Disclosures**. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (i) brief descriptive information; (ii) the gross dollar amount of taxes abated during the period; and (iii) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This Statement did not have a significant impact to the City's financial statements.

In December 2015, the GASB issued **Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans**. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68 associated with pensions provided through certain cost-sharing multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Such plans are not considered a state or local government pension plan and are used to provide benefits to both employees of state and local governments and employees of employers that are not state or local governments. This statement did not have any impacts to the City's financial statements.

In January 2016, the GASB issued **Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.** The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in GASB Statement No. 14, The Financial Reporting Entity, as amended. This Statement did not have a significant impact to the City's financial statements.

In March 2016, the GASB issued **Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73,** to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practices for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement did not have a significant impact to the City's financial statements.

The City is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2015, GASB issued **Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement is effective for the City's fiscal year ending June 30, 2018.

In March 2016, the GASB issued **Statement No. 81, Irrevocable Split-Interest Agreements**. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This Statement is effective for the City's fiscal year ending June 30, 2018.

In November 2016, the GASB issued **Statement No. 83, Certain Asset Retirement Obligations**, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement is effective for the City's fiscal year ending June 30, 2019

In January 2017, the GASB issued **Statement No. 84, Fiduciary Activities**, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective for the City's fiscal year ending June 30, 2020.

In March 2017, the GASB issued **Statement No. 85, Omnibus 2017**, which addresses practical issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and other postemployment benefits. This Statement is effective for the City's fiscal year ending June 30, 2018.

In May 2017, the GASB issued **Statement No. 86, Certain Debt Extinguishment Issues**, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for the City's fiscal year ending June 30,
2018.

In June 2017, the GASB issued **Statement No. 87, Leases**, which increases the usefulness of government' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the City's fiscal year ending June 30, 2021.

II. DETAILED NOTES

A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the City's cash and investment pool is displayed on the balance sheet and proprietary and fiduciary fund statements of net position as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net position as "restricted assets – cash and cash equivalents." The City also maintains "cash and cash equivalents with fiscal agent", which represent monies held by fiscal agents for payment of various City debt and capital projects costs.

The City's cash and investments are reported as follows:

Primary government:		
Cash and cash equivalents	$	231,423,967
Restricted cash and cash equivalents		85,142,520
Restricted cash and cash equivalents with fiscal agent		20,406,725
Sucessor Agency Private-Purpose Trust Fund		
Cash and cash equivalents		3,213,643
Cash and cash equivalents held with fiscal agent		1,977,938
Agency funds		
Cash and cash equivalents		3,050,868
Cash and cash equivalents held with fiscal agent		2,942,479
Total cash and investments	$	348,158,140

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment policy and the California Government Code allow the City to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Maximum Percentage Of Issuer	Maximum Quality Requirements
Local Agency Bonds	5 years	None	None	None
Treasury Obligations	5 years	None	None	None
State Obligations	5 years	None	None	A rating
CA Local Agency Obligations	5 years	None	None	A rating
Federal Agencies	5 years	None	None	None
Banker's Acceptances	180 days	40 %	5 %	Federal Reserve eligible
Commercial Paper	270 days	25 %	5 %	A1/P1 rating
Negotiable Certificates of Deposit	5 years	30 %	5 %	A rating
Certificates of Deposit	1 year	20 %	5 %	FDIC insured or collateralized
Repurchase Agreements	90 days	None	5 %	None
Reverse Repurchase Agreements	92 days	20 % of combined base value	5 %	None
Medium Term Notes	5 years	30 %	5 %	A rating
Money Market Mutual Funds	N/A	15 %	10 %	Multiple
Mortgage and Asset-backed Securities	5 years	20 %	5 %	AA Rating
CAMP	N/A	None	None	N/A
LAIF	N/A	N/A	None	N/A

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. Security types prohibited include, but are not limited to: Investments in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. At June 30, 2017, the fair value approximated the City's cost. At June 30, 2017, these investments range from a maximum maturity of 5 years to some maturity limits of 180 days or less. The City reports its investments in CAMP at the fair value amounts provided by CAMP.

Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All current bond indentures authorize the same investments as the City's investment policy.

Custodial Credit Risk – Deposits

The Custodial Credit Risk for Deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The City does not, currently, have a Custodial Credit Risk – Deposits Policy. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 110% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in custody at the Bank of New York Trust Company N.A. under the name of the California Local Agency Collateral Pool as administered by the California Department of Business Oversight (Pool Administrator).

The City of Modesto has 10 deposit accounts at Bank of America that are monitored for deposit collateral purposes. As per the CA Government Code, the bank must provide collateral for the collected deposit balances at 110% coverage. The City is collateralized as part of the California Local Agency Collateral Pool Program. As of June 30, 2017 the City had collected deposit balances of $16,574,956. On this amount, the FDIC insurance coverage was $500,000. ($250,000 for their time and savings accounts and $250,000 for their demand accounts). The remainder of their balances were collateralized as part of the California Local Agency Pool Program.

For further information, on June 30, 2017, the total collected deposit balances at Bank of America from California Local Agency Pool Program participants was $1,851,155,231 of which $84,735,990 was FDIC insured. The remaining uninsured balances, $1,766,419,241 were collateralized by securities pledged by Bank of America that had a market value of $2,228,055,232. This results in collateral margin coverage of 124% far in excess of the 110% required by the California Government Code.

Custodial Credit Risk – Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

The City's investments consist of pooled investments, dedicated investments, and other funds held by trustees. The dedicated investment funds represent restricted funds and relate to bond proceeds of the Water and Sewer Enterprise Funds, assessment districts (reported under Agency Funds) and the Successor Agency. The other funds held by trustees are made either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust agreements. All investments held by a custodian are in the City's name excluding the Successor Agency.

Interest Rate Risk

Interest Rate Risk is the risk that interest rates will rise and reduce the fair value of an investment. Long-term fixed-income securities have the greatest amount of interest rate risk, due to their duration, or sensitivity to interest rate changes, being greater.

As of June 30, 2017, the City owned two callable bonds. There were no Federal Agency callables in the portfolio. Information on those bonds has been provided as follows:

Corporate Notes			
Amount	Maturity Date	Call Date	Call Terms
$1,095,000	11/5/2018	10/5/2018	Callable on and any time after 10/05/18
$5,475,000	5/22/2018	4/22/2018	Callable on and any time after 4/22/18

Disclosures Related to Credit Risk

Generally, Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City may from time to time be invested in a security whose rating is downgraded subsequent to the date of purchase. In the event a rating drops below the minimum allowed rating category for that given investment type, the investment advisor shall notify the Finance Director and recommend a plan of action. The City will limit investments in any one non-government issuers, except investment pools to no more than 5% regardless of security type.

The following table summarizes the City's investments based on maturity dates of various investments:

	Credit Rating		Remaining Time to Maturity				
Investment Type	Standard & Poor's	Moody's Investors Service	Total	Less Than 1 Year	1-2 Years	2-3 Years	3-18 years
U.S. Treasury Notes	AA+	Aaa	$ 20,187,552	$ -	$ 6,691,262	$ -	$ 13,496,290
Federal Agencies:							
Collateralized Mortgage Obligation	AA+	Aaa	7,564,435	1,641,979	4,039,694	1,882,762	-
Federal Agency Bond/Notes	AA+	Aaa	117,812,611	-	60,079,004	57,733,607	-
Corporate Notes	See Below	See Below	38,806,370	9,398,506	16,063,570	13,344,294	-
Negotiable Certificates of Deposit	See Below	See Below	45,931,235	14,876,079	31,055,156	-	-
CAMP Pool	AAAm	N/A	79,653,435	79,653,435	-	-	-
Total			$ 309,955,638	$ 105,569,999	$ 117,928,686	$ 72,960,663	$ 13,496,290
Held By Fiscal Agent							
Money Market Funds	AAAm	Aaa-mf	5,709,055	5,709,055	-	-	-
CAMP	AAAm	N/A	9,609,203	9,609,203	-	-	-
MID – Collateral Agreement	A+	Aa3	10,008,884	10,008,884	-	-	-
Fiscal Agent Total			$ 25,327,142	$ 25,327,142	$ -	$ -	$ -
City of Modesto Banking Accts & Cash on Hand	A/A-1	A1/P1	12,735,527				
Timing Differences for Deposit & Electronic Vendor Payments			139,833				
Total Cash and Investments			$ 348,158,140				

The following is a table indicating the credit ratings for the City's investment in Corporate Notes:

Amount	Standard & Poors	Moody's Investors Service
$ 3,513,804	AA+	Aaa
1,854,881	AA	Aa2
680,475	AA-	Aa2
3,717,716	AA-	Aa3
5,477,875	A	A1
6,966,283	A+	A1
2,997,141	AA	A1
7,254,704	A	A2
3,527,207	A-	A2
2,816,284	A-	A3
$ 38,806,370		

The following is a table indicating the credit ratings for the City's investment in Negotiable Certificates of Deposit:

	Amount	Standard & Poors	Moody's Investors Service
$	11,461,716	AA-	Aa2
	8,095,669	AA-	Aa3
	4,506,840	A	A1
	16,155,376	A+	Aa3
	5,711,634	A+	A1
$	45,931,235		

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, 2017:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	$59,148,971	16.99%
Federal Home Loan Banks	Federal agency securities	27,185,443	7.81%
Freddie Mac (FHLMC)	Federal agency securities	39,042,632	11.21%

Fair Value measurements

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, of which levels 1 & 2 apply to the City as follows:

- Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement. Examples would be securities with prices derived from the major exchanges.

- Level 2: Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data. Examples would be securities with prices derived from market corroborated sources such as indices and yield curves; and matrix pricing, such as for most debt securities.

Union Bank is the custodian of the City's investments. Union Bank utilizes pricing services that deliver current market values and security information which is input into their trust accounting systems. A security will be valued on the basis of valuations provided by a pricing service vendor if it has a substantial public market (i.e. is not thinly traded), and is freely tradable without restriction, has a valid CUSIP or SEDOL and resides on one of the depositories. Based on their direction, Union Bank will continue to obtain valuations for all other securities and assets, for which they do not receive a pricing feed and/or descriptive information from their pricing service vendors, from various sources independent of Union Bank. If no current market value price is available from their pricing service vendors and their agents have provided Union Bank with pricing information, Union Bank will show the value of the asset at such value as Union Bank shall determine, such value to be for administrative purposes only and not be any indication of any market value.

The Pool has the following recurring fair value measurements as of June 30, 2017:

Investments by Fair Value Level		Fair Value Measurements Using	
Investment Type		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S Treasury Notes	$ 20,187,552	$ 20,187,552	$ -
Corporate Notes	38,806,370	-	38,806,370
Negotiable Certificates of Deposit	45,931,235	-	45,931,235
Collateralized Mortgage Obligation	7,564,435	-	7,564,435
Federal Agency Bond/Notes	117,812,611	-	117,812,611
Total Investments measured at fair value	230,302,203	20,187,552	210,114,651
Investments not subject to Fair Value hierarchy			
CAMP	79,653,435		
	$ 309,955,638		
Investments by Fair Value for Fiscal Agents			
Money Market Funds	$ 5,709,055	$ -	$ 5,709,055
Total Fiscal Agent investments measured at fair value	5,709,055	-	5,709,055
Investments not subject to Fair Value hierarchy			
CAMP	9,609,203		
MID Collateral Agreement	10,008,884		
	$ 25,327,142		

B. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 33,219,069	$ -	$ (4,951,623)	$ 28,267,446
Construction in progress	49,050,112	21,133,342	(4,038,973)	66,144,481
Total capital assets, not being depreciated:	82,269,181	21,133,342	(8,990,596)	94,411,927
Capital assets being depreciated:				
Buildings	34,507,293	20,921	(1,668,446)	32,859,768
Improvements other than buildings	107,637,168	1,542,230	(3,383)	109,176,015
Furnishings & equipment	16,195,762	484,315	(720,239)	15,959,838
Buses and fareboxes	278,852	-	-	278,852
Service animals	42,549	-	-	42,549
Intangible assets	8,513,126	-	-	8,513,126
Equipment pool	34,722,836	4,004,320	(2,040,939)	36,686,217
Infrastructure				
Streets	508,430,143	2,174,963	-	510,605,106
Signals	21,789,400	923	-	21,790,323
Bridges	36,699,321	-	-	36,699,321
Total capital assets, being depreciated:	768,816,450	8,227,672	(4,433,007)	772,611,115
Less accumulated depreciation for:				
Buildings	(19,903,465)	(937,534)	922,108	(19,918,891)
Improvements	(50,570,093)	(4,436,500)	3,045	(55,003,548)
Furnishings & equipment	(12,864,983)	(769,264)	769,785	(12,864,462)
Buses and fareboxes	(253,749)	-	-	(253,749)
Service animals	(16,705)	(8,510)	-	(25,215)
Intangible assets	(4,490,969)	(439,116)	-	(4,930,085)
Equipment pool	(21,669,190)	(2,907,305)	1,870,797	(22,705,698)
Infrastructure				
Streets	(296,813,332)	(10,193,267)	-	(307,006,599)
Signals	(16,745,761)	(414,164)	-	(17,159,925)
Bridges	(6,751,927)	(733,986)	-	(7,485,913)
Total accumulated depreciation	(430,080,174)	(20,839,646)	3,565,735	(447,354,085)
Total capital assets being depreciated, net	338,736,276	(12,611,974)	(867,272)	325,257,030
Governmental activities capital assets, net	$ 421,005,457	$ 8,521,368	$ (9,857,868)	$ 419,668,957

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	$ 554,326
Community development	637,311
Highways and streets	11,785,211
Public works	524,404
Parks and recreation	157,015
Public safety	4,153,117
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	3,028,262
Total depreciation expense – Governmental activities	$20,839,646

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 33,515,655	$ 338,748	$ -	$ 33,854,403
Construction in progress	201,922,158	46,435,022	(16,585,702)	231,771,478
Total capital assets, not being depreciated:	235,437,813	46,773,770	(16,585,702)	265,625,881
Capital assets being depreciated:				
Capitalized interest	19,496,181	-	-	19,496,181
Buildings	101,856,550	88,649	-	101,945,199
Improvements other than buildings	306,732,308	12,797,744	(1,525,990)	318,004,062
Furnishings and equipment	12,497,442	891,441	(272,018)	13,116,865
Intangible assets	416,557	41,215	(2,390)	455,382
Water rights	358,226,691	-	-	358,226,691
Buses and fareboxes	28,487,802	4,039,188	(2,573,883)	29,953,107
Pipelines	159,600,921	1,470,313	-	161,071,234
Total capital assets, being depreciated:	987,314,452	19,328,550	(4,374,281)	1,002,268,721
Less accumulated depreciation for:				
Capitalized interest	(10,272,954)	(974,809)	-	(11,247,763)
Buildings	(61,526,212)	(3,032,219)	-	(64,558,431)
Improvements other than buildings	(162,988,460)	(10,924,341)	415,911	(173,496,890)
Furnishings and equipment	(7,292,958)	(938,092)	253,650	(7,977,400)
Intangible assets	(260,581)	(78,969)	2,390	(337,160)
Water rights	(71,645,339)	(11,940,890)	-	(83,586,229)
Buses and fareboxes	(14,294,826)	(1,702,759)	2,342,897	(13,654,688)
Pipelines	(40,392,429)	(2,082,002)	-	(42,474,431)
Total accumulated depreciation	(368,673,759)	(31,674,081)	3,014,848	(397,332,992)
Total capital assets being depreciated, net	618,640,693	(12,345,531)	(1,359,433)	604,935,729
Business-type activities capital assets, net	$ 854,078,506	$ 34,428,239	(17,945,135)	$ 870,561,610

Business-type activities:

Water	$17,194,247
Sewer	9,055,194
Bus	2,762,050
Parking	448,424
Storm drain	521,532
Compost	149,997
Airport	738,580
Golf	51,227
Community center	752,830
Total depreciation expense – Business-type activities	$31,674,081

C. LONG-TERM DEBT

Loans Payable

Governmental Activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid when the financing mechanism is established. As of June 30, 2017, no payments have been made to the Stanislaus County Economic Development Bank. According to the agreement, the Project will be completed as of the date the City first issues building permits within the Kiernan Business Park East area. To date, no building permits have been issued.	500,000
Total Principal Balance – Governmental-Type Activities	$ 500,000

Business-Type Activities:

Water Enterprise Fund:

Loan payable to State of California Department of Public Health, also known as ARRA Water Grant. This Agreement constitutes funding in the form of a loan with forgiveness of principal made by the State under the provisions of California Safe Drinking Water State Revolving Fund Law of 1997, and the American Recovery and Reinvestment Act of 2009 (ARRA) Public Law 11 1-5. The purpose of the funding is to assist in financing construction of a project, which will enable the City to meet safe drinking water standards or to address other health concerns, herein referred to as the "Project". The total amount for the project was $1,136,656, of which 50% was to be repaid as a loan. This original loan amount of $568,328 has a payment term of 20 years at 2.5017% interest rate.	451,547

Sewer Enterprise Fund:

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as Tertiary Treatment Phase 1B Project generally consists of constructing a 12.6 million gallon per day tertiary treatment plant. Completion of construction date is established as June 1, 2016. Project completion date is established as December 1, 2016. The City agrees to repay all project funds at an interest rate of two and six-tenths percent (2.6%) per annum and an administrative service charge of zero percent (0%) per annum. The total loan approved by the State Water Resources Control Board is $121,829,278, plus $5,328,665 in Accrued Construction Period Interest. The loan repayment term is 20 years (final payment due on December 1, 2035) and after an initial annual payment of $7,891,411 in the fiscal year ending June 30, 2017, the annual principal and interest payment is $8,245,564 beginning in the fiscal year ending June 30, 2018.	122,421,633
Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as North Valley Regional Recycled Water Program generally consists of constructing improvements to the City's existing pump station. The City will then distribute the recycled water to the Del Puerto Water District for agricultural use increasing recycled water supplies by 5.4 billion gallons per year within the first 5 years of operation and 9.9 billion gallons per year at build out. Completion of construction date is established as June 30, 2018. Project completion date is established as December 31, 2018. The City agrees to repay all project funds at an interest rate of one percent (1%) per annum and an administrative service charge of zero percent (0%) per annum. The total loan approved by the State Water Resources Control Board is $41,862,028, plus	

$6,642,487 in Accrued Construction Period Interest. The loan repayment term is 30 years (final payment due on June 30, 2048) and after an initial and secondary annual payment of $1,262,431 and $1,506,587, respectively, in the fiscal year ending June 30, 2019 and June 30, 2020, the annual principal and interest payment is $1,633,411 beginning in the fiscal year ending June 30, 2021. The current reported balance includes only the disbursements received as of June 30, 2017.	1,407,320
Total Principal Balances – Business-Type Activities	$124,280,500

Annual debt service requirements to maturity for loans payable are as follows:

	Governmental-Type Activities		Business-Type Activities	
Year Ending June 30,	Principal	Interest	Principal	Interest
2018	$500,000	$-	$5,109,261	$3,172,593
2019	-	-	6,197,547	3,075,356
2020	-	-	5,786,629	2,929,872
2021	-	-	5,495,526	2,786,327
2022	-	-	5,638,388	2,643,466
2023-2027	-	-	30,468,273	10,940,995
2028-2032	-	-	34,639,855	6,769,414
2033-2036	-	-	30,945,021	2,037,236
Total	$500,000	$-	$124,280,500	$34,355,259

Certificates of Participation:

Business-Type Activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; serial certificates with annual maturities on November 1, in amounts from $225,000 to $235,000; interest rate of 5.5%; term certificates at 5.6% due November 1, 2016, 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. The certificates are repayable from any source of available funds of the City. However, the City has elected to repay the certificates from revenues of the Golf Enterprise Fund. $2,920,000

Water Enterprise Fund:

2008 Water Refunding Revenue Certificates of Participation issued to refund the 2006 issue, to provide funding for construction of new downstream water facilities and various water distribution system improvements in connection with Modesto Irrigation District's expansion of the regional water treatment plant; variable rate securities maturing October 1, 2036, with interest initially calculated weekly, fluctuating according to market conditions. The Certificates may be converted to a daily, term, flexible, or fixed rate.

While the 2008 COPs are in the Weekly Mode, they are subject to optional tender and mandatory tender for purchase. Funds for the payment of the purchase price of 2008 COPs that are tendered for purchase and that are not remarketed by the Remarketing Agent will be available (subject to certain conditions) under a Standby Certificate Purchase Agreement, dated May 1, 2008 (the "Liquidity Facility"). The Liquidity Facility does not support, secure or guaranty the payments of the

principal or interest with respect to the 2008 COPs. Subject to the terms and conditions of the Liquidity Facility, the Liquidity Facility Provider is to provide funds for the payment of the purchase price on each purchase of 2008 COPS up to $47,625,000 in principal amount (the "Available Principal Commitment") and $548,014 an amount equal to 35 days' interest on the Available Principal Commitment at an assumed rate of 12% and accrued interest on 2008 COPs subject to the Weekly Rate tendered or deemed tendered for purchase in the event that remarketing proceeds are not sufficient to pay the purchase price of such 2008 COPs.

The Liquidity Facility will not provide for the payment of principal and interest on any 2008 COPs other than with respect to the purchase price of the 2008 COPs tendered or deemed tendered and not remarketed. Barring an event of default, any such draws on the Letter of Credit will be repaid under the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in ten equal semi-annual installments of principal, plus monthly interest at the Bank Rate, over a 5 year period. However, the entire balance of the amount drawn shall become due immediately if the 2008 COPs are cancelled or prepaid, are remarketed, or converted to bear interest at a rate other than a daily rate or weekly rate; an alternate credit facility is secured; or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired May 29, 2011, and were subsequently extended to July 14, 2017 at a commitment fee of 0.875%, then again to June 15, 2020 at a commitment fee of 0.7%.

The City entered into a 30-year interest rate swap agreement as discussed below. The combination of the variable rate 2008 COPs and the floating rate swap creates a synthetic fixed-rate debt for the City. The synthetic fixed-rate was 3.47% at June 30, 2017.	44,815,000
Total Principal Balances – Business-Type Activities	47,735,000
Less:	
Unamortized Bond Discount – 2008 Water Refunding Certificates of Participation	(104,448)
Total Business-Type Activities – Certificates of Participation	$47,630,552

The City has pledged future Water Enterprise Fund revenues, net of specified operating expenses, to repay the 2008 Certificates of Participation. The City has pledged future Golf Enterprise Fund revenues to pay the 1993 Certificates of Participation for the Golf Course Refinancing project. The Water and Golf Funds total principal and interest remaining to be paid on the certificates is $56,977,331. The Water Fund's principal, interest and other debt service cost paid on certificates for the current year, along with payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled $12,706,785, and net operating revenues of the Fund were $32,583,358, which represented coverage of 256%. The Golf Fund's principal and interest paid on certificates totaled $491,666, and net operating revenues of the Fund were $314,029, which represented coverage of 64%.

Annual debt service requirements to maturity for Certificates of Participation, for 2008 Water and 1993 Golf, are as follows:

Year Ending June 30,	Business-Type Activities Principal	Interest
2018	$720,000	$809,519
2019	775,000	785,331
2020	795,000	759,906
2021	805,000	733,731
2022	860,000	706,344
2023-2027	11,210,000	2,925,812
2028-2032	14,700,000	1,875,825
2033-2037	17,870,000	645,863
Total	$47,735,000	$9,242,331

Lease Revenue Bonds – Governmental Activities:

2008 Lease Revenue Refunding Bonds in the amount of $65,170,000 issued to refund the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds; variable rate securities maturing September 1, 2033, with interest initially calculated weekly, fluctuating according to market conditions. The bonds may be converted to a daily, term, flexible, or fixed rate. The combination of the variable rate bonds and a floating swap rate creates a synthetic fixed-rate debt for the City. The synthetic fixed-rate was 3.61% at June 30, 2017.

Regularly scheduled payments of principal and interest are supported by an irrevocable, direct pay Letter of Credit (the "Credit Facility") issued by Bank of America, N. A. The Trustee can draw funds under the Credit Facility to pay the purchase price of tendered bonds that are not remarketed. Barring an event of default, any such draws on the Letter of Credit will be paid under the terms of the Reimbursable Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in equal semi-annual installments of principal plus monthly interest, at the Bank Rate, over a 5 year amortization period. However, the entire balance of the amount drawn shall become due immediately if the tendered bonds are remarketed or defeased, or an alternate credit facility is secured, or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired August 1, 2011, but were subsequently extended to June 22, 2019 at a commitment fee of 0.60%. $54,470,000

Annual debt service requirements to maturity for Lease Revenue Bonds are as follows:

Year Ending June 30,	Governmental-Type Activities Principal	Interest
2018	$1,695,000	$797,981
2019	1,860,000	770,700
2020	2,000,000	741,225
2021	2,170,000	709,313
2022	2,390,000	674,287
2023-2027	15,070,000	2,738,363
2028-2032	20,010,000	1,394,363
2033-2034	9,275,000	105,956
Total	$54,470,000	$7,932,188

Revenue Bonds – Business-Type Activities:

Sewer Enterprise Fund:

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. There was a Partial Refunding of 2006A, in the amount of $1,800,000, with the Private Placement of the Wastewater Revenue Refunding Bond Series 2015.	14,735,000
Wastewater Revenue Refunding Bond Series 2015; interest payable on November 1 and May 1, commencing May 1, 2016. Principal is payable in annual installments on each November 1, commencing November 1, 2016 and ending November 1, 2024. The Series 2015 Bond shall bear interest at a rate equal to 2.42% per annum; Payment of principal and interest on the Series 2015 Bond is secured by a pledge of Net Revenues; The Series 2015 Bond constitutes "Parity Debt" under the Indenture. On October 30, 2015, the City issued the Series 2015 Bond, as a Parity Debt to fully refund the 2005A and partially refund the 2006A Wastewater Revenue Bonds. The proceeds were used to: 1) Refund the Wastewater Revenue Refunding Bonds, Series 2005A, which refinanced the acquisition and construction of improvements to the City's wastewater enterprise, 2) refund a portion of the Wastewater Revenue Bonds, Series 2006A, and 3) pay cost of issuance in connection with the financing. The Series 2005A Bonds have been fully redeemed and the 2023 and 2024 maturities of Series 2006A Bonds were redeemed. The City will realize significant savings from the refunding of the 2005A and 2006A Bonds, bearing an interest rate of 2.42%.	17,079,886
Total Principal Balances – Business-Type Activities	31,814,886
Less: Unamortized Bond Discount – 2006 Bonds	(208,950)
Total Business-Type Activities Revenue Bonds	$ 31,605,936

The 2005 and 2006 bonds were issued to fund a variety of Sewer Enterprise Fund wastewater capital improvements. The City has pledged future Sewer Enterprise Fund revenues, net of specified operating expenses, to repay the 2005 and 2006 bonds through 2036. On October 30, 2015, the Wastewater Revenue Bonds, Series 2005A were Fully Refunded and the 2006A were Partially Refunded with the Private Placement of the Wastewater Revenue Refunding Bond Series 2015, in the amount of $19,429,913. The Sewer Fund's total principal and interest remaining to be paid on the bonds is $43,371,571. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were $11,311,098 and $25,695,014, respectively.

Annual debt service requirements to maturity for Revenue Bonds are as follows:

Year Ending June 30,	Business-Type Activities Principal	Interest
2018	$2,394,504	$1,010,118
2019	2,459,096	951,389
2020	2,521,327	891,124
2021	2,577,644	829,428
2022	2,644,114	766,245
2023-2027	6,448,201	3,165,866
2028-2032	5,710,000	2,592,290
2033-2037	7,060,000	1,350,225
Total	$31,814,886	$11,556,685

Notes Payable – Governmental Activities:

On March 26, 2015, the City received notice of a public offering to refinance the existing note, with an outstanding balance of $2,789,000. The City agreed to refinance the note, as it reduced the interest on the HUD Section 108 Loan, a net savings of approximately $502,908. The public offering date was May 28, 2015. The terms of the new promissory note include semi-annual payments on August and February through the maturity date of August 1, 2024. The interest rates range from 0.28% through 2.85%. No new security provisions were required, as the Contract for Fixed Rate Note incorporates the previous additional security provisions.	$2,335,000
Total Notes Payable	$2,335,000

Annual debt service requirements to maturity for this Notes Payable are as follows:

Year Ending June 30,	Governmental-Type Activities Principal	Interest
2018	$245,000	$48,845
2019	256,000	46,003
2020	269,000	41,773
2021	283,000	36,442
2022	297,000	30,150
2023-2025	985,000	42,178
Total	$2,335,000	$245,391

Reimbursement Agreement - Business-Type Activities:

Water Enterprise Fund:

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant

on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 2008 Water Revenue Certificates of Participation and the California Safe Drinking Water Act loan (as described previously). The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations.

The City and MID have agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("mgd") to a design capacity of 72 mgd. In June 2007, the MID issued $93,190,000 Domestic Water Project revenue bonds pursuant to the terms of the existing treatment and delivery agreement. On August 14, 2013, Modesto Irrigation District Financing Authority refunded the 1998 D Bonds, with 2013 G Bonds. As of June 30, 2017, the total outstanding on the MID bonds is: $30,870,000 for the 2013 G Bonds and $93,190,000 for the 2007 F Bonds, for a total of $124,060,000. For the 2013 G Bonds, the annual principal payments began on September 1, 2014 and mature on September 1, 2022, in amounts from $3,970,000 to $5,795,000, with interest rates from 2% to 5%. For the 2007F Bonds, the annual principal payments begin on September 1, 2023 and mature on September 1, 2037 in amounts from $4,275,000 to $11,870,000, with variable interest rates fluctuating according to market conditions. The City has entered into interest-rate swap agreements for the 2007F bonds to synthetically fix the rates that the City pays at 4.38% and 4.44%. Refer to the Interest Rate Swap agreement section below with more information about the debt schedule.

Annual debt service payments to maturity for the Reimbursement Agreement are as follows:

	Business-Type Activities	
Year Ending June 30,	Principal	Interest
2018	$4,535,000	$2,165,127
2019	4,760,000	1,932,751
2020	5,005,000	1,688,627
2021	5,260,000	1,432,002
2022	5,515,000	1,162,626
2023-2027	24,060,000	3,387,452
2028-2032	27,955,000	2,206,239
2033-2037	35,100,000	884,741
2038	11,870,000	-
Total	$124,060,000	$14,859,565

Interest Rate Swap Agreements:

Objective of the swaps – The primary objective of the swaps is to mitigate the effect of fluctuations in variable interest rates by paying a fixed-rate and receiving a floating rate on the swap. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed "synthetic" fixed-rate debt. It is called synthetic because the economics are similar to fixed-rate debt, but another instrument is involved unlike regular fixed-rate debt. Each time the City created synthetic fixed-rate debt a comparison and determination was made that the fixed-rate on regular debt would have been higher than the fixed rate on the swap.

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction was updated due to the refunding of the 2006 Certificates by the 2008 Water Refunding Revenue Certificates of Participation (COPs). The swap agreement allows the City to create a synthetic fixed-rate on the COPs, protecting it against increases in short-term interest rates.

During fiscal year 2008, the City entered into an interest swap agreement in connection with the 1998 and 2007 Lease Revenue Bonds. The swap agreement allows the City to create a synthetic fixed rate on the Lease Revenue Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of these swap agreements are disclosed below.

Additionally, in May 2007, the City approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Domestic Water Treatment and Delivery System of the Modesto Irrigation District. The MID Water Refunding Bonds were issued with an interest swap feature with Bear Sterns, which was subsequently acquired by JP Morgan. Under the agreement between MID and JP Morgan, the City must post collateral when our negative position exceeds the Pledgor's Threshold of $20 million. This negative position represents the present value of declining interest rates to date from issuance of bonds. In June 2010, the City Council authorized the City to post collateral up to $18 million, which would support a negative position of $38 million. In July 2010, the City Council increased the City's authorization to post collateral from $18 million to up to $20 million. At the end of fiscal year 2017, the City had posted a cumulative total of $10,008,884 million of collateral posting, which is reported in the Water Enterprise Fund cash with fiscal agent.

Terms – The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2017 are shown in the table below. The swap agreements contain scheduled reductions to the outstanding notional amounts that are expected to follow scheduled principal reductions in the associated debt issues.

Related Debt Issue	Current Notional Amount	Effective Date	Counterparty	Credit Rating (S&P)	Fixed Rate Paid	Variable Rate Received	Termination Date
2008 Water Refunding Revenue COPs	$44,815,000	5/30/2008	Bank of America	A+	3.47%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	54,470,000	8/28/2008	Bank of America	A+	3.61%	63.7% of USD-LIBOR, plus .154%	9/1/2033
2007 MID Domestic Water Revenue Bonds Series 2007F	23,370,000	6/26/2007	JP Morgan Chase Bank	A+	4.38%	67% of 3 Month LIBOR + 0.58%	9/1/2027
2007 MID Domestic Water Revenue Bonds Series 2007F	69,820,000	6/26/2007	JP Morgan Chase Bank	A+	4.44%	67% of 3 Month LIBOR + 0.63%	9/1/2037

Based on the swap agreement the City owes interest calculated at a fixed rate to the counterparty (Bank of America and JP Morgan). In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and lease revenue bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

GASB Statement 53 (GASB 53) addresses the recognition measurement and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net position at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net position as a deferral or in the statement of activities as investment revenue or loss.

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2017, the fair value of the swaps was in favor of the counterparty as shown in the following table:

Bond Issue	Fair Value
2008 Water Refunding Rev. Certificates of Participation	($8,939,766)
2008 Lease Revenue Bonds	($9,456,835)
2007 MID Domestic Water Revenue Bonds	($24,267,483)

Credit risk - As of June 30, 2017, the City was not exposed to credit risk on the swaps because the swaps had negative fair value. However, if interest rates increase and the fair value becomes positive, the City would be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Basis risk - Basis risk is the risk that the interest rate paid by the City to the bondholders on the underlying variable rate bonds temporarily differs from the variable swap rates received from the counterparty. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying certificates of participation. The City is exposed to basis risk should the floating rate that it receives on the swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

Termination risk - The City may terminate the swap contracts if the other party fails to perform under the terms of the contracts. The City will be exposed to variable rates if the counterparty defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt - Using rates as of June 30, 2017, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation, the 2008 Lease Revenue Refunding Bonds, and the 2007 MID Domestic Water Revenue Bonds, including net swap payments and broker fees, are as shown in the following table assuming current interest rates remain the same for their term. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending	Variable-Rate Bonds		Net Swap Payments and Remarketing	
June 30,	Principal	Interest	Fees	Total
2018	$2,060,000	$2,205,377	$7,285,175	$11,550,552
2019	2,255,000	2,172,282	7,454,216	11,881,498
2020	2,395,000	2,136,883	7,364,096	11,895,979
2021	2,565,000	2,099,046	7,244,982	11,909,028
2022	2,815,000	2,057,758	7,126,891	11,999,649
2023-2027	43,605,000	8,859,253	32,298,233	84,762,486
2028-2032	62,665,000	5,476,427	20,611,770	88,753,197
2033-2037	62,245,000	1,636,560	7,825,763	71,707,323
2038	11,870,000	-	263,514	12,133,514
Total	$192,475,000	$26,643,586	$97,474,640	$316,593,226

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans Payable	$498,362	$1,638	$-	$500,000	$500,000
Lease Revenue Bonds	56,305,000	-	1,835,000	54,470,000	1,695,000
Notes Payable	2,568,000	-	233,000	2,335,000	245,000
Obligations under Capital Leases	942,057	5,883,756	467,093	6,358,720	909,342
Compensated Absences	6,746,729	4,140,931	4,135,942	6,751,718	2,346,174
Claims liability	23,596,531	13,619,346	9,331,096	27,884,781	5,682,904
Total governmental activities	**$90,656,679**	**$23,645,671**	**$16,002,131**	**$98,300,219**	**$11,378,420**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Loans Payable	$125,787,342	$3,254,000	$4,760,842	$124,280,500	$5,109,261
Compensated Absences	2,043,221	1,811,099	1,464,157	2,390,163	830,565
Certificates of participation	48,440,000	-	705,000	47,735,000	720,000
Unamortized Discounts	(109,947)	-	(5,499)	(104,448)	-
Reimbursement Agreement:					
MID Bonds	128,380,000	-	4,320,000	124,060,000	4,535,000
Unamortized Premium	3,995,084	-	570,726	3,424,358	-
Sewer Bonds	34,164,913	-	2,350,027	31,814,886	2,394,504
Unamortized Discount	(219,397)	-	(10,447)	(208,950)	-
Developer advances	1,238,449	-	93,111	1,145,338	93,112
Business-type activities	**$343,719,665**	**$5,065,099**	**$14,247,917**	**$334,536,847**	**$13,682,442**

Principal balances are reported on the government-wide and enterprise funds statements of net position, net of unamortized issuance discounts and premiums. Deferred losses on refundings are reported as deferred outflows of resources. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the internal service funds are included as part of the above totals for governmental activities. At year-end, internal service funds obligations were zero under notes payable, and zero in capital leases. 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. The predominant contributors for these internal service funds include the General Fund, Water Fund, and Sewer Fund.

D. OBLIGATIONS UNDER CAPITAL LEASES

Governmental Activities

Prior to the fiscal year ending June 30, 2017, the City of Modesto entered into two capital lease agreements with Pierce Manufacturing Inc.: 1) for the purchase of two Pierce Velocity 1500 GPM Pumpers valued at $1,070,472, less $155,599 of depreciation accumulated as of June 30, 2017, and 2) for the purchase of one 4x4 Freightliner Wildland Pumper valued at $330,947, less $57,961 of depreciation accumulated as of June 30, 2017. In the fiscal year ending

June 30, 2017, the City entered into another capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers valued at $5,883,756.

The following is a schedule of the future minimum lease payments, as of June 30, 2017:

Year Ending June 30,	
2018	$ 1,081,521
2019	598,544
2020	598,544
2021	598,544
2022	598,544
2023-2027	2,992,720
2028	954,214
Total minimum lease payments	7,422,631
Less: amount representing interest	(1,063,911)
Present value of minimum lease payments	$6,358,720

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, 2017, the total outstanding balance due under the agreements is $1,145,338. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2017, the amount of $93,112 due during fiscal year 2018 has been reported as "current portion-developer advances" on the Water Enterprise Fund statement of net position. The remaining $1,052,226 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2017 consist of the following:

Due to General Fund from:	
Other governmental funds	$4,682,858
Other enterprise funds	530,026
Total Due to General Fund	5,212,884
Total Due to/Due From:	$ 5,212,884
Advances from General Fund to:	
Other governmental funds	$1,135,600
Other enterprise funds	1,324,704
Advances from General Fund	2,460,304
Advances from Water Fund to:	
General Fund	100,000
Other governmental funds	10,814
Advances from Water Fund	110,814

Advances from other governmental funds to other governmental funds	80,000
Advances from Sewer Fund to other enterprise funds	889,200
Advance from internal service funds to General Fund	88,647
Total Advances from/Advances to	$3,628,965

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2017, and were repaid early in fiscal year 2018. 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.

G. Fund Balance

Detailed classifications of the City's Fund Balances, as of June 30, 2017, are provided below:

	General Fund	Housing and Community Development	Other Governmental	Total Governmental Funds
Nonspendable				
Advances to other funds	$ 2,460,304	$ -	$ 80,000	$ 2,540,304
Prepaid Items	54,842	-	1,007	55,849
Total Nonspendable Fund Balance	2,515,146	-	81,007	2,596,153
Restricted				
Capital Facility Fees	-	-	29,284,573	29,284,573
Cash with Fiscal Agent	-	-	5,594,309	5,594,309
Community Facilities District	-	-	16,774,444	16,774,444
Grants and Donations	-	3,370,144	1,166,534	4,536,678
Notes Receivable	-	23,861,467	2,281,179	26,142,646
Deposits	1,970,622	-	-	1,970,622
Traffic Fines	-	-	3,198,761	3,198,761
Total Restricted Fund Balance	1,970,622	27,231,611	58,299,800	87,502,033
Committed				
General Fund Set-Aside	15,800,000	-	-	15,800,000
Total Committed Fund Balance	15,800,000	-	-	15,800,000
Assigned				
Encumbrances - Vendor Contracts	2,854,307	-	-	2,854,307
FY 17-18 Budget Carryover	2,000,000	-	-	2,000,000
Downtown Improvement District	-	-	78,515	78,515
Successor Redevelopment Housing Agency	-	-	452,405	452,405
Gas Tax Funding	-	-	5,835,074	5,835,074
Special Capital Outlay Projects	-	-	281,476	281,476
Strategic Planning and Development	-	-	1,328,395	1,328,395
Total Assigned Fund Balance	4,854,307	-	7,975,865	12,830,172
Unassigned - General Fund	4,509,693	-	-	4,509,693
Unassigned - Special Revenue Funds	-	-	(2,002,193)	(2,002,193)
Unassigned - Debt Service Funds	-	-	(92,198)	(92,198)
Unassigned - Capital Project Funds	-	-	(1,062,288)	(1,062,288)
Total Unassigned Fund Balance	4,509,693	-	(3,156,679)	1,353,014
Total Fund Balance	$ 29,649,768	$ 27,231,611	$ 63,199,993	$ 120,081,372

H. DEFICIT FUND EQUITY

The Operating Grants fund has a fund balance deficit of $1,279,609, which will be recovered through future revenues and local matches covered through the General Fund or other City funds.

The Capital Grants fund has a fund balance deficit of $1,062,288, which will be recovered through future revenues and local matches covered through the General Fund or other City funds.

The Compost Fund has a net position deficit of $2,211,505, due to the pollution remediation liability reported for the Carpenter Landfill. The remediation funding has been incorporated into the utility fees related to garbage rates to cover the anticipated cost.

The Golf Enterprise Fund has a net position deficit of $1,459,554, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf Fund. The Golf Fund also has struggled due to competition and lagging revenues. Depreciation expense further contributes to the deficit. The City is looking at various options to resolve this funding deficit.

The Employee Benefits Management Internal Service Fund has a net position deficit of $55,025,905. It exists partially because the total compensated absences and other post-employment benefit 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. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

The Insurance Fund has a net position deficit of $14,966,774, due mainly to the recognition of settlements that were reached both in the current and prior fiscal year which have been reported as liabilities of the Liability Insurance Fund. Both settlements involved matters that represented city-wide policies and practices and therefore are allocable to all of the funds that make annual contributions to the liability insurance program. The liability insurance program will recover the full amount of the settlement from charges to the funds that participate in the liability insurance program over a period of 5 years based on this methodology being factored into the Internal Service Fund allocation that is distributed to City departments.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

	Transfers from (out):							
Transfers (in) to:	General Fund	Housing & Community Development	Other Govern-mental	Water	Sewer	Other Enterprise Funds	Internal Service	Total
General Fund	-	-	$ 84,473	$ 65,000	$ 68,640	-	$ 618,091	$ 836,204
Other Governmental	$ 4,146,400	$ 161,725	190,612	-	-	$ 82,419	142,360	4,723,516
Water	315,500	-	-	-	-	-	-	315,500
Sewer	114,000	-	-	-	-	17,719	154,722	286,441
Bus	1,500	-	-	-	-	-	-	1,500
Other Enterprise	1,443,776	-	-	700,000	-	-	-	2,143,776
Internal Service	-	16,110	185,663	42,172	6,648	14,218	16,126	280,937
Grand Total	$ 6,021,176	$ 177,835	$ 460,748	$ 807,172	$ 75,288	$ 114,356	$ 931,299	$ 8,587,874

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. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that previously had reported a redevelopment agency blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On

January 24, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency (RDA) in accordance with the Bill as part of County Resolution number 12-7.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

After the date of dissolution, as allowed under Section 34176(a) of the Bill, the City elected to retain the housing assets and functions previously performed by the former RDA. The assets and activities for the Successor Agency Housing fund continue to be reported in the City's governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved RDA, are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the City.

As of June 30, 2017, one of the obligations under the Successor Agency trust is associated with the 10th Street Place Project:

Reimbursement agreement with the City totaling $19,566,862. The original loan is from the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds that pertain to the Successor Agency. On August 28, 2008, the City refinanced the entire outstanding balance of the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds with variable rate 2008 Lease Revenue Bonds. The new balance has been provided as of June 30, 2017 that pertains to the Successor Agency. Additional information related to the 2008 Lease Revenue bonds is provided in Note II-C under the Lease Revenue Bonds – Governmental Activities section.	$15,796,300

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$491,550	$846,886	$1,338,436
2019	539,400	858,041	1,397,441
2020	580,000	826,731	1,406,731
2021	629,300	789,305	1,418,605
2022	693,100	750,050	1,443,150
2023-2027	4,370,300	3,042,802	7,413,102
2028-2032	5,802,900	1,539,354	7,342,254
2033-2035	2,689,750	107,912	2,797,662
Total	$15,796,300	$8,761,081	$24,557,381

The reserves for the Reimbursement Agreement are recorded in the Public Financing Authority debt service fund for the City.

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, for the purpose of funding the Kansas Avenue Business Park Project's Master Plan costs. The Agency has no obligation to begin repayment until the Project is completed and revenues begin.

Future debt service requirements to maturity for loans payable, as of June 30, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 405,000	$ -	$ 405,000
Total	$ 405,000	$ -	$ 405,000

As of June 30, 2017, the Successor Agency was obligated for the following long-term debt in conjunction with the Community Center Project:

1993 Refunding Certificates of Participation; serial certificates with annual maturities on November 1 in amounts ranging from $800,000 to $1,040,000; interest rates from 5.3% to 5.6%; and in the amount of $12,235,000 at 5.0% maturing November 1, 2023, with annual payment of $1,090,000 to $1,610,000 beginning in 2011.	$9,760,000

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$1,195,000	$458,125	$1,653,125
2019	1,260,000	396,750	1,656,750
2020	1,320,000	332,250	1,652,250
2021	1,385,000	264,625	1,649,625
2022	1,455,000	193,625	1,648,625
2023-2024	3,145,000	159,125	3,304,125
Total	$9,760,000	$1,804,500	$11,654,500

The former RDA also has a few outstanding obligations related to reimbursements for parking expenses with Westland Development Company and payments to the Tenth Street Joint Power Agency for maintenance for common areas in the Tenth Street Place. These amounts are all reported in the Successor Agency in the Fiduciary financial statements under the Private-Purpose Trust Fund.

K. NOTES AND LOANS RECEIVABLE

The notes receivable in the Housing and Community Development and Other Governmental Funds of $54,208,522 net of $167,637 allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, first-time homebuyers, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties or business assets, and are generally bearing annual interest at 3 or 5 percent. Some direct loans may be subject to forgiveness, some are interest free and require no repayment of principal until the loans reach maturity, and some are subject to residual receipt payment agreements. Loan terms range from 5 to 55 years.

L. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of $246,654 consist of amounts being held for housing projects using funds provided by federal grants. This liability is expected to be liquidated in less than a year.

M. POLLUTION REMEDIATION LIABILITY

The City reported a liability in the Water and Sewer Enterprise funds, which represents the recoveries the City has collected less any remediation and legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also initiated litigation with the manufacturers. As of June 30, 2017, the City reported a pollution remediation liability from the Water and Sewer funds in the amount of $8,677,433 and $7,495,053, respectively.

In addition, in the Compost Fund, a liability was reported related to the Carpenter Road Landfill which is a 39-acre City owned landfill, located on both the east and west sides of Carpenter Road between Kenneth and Robertson Roads and the Tuolumne River, which was in operation from 1956 to 1968. This landfill precedes Subtitle-D and had no liner or leachate collection or removal system. In 1993, six methane gas monitoring wells were installed. In December 2005, there was a spike in the methane gas level at the landfill's Northern boundary. The State required the City to determine the cause and develop a mitigation and monitoring plan to ensure the landfill remained in compliance with the state statutes. In November of 2010, a Corrective Action Plan was proposed for the landfill involving hydrogen releasing compound injection. In October 2014, a revised Corrective Action Plan and post closure maintenance plan was submitted to the Central Valley Regional Water Quality Control Board (CVRWQCB). In March 2015, a Cleanup and Abatement Order was issued to the City of Modesto for the Carpenter Road Landfill by the California Regional Water Quality Control Board to complete the clean closure correction action plan by January 15, 2017. Construction was to begin in Spring of 2017, however, due to flooding during the Winter of 2016, the groundwater level increased to a level too high to begin construction. The City has submitted a request to the CVRWQCB to delay the project until Spring of 2018. As of June 30, 2017, the City reported a pollution remediation liability from Compost Fund in the amount of $2,600,000.

N. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", the City recognized deferred outflows and inflows of resources in the entitywide and governmental fund statements. These items are an acquisition of net position by the City that is applicable to a future reporting period. On the governmental fund statements, the Housing and Community Development Fund reported deferred inflow of resources in the amount of $ 28,065,876 for unavailable resources related to note and grant receivables not meeting the period of availability. Previous financial reporting standards do not include guidance for reporting these in the financial statements, which are distinct from assets and liabilities. The items relate to outflows and inflows for net pension liability (Note III-G), swap hedging (Note II-C) and loss on refunding.

III. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim/occurrence as follows: workers' compensation $500,000; liability $1,000,000. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between $1,000,000 and $5,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies. 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 four excess layers, of $10,000,000 each and one additional layer of $5,000,000 above $45,000,000; for additional total coverage of $50,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years.

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, 2017 is $27,884,781 consisting of $23,042,810 workers' compensation, $4,610,484 general liability, $190,785 dental, and $40,702 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis, and are reported at their net present value using an expected future investment yield assumption of 3% (general liability) and 3% (workers' compensation). The undiscounted workers' compensation and liability claims totaled $27,482,468 and $4,902,954, respectively. The actuarial liability for workers' compensation and general liability were based on January 2017 actuarial reports.

The current portion of the total claims liability is estimated to be $5,682,904 and the balance of $22,201,877 is reported as a long-term liability on the statement of net position. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2016 through June 30, 2017 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2015-16	$22,530,631	$9,732,872	$(8,666,972)	$23,596,531
2016-17	23,596,531	13,619,346	(9,331,096)	27,884,781

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, 2017, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	$28,525,000
Fairview Village Community Facilities District	4,155,000

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, 2017, there were two series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was $7,475,000.

D. COMMITMENTS AND CONTINGENCIES

The City is involved in litigation relating to tort claims, workers' compensation claims and other claims such as contract actions and inverse condemnation actions for which the City is self-insured, as disclosed in Note III-A. The City is a defendant in various matters of litigation.

The City receives funding from a number of federal, state and local grant programs, principally the Federal Highway Administration, Community Development Block Grants, and Federal Transit Administration grants. These programs are subject to financial and compliance review by the grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the

granting agencies, cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the basic financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

The City has both operating and capital commitments of $16,581,596 for the City's governmental funds as of June 30, 2017 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of $2,854,307 in the General Fund, $712,248 in the Housing and Community Development, and $13,015,041 in other governmental funds. Commitments of the governmental funds are recorded in one of the classifications of fund balance based on the various funding restrictions on the balance sheet. As of June 30, 2017, there are major contracts for water (Conco West Inc - $5.9 million), sewer system improvements (Myers-Rados - $16.1 million), street improvement projects (Knife River Construction - $2.6 million), State Route 132 Project (Dokken Engineering $6.7 million) and Pelandale interchange reconstruction (Teichert - $1.1 million).

E. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Tuolumne River Regional Park

The City participates with Stanislaus County and the City of Ceres in the operation and development of the Tuolumne River Regional Park (TRRP). The governing body consists of 2 members from the County Board of Supervisors, 2 members from the Modesto City Council, and 1 member from the Ceres City Council. The TRRP board prepares the annual budget, which must be approved by both cities' councils and the board of supervisors. Each participant has an equity interest in the capital assets of TRRP based on the percentage of cumulative contributions paid. The City's contribution to TRRP was $162,693 for the fiscal year ended June 30, 2017. As of June 30, 2017 the City's investment in this joint venture was $803,331, and is included in governmental activities on the statement of net position. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank, Hughson, Waterford and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's cash contribution to the SDEA for the fiscal year ended June 30, 2017 was $74,678. The City's investment in this joint venture was estimated to be $154,973 as of June 30, 2017, based on the most recent available information. This amount is reported in governmental activities in the statement of net position. Financial statements of the SDEA are prepared by the City of Modesto Finance Department. Starting in January 1, 2018 the County Sheriff's office will became the fiscal administrator.

City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was final at the end of June 2003. Starting in July 1, 2010 the County Auditor Controller became the fiscal administrator. For the fiscal year ended June 30, 2017, the City's payments to the Agency were $923,882 for operations and capital reserve. The City's equity interest in the Agency is $8,550,313, equal to its capital asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the statement of net position. Financial statements of the Agency are prepared by the Stanislaus County Auditor Controller office.

Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency (Agency). The Agency was created to provide financing for a facility that generates power from solid waste. The costs of operating

the Agency, if any, are shared equally by the participants. The governing body consists of 2 members each from the County Board of Supervisors and the Modesto City Council. As of June 30, 2017, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Consolidated Emergency Dispatch Agency

The Modesto/Stanislaus Consolidated Emergency Dispatch Agency (the MSCEDA) was created on September 1, 1999, pursuant to a joint exercise of powers agreement between the City of Modesto and the County of Stanislaus. The MSCEDA is administered by a seven-member commission consisting of one member of the City Council, one member of the County Board of Supervisors, the County Chief Executive Officer, the City Manager, two members from the Dispatch Advisory Board, and one member from the City of Ceres' City Council or one member selected by the City Council of another participating City. The purpose of the MSCEDA is to consolidate the public safety communications system. The responsibilities of the agency include approval of annual budget, claims, liabilities, and the use of MSCEDA property as collateral. Each participant will contribute sufficient funds to pay for all costs and expenses associated with providing Emergency Dispatch Services. Upon termination of the agreement, assets will be distributed equally to the City and County, unless otherwise approved. The financial statements may be obtained by writing to the Modesto/Stanislaus Consolidated Emergency Dispatch, Office Manager, 3705 Oakdale Road, Modesto, California 95357.

North County Corridor Transportation Expressway Authority

On April 1, 2008, the City Council approved the establishment of a Joint Powers Authority between the County and the cities of Modesto, Oakdale and Riverbank to create the North County Corridor Transportation Expressway Authority (NCCTEA). The purpose of the Authority is to prepare, identify, and adopt a precise alignment, and prepare and certify environmental documents for a route to improve east/west traffic circulation in the County.

The intent of the NCCTEA is to provide a high capacity high speed east-west roadway to accommodate anticipated traffic growth, alleviate traffic on parallel roads, and to accommodate multi-modal travel. Under the terms of the agreement, the County will incur 40% of the costs of the project while each of the participating cities will be contributing 20%. The preliminary project development costs will be funded by State Transportation Program and Public Facility Fees. The NCCTEA Board of Directors will be comprised of two directors appointed by the County, and one director from each participating city. The board acts autonomously from the respective member agencies. The County of Stanislaus Public Works Director is designated as the NCCTEA's manager. Upon completion of the agreement, all assets will be distributed to the respective parties of the agreement as determined by the Board of Directors of the Authority. Financial statements may be obtained by writing to the County of Stanislaus, Public Works Department, 1716 Morgan Road, Modesto, CA 95358.

Stanislaus Animal Services Agency

The Stanislaus Animal Services Agency (SASA) was created October 27, 2009, pursuant to a joint powers agreement among the cities of Ceres, Hughson, Modesto, Patterson, Waterford, and the County of Stanislaus. SASA is administered by a six-member board comprised of the City Manager of each partner agency, and the Chief Executive Officer of the County. The purpose of SASA is to operate a regional agency providing animal services to their respective communities. The SASA Executive Director is responsible for the annual budget which must be approved by the SASA Board of Directors. Each partner agency will contribute sufficient funds to pay for all costs approved in the budget to provide animal services. Upon termination of the agreement, assets will be distributed in accordance with the joint powers agreement. The financial statements may be obtained by writing to the Stanislaus Animal Services Agency, Executive Director, 3647 Cornucopia Way, Modesto, CA 95358.

Regional Fire Training Center

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County for the use and management of the regional fire training center at Modesto Junior College. The executive board consists of the YCCD Chancellor, the President of Modesto Junior College, the City Manager of the City of Modesto, and the Chief Executive Officer of Stanislaus County. The YCCD is responsible for accounting and for monitoring the center's budget. All three entities share in the operating costs. Initial construction costs were paid by the YCCD from borrowed funds, with the City and County reimbursing a portion of these costs in exchange for future use of the center. The City has paid its share of the construction costs in full. Title to the constructed asset is held by the YCCD; therefore, the City has no equity interest.

North Valley Regional Recycled Water Program (NVRRWP)

The City participates in the NVRRWP, which was established by the City of Modesto and Del Puerto Water District in November 2014. The purpose of this agreement is to develop, construct, operate and maintain water supply facilities and service. Through this agreement all partner agencies will cooperate and collaborate to use their best efforts regarding the submission of grants, loans and other funding resources to cover future cost related to the design and construction on future projects. At the end of the fiscal year June 30, 2017, the City has no equity interest.

F. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

Plan Description

In addition to the pension benefits described below in Note III-G, the City participates in an agent multiple-employer plan which provides health care benefits to employees who retire from the City based on certain criteria related to their hired and retirement date, under contractual agreements with all employee groups. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leaves upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. As of June 30, 2017, there were 349 retirees receiving these health care benefits or a buy-out contribution to a retirement health savings account. If an employee elects to receive a buy-out contribution, they will be removed from the City's medical plan and will no longer be allowed to return to the City's medical plan.

The OPEB Plan provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Police (including Management)	General Employees	Management	Fire	Fire Management
Benefit Types Provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	Lifetime	One month per eight hours of converted sick leave
City Health Allowance per month*	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents	$128.00	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents
	Police (including Management)	General Employees	Management	Fire	Fire Management
City Health Allowance per month**	N/A	$621 for retiree; $858 for retiree plus spouse; $1,214 with dependents	N/A	N/A	N/A
City Health Allowance per month***	N/A	N/A	N/A	N/A	N/A

*Employees hired before January 1, 2011 and retired on or after October 23, 2012 through December 31, 2014 have had their sick leave conversion frozen with the health allowance.

**Employees hired before January 1, 2011 and retire after January 31, 2015 through December 31, 2015.

***Employees hired before January 1, 2011 and retire after December 31, 2015 (after January 31, 2015 for General Employees, after July 1, 2014 for Modesto Police Officers Association, and after August 26, 2014 for Modesto Police Management Association) will be subject to the City's new retirement program. The new retirement program will provide a City contribution to a Retirement Health Savings (RHS) account based on allowance. More information about the new retirement program is available under the City of Modesto Human Resources Department website under Compensation and Labor Agreements.

Except for the Fire group, the City health allowance amounts may increase each year based on the health allowance

for active employees but for all union groups newly retired employees will not have this option due to these health allowances being frozen. For the Fire group, the City health allowance amounts increase each year in accordance with Government Code Section 22892.

Funding Policy and Actuarial Assumptions

The City's funding policy for the Plan is to fund benefits on a pay-as-you-go basis. The annual required contribution was determined as part of the January 1, 2017 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) 4% investment rate of return, (b) 6.5% graded down to ultimate 4.5% rate over 8 years Medical cost trend rate; 4.5% Dental/Vision cost trend rate (c) Projected salary increases are based on California Public Employee Retirement System (CalPERS) experience study released in 2014 for miscellaneous, police and fire (refer to chart below).

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial accrued liabilities and actuarial value of asset. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Projections of benefits for financial purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future.

The remaining amortization period at June 30, 2017 was 20 years.

Projected Salary Increases
(CalPERS experience study released in 2014)

Service	Miscellanous	Police	Fire
0	11.60%	14.70%	19.80%
3	8.10%	7.80%	9.40%
5	6.00%	5.80%	6.40%
10	4.30%	4.30%	4.60%
15	4.00%	4.30%	4.20%
20	3.80%	4.30%	3.90%
25	3.60%	4.30%	3.70%
30	3.40%	4.30%	3.60%

The City has set aside $8,814,712 of Employee Benefits Management Internal Service Fund cash and investments to be used to fund the above benefits. Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Since the City's Internal Service Fund does not meet this requirement, the assets have been excluded from the actuarial study and calculation. This funding policy means that the City contributions are considered to be on a pay-as-you-go basis. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the annual required contribution and the pay-as-you-go contributions.

In prior years, the City estimated and recorded an accrued liability representing unfunded retiree pension costs in its Employee Benefits Management Internal Service Fund. In accordance with GASB 45, municipalities are permitted to retain an estimated liability for prior years unfunded OPEB costs, so long as it is calculated in a manner consistent

with GASB Statement 27, which employed methodologies consistent with those now required under GASB 45.

The Plan annual required contributions and actual contributions for the fiscal year ended June 30, 2017 and the prior two years is set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligations	ARC Adjustments	Annual OPEB Cost	Actual Contribution	Net OPEB Obligation	Percentage of Annual OPEB Cost Contributed
6/30/2015	$ 3,189,054	$ 2,382,790	$ (4,383,246)	$ 1,188,598	$ 3,806,476	$ 56,951,862	320.25%
6/30/2016	3,189,054	2,382,790	(4,383,246)	1,188,598	1,949,129	56,191,331	163.99%
6/30/2017	2,806,942	2,247,653	(4,134,656)	919,939	2,611,886	54,499,384	283.92%

The Schedule of Funding Progress is based on the most recent actuarial valuation as of January 1, 2017.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C}
01/01/2017	$0	$28,645,234	($28,645,234)	0.00%	$43,842,302	-65.34%

The schedule of funding progress, presented as RSI following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

G. PENSION PLANS

I. General Information about the Pension Plans

Plan Descriptions
All City of Modesto qualified employees are eligible to participate in the City of Modesto separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multi-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by the State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. This report is available online at www.calpers.ca.gov.

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

Benefits Provided
The benefits for the Plans are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

Miscellaneous Plan:

Hire date	Prior to January 17, 2012	January 17, 2012 to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.426 to 2.418%	1.092 to 2.418%	1.0 to 2.5%

Safety Plan:

Hire date	Prior to September 11, 2012	September 11, 2012 through December 31, 2012	On or after January 1, 2013
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 55	50 to 55	50 to 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4 to 3.0%	2.0 to 2.7%

Contributions

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2016 (the measurement date) for the Plans, the average active employee contribution rate was 6.846% of annual pay for Miscellaneous and 9.183% for Safety and the employer's contribution rate is 7.079% of annual payroll for Miscellaneous and 19.089% for Safety. The employee and employer contributions made in for fiscal year June 30, 2017 was $11.66 million for the Miscellaneous plan and $15.76 million for the Safety plan. Employer contribution rates may change if plan contracts are amended.

II. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below:

	Miscellaneous Plan	Safety Plan
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.5% [1]	7.5% [1]
Mortality Rate Table[2]	CalPERS Membership Data	CalPERS Membership Data
Post Retirement Benefit Increase	Up to 2.75%	Up to 2.75%

[1] Net of Pension Plan Investment and Administrative Expenses; includes inflation
[2] The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class as of the target allocation for the June 30, 2016 measurement date. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10(1)	Real Return Years 11+(2)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

III. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2015 (1)	$ 398,719,890	$ 315,056,908	$ 83,662,982
Changes Recognized for the Measurement Period:			
Service Cost	6,092,179	-	6,092,179
Interest on the Total Pension Liability	29,752,178	-	29,752,178
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(2,005,545)	-	(2,005,545)
Plan to Plan Resource Movement	-	(1,118)	1,118
Contributions - Employer	-	6,920,358	(6,920,358)
Contributions - Employees	-	3,349,400	(3,349,400)
Net Investment Income	-	1,667,540	(1,667,540)
Benefit Payments, including Refunds of Employee	(21,686,131)	(21,686,131)	-
Administrative Expense		(192,011)	192,011
Net Change during 2015-16	12,152,681	(9,941,962)	22,094,643
Balance at June 30, 2016 (1)	$ 410,872,571	$ 305,114,946	$ 105,757,625

(1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

Safety Plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2015 (1)	$ 508,339,261	$ 367,858,289	$ 140,480,972
Changes Recognized for the Measurement Period:			
Service Cost	8,193,455	-	8,193,455
Interest on the Total Pension Liability	38,004,835	-	38,004,835
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(2,184,871)	-	(2,184,871)
Plan to Plan Resource Movement	-	1,118	(1,118)
Contributions - Employer	-	11,137,899	(11,137,899)
Contributions - Employees	-	2,962,566	(2,962,566)
Net Investment Income	-	1,898,536	(1,898,536)
Benefit Payments, including Refunds of Employee	(26,911,771)	(26,911,771)	-
Administrative Expense	-	(224,190)	224,190
Net Change during 2015-16	17,101,648	(11,135,842)	28,237,490
Balance at June 30, 2016 (1)	$ 525,440,909	$ 356,722,447	$ 168,718,462

(1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

Miscellaneous Plan:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/ (Asset)	$ 156,954,819	$ 105,757,625	$ 63,129,842

Safety Plan:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/ (Asset)	$ 240,006,863	$ 168,718,462	$ 110,259,534

IV. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2015), the net pension liability was $83,662,982 for the Miscellaneous Plan and $140,480,972 for the Safety Plan.

For the measurement period ended June 30, 2016 (the measurement date), the City incurred a pension expense of $7,977,607 for the Miscellaneous Plan and $15,612,477 for the Safety Plan.

As of June 30, 2017, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	$ -	$ (2,981,936)
Differences between Expected and Actual Experiences	-	(2,875,591)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	16,532,404	-
Contributions subsequent to the measurement date	8,380,299	-
Total	$ 24,912,703	$ (5,857,527)

Safety Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	$ -	$ (4,914,722)
Differences between Expected and Actual Experiences	-	(2,079,143)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	19,429,205	-
Contributions subsequent to the measurement date	12,960,477	-
Total	$ 32,389,682	$ (6,993,865)

The amounts above are net of outflows and inflows recognized in the 2015-2016 measurement period expense. The amounts above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous Plan	Safety Plan
2018	(1,099,761)	(282,906)
2019	(1,256)	(282,907)
2020	7,387,260	7,868,176
2021	4,388,634	5,132,977
2022	-	-
Thereafter	-	-
Total	$ 10,674,877	$ 12,435,340

H. DEFICIENCY OF EXPENDITURES OVER APPROPRATIONS

For the fiscal year ended June 30, 2017, expenditures exceeded appropriations as follows:

General Fund

Expenditures	**Amount**
Interest Expenditures	$5,606

Other Governmental Funds

Expenditures	**Amount**
Local Transportation Fund – Transfer out	$4,506
Special Gas Tax Street Improvement Fund - Transfer out	156,506

I. SUBSEQUENT EVENTS

In September 2016, the Finance Committee received an informational report about potential net present value savings of $1.2 million to $1.6 million on a refunding of the outstanding Modesto Wastewater Revenue Bonds, Series 2006 A in the amount of $14,735,000.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th

Miscellaneous Plan

Measurement Period	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY			
Service Cost	$ 6,092,179	$ 5,768,082	$ 6,400,912
Interest on Total Pension Liability	29,752,178	28,873,755	28,037,915
Changes of Assumptions	-	(6,709,358)	-
Difference Between Expected and Actual Experience	(2,005,545)	(3,177,191)	-
Benefit Payments, Including Refunds of Employee Contributions	(21,686,131)	(20,945,229)	(20,334,821)
Net Change in Total Pension Liability	12,152,681	3,810,059	14,104,006
Total Pension Liability – Beginning	398,719,890	394,909,831	380,805,825
Total Pension Liability – Ending (a)	$ 410,872,571	$ 398,719,890	$ 394,909,831
PLAN FIDUCIARY NET POSITION			
Contributions – Employer	$ 6,920,358	$ 5,632,179	$ 4,654,055
Contributions – Employee	3,349,400	3,061,157	2,853,492
Net Investment Income	1,667,540	7,093,159	48,702,803
Benefit Payments, Including Refunds of Employee Contributions	(21,686,131)	(20,945,229)	(20,334,821)
Plan to Plan Resource Movement	(1,118)	(188)	-
Administrative Expense	(192,011)	(355,544)	-
Net Change in Fiduciary Net Position	(9,941,962)	(5,514,466)	35,875,529
Plan Fiduciary Net Position – Beginning	315,056,908	320,571,374	284,695,845
Plan Fiduciary Net Position – Ending (b)	305,114,946	315,056,908	320,571,374
Plan Net Pension Liability – Ending (a) - (b)	$ 105,757,625	$ 83,662,982	$ 74,338,457
Plan Fiduciary Net Position as a Percentage of the Total Pension	74.26%	79.02%	81.18%
Covered Payroll (1)	$ 45,207,621	$ 41,562,776	$ 44,125,963
Plan Net Pension Liability as a Percentage of Covered Payroll	233.94%	201.29%	168.47%

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2015 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2016, there were no changes. In 2015, the discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th

Safety Plan

Measurement Period	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY			
Service Cost	$ 8,193,455	$ 8,633,865	$ 8,970,868
Interest on Total Pension Liability	38,004,835	36,721,112	35,310,732
Changes of Assumptions	-	(9,188,394)	-
Difference Between Expected and Actual Experience	(2,184,871)	(849,707)	-
Benefit Payments, Including Refunds of Employee Contributions	(26,911,771)	(25,426,619)	(24,313,823)
Net Change in Total Pension Liability	17,101,648	9,890,257	19,967,777
Total Pension Liability – Beginning	508,339,261	498,449,004	478,481,227
Total Pension Liability – Ending (a)	$ 525,440,909	$ 508,339,261	$ 498,449,004
PLAN FIDUCIARY NET POSITION			
Contributions – Employer	$ 11,137,899	$ 10,210,101	$ 8,963,542
Contributions – Employee	2,962,566	2,800,626	2,939,117
Net Investment Income	1,898,536	8,215,387	56,385,743
Benefit Payments, Including Refunds of Employee Contributions	(26,911,771)	(25,426,619)	(24,313,823)
Plan to Plan Resource Movement	1,118	211	-
Administrative Expense	(224,190)	(414,089)	-
Net Change in Fiduciary Net Position	(11,135,842)	(4,614,383)	43,974,579
Plan Fiduciary Net Position – Beginning	367,858,289	372,472,672	328,498,093
Plan Fiduciary Net Position – Ending (b)	356,722,447	367,858,289	372,472,672
Plan Net Pension Liability – Ending (a) - (b)	$ 168,718,462	$ 140,480,972	$ 125,976,332
Plan Fiduciary Net Position as a Percentage of the Total Pension	67.89%	72.36%	74.73%
Covered Payroll (1)	$ 30,022,552	$ 31,202,983	$ 31,090,551
Plan Net Pension Liability as a Percentage of Covered Payroll	561.97%	450.22%	405.19%

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2015 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2016, there were no changes. In 2015, the discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Plan Contributions (1)

Miscellaneous Plan

Fiscal Year	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	$ 8,380,299	$ 6,920,358	$ 5,632,179	$ 4,654,055
Contributions in Relation to the Actuarially Determined Contribution (2)	(8,380,299)	(6,920,358)	(5,632,179)	(4,654,055)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered-Employee Payroll (3)(4)	$ 49,151,757	$ 45,207,621	$ 41,562,776	$ 44,125,963
Contributions as a Percentage of Covered-Employee Payroll (3)	17.05%	15.31%	13.55%	10.55%

Safety Plan

Fiscal Year	2015-2016	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	$ 12,960,477	$ 11,137,899	$ 10,210,101	$ 8,963,542
Contributions in Relation to the Actuarially Determined Contribution (2)	(12,960,477)	(11,137,899)	(10,210,101)	(8,963,542)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered-Employee Payroll (3)(4)	$ 31,404,842	$ 30,022,552	$ 31,202,983	$ 31,090,551
Contributions as a Percentage of Covered-Employee Payroll (3)	41.27%	37.10%	32.72%	28.83%

(1) Historical information is required only for fiscal year for which GASB 68 is applicable. As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be determined as of the employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015-16 were as follows for June 30, 2014 actuarial valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2014 Funding Valuation Report.
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

SCHEDULE OF FUNDING PROGRESS FOR OPEB

Actuarial Valuation Date**	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)		(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C}
1/1/2013	$0	$78,245,964	($78,245,964)	0.00%	$77,058,743		(101.54%)
1/1/2015	0	31,691,066	(31,691,066)	0.00%	46,576,754	(1)	(68.04%)
1/1/2017	0	28,645,234	(28,645,234)	0.00%	43,842,302		(65.34%)

(1) Payroll decreased because it is limited to active participants with a liability.

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget -
	Original	Final	Actual	Positive (Negative)
TAXES				
Utility users tax	$ 20,150,000	$ 20,150,000	$ 20,113,023	$ (36,977)
Property tax	14,445,241	14,445,241	15,384,518	939,277
Transient occupancy tax	2,150,000	2,150,000	2,669,484	519,484
Franchise tax	5,525,849	5,525,849	4,837,344	(688,505)
Business license tax	11,479,228	11,479,228	12,255,062	775,834
Total taxes	53,750,318	53,750,318	55,259,431	1,509,113
LICENSES AND PERMITS	87,537	87,537	109,784	22,247
INTERGOVERNMENTAL				
Sales tax	30,050,000	30,050,000	30,204,125	154,125
In-lieu sales tax				
Motor vehicle license fees	14,934,334	14,934,334	15,385,069	450,735
State	720,000	720,000	881,171	161,171
County	64,782	66,356	38,533	(27,823)
Federal	-	-	19,542	19,542
Other intergovernmental	1,568,000	1,568,000	2,292,586	724,586
Total intergovernmental	47,337,116	47,338,690	48,821,026	1,482,336
CHARGES FOR SERVICES				
General government	2,225,822	2,253,322	1,917,776	(335,546)
Community development	2,678,588	2,678,588	2,664,612	(13,976)
Public works	1,682,060	1,716,077	1,630,103	(85,974)
Parks and recreation	978,315	992,315	834,050	(158,265)
Public safety	1,506,324	1,551,873	3,147,021	1,595,148
Indirect cost recovery	3,164,981	3,164,981	3,168,791	3,810
Total charges for services	12,236,090	12,357,156	13,362,353	1,005,197
INTEREST AND RENT	601,580	650,837	819,908	169,071
NET DECREASE IN FAIR VALUE OF INVESTMENTS	-	-	(206,156)	(206,156)
FINES AND FORFEITS	388,854	568,854	560,250	(8,604)
MISCELLANEOUS				
Mandated cost recovery	78,700	78,700	85,573	6,873
Other	263,963	263,963	-	(263,963)
Total miscellaneous	342,663	342,663	85,573	(257,090)
Total revenues	$ 114,744,158	$ 115,096,055	$ 118,812,169	$ 3,716,114

The notes to required supplementary information are an integral part of this schedule.

CITY OF MODESTO
SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET
(GAAP BASIS) AND ACTUAL - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget -
	Original	Final	Actual	Positive (Negative)
General government:				
City council	$ 400,616	$ 408,017	$ 392,240	$ 15,777
Human resources	1,615,353	1,668,820	1,282,002	386,818
City manager	1,783,146	2,630,356	2,315,922	314,434
City attorney	2,156,463	2,170,659	2,026,615	144,044
City clerk/auditor	799,358	833,889	651,219	182,670
Finance	5,011,607	4,517,812	4,218,012	299,800
Other	656,000	446,000	383,211	62,789
Total general government	12,422,543	12,675,552	11,269,221	1,406,331
Community development:	6,946,085	7,172,747	6,372,162	800,585
Public works:				
Administration	376,025	383,304	361,516	21,788
Operations Service and maintenance	5,105,131	5,263,141	5,236,003	27,138
Facilities	1,108,301	1,596,315	919,191	677,124
Total public works	6,589,457	7,242,760	6,516,710	726,050
Parks and recreation:				
Administration	872,782	1,005,805	876,478	129,327
Planning and development	449,917	446,557	377,761	68,796
Recreation division	2,274,871	2,215,195	1,949,280	265,915
Total parks and recreation	3,597,570	3,667,557	3,203,519	464,038
Public safety:				
Fire protection	28,158,706	34,697,149	34,615,598	81,551
Police protection	58,373,882	57,262,077	54,470,398	2,791,679
Total public safety	86,532,588	91,959,226	89,085,996	2,873,230
Debt service:				
Principal retirement	642,019	471,801	467,093	4,708
Interest expenditures	10,278	10,278	15,884	(5,606)
Total debt service	652,297	482,079	482,977	(898)
Total expenditures	$ 116,740,540	$ 123,199,921	$ 116,930,585	$ 6,269,336

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Intergovernmental - federal grants	$ 2,609,380	$ 3,611,652	$ 4,277,482	$ 665,830
Interest and rent - interest	13,556	13,556	-	(13,556)
Miscellaneous	-	-	3,242	3,242
Total revenues	2,622,936	3,625,208	4,280,724	655,516
EXPENDITURES				
Community development	2,020,441	2,605,515	2,120,560	484,955
Debt service:				
Principal retirement	233,000	233,000	233,000	-
Interest	50,951	50,951	50,951	-
Total expenditures	2,304,392	2,889,466	2,404,511	484,955
EXCESS OF REVENUES OVER EXPENDITURES	318,544	735,742	1,876,213	1,140,471
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(637,554)	(177,835)	459,719
TOTAL OTHER FINANCING SOURCES (USES)	-	(637,554)	(177,835)	459,719
CHANGES IN FUND BALANCE	318,544	98,188	1,698,378	1,600,190
FUND BALANCE, JULY 1	25,533,233	25,533,233	25,533,233	-
FUND BALANCE, JUNE 30	$ 25,851,777	$ 25,631,421	$ 27,231,611	$ 1,600,190

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2017

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules for operating, non-capital multi-year, and capital budgets:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them for operating, non-capital multi-year and capital projects.

2. The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on all proposed budgets to obtain comments from interested persons.

3. Prior to July 1, the budget is legally adopted through 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. Authority to approve any adjustment in the amount of $25,000 or less is delegated to the Director of Finance.

    b. Authority to approve any adjustment in an amount between $25,000 and $50,000 is delegated to the City Manager.

    c. Authority for any budget adjustment more than $50,000 is delegated to the parties described below:

        a. Items requiring City Council Action – appropriation of undesignated reserves; appropriation of new revenues; transfers of appropriations between funds (inter-fund transfers); creation of inter-fund loans; creation of, or increase in, any multi-year appropriation.

        b. Items delegated to the City Manager – transfer appropriations between departments within a fund; changing any capital equipment appropriation; appropriation of reserves for litigation on a case-by-case basis; appropriation of developer payments not previously budgeted.

        c. Items delegated to the Director of Finance – appropriation of grant interest; revise the allocation of Internal Service Fund charges between departments provided that the total allocated amount does not increase; changing any capital improvement budget line item appropriation; make technical budget corrections to implement the intent of Council approved actions and resolutions.

        d. Items delegated to Department Directors – transfer appropriations within a department, within a single fund.

5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue, enterprise and internal service funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on this basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.

6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the appropriation unit level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g., City Attorney), or an entire department having multiple organizations within the same fund (e.g., Operations and Maintenance), or an entire fund (e.g., Downtown Improvement District). All departments and funds complete the year within their legally authorized expenditures except the Local Transportation Fund due to a budget error. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded to reserve the applicable appropriations, is employed in the governmental funds.

   The City does, however, honor the contracts represented by year-end encumbrances and the subsequent year's appropriations provide authority to complete these transactions.

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

Special Revenue Funds include funds which are restricted as to use by the Federal or State governments, and special purpose funds established by authority of the City Council. Nonmajor Special Revenue Funds include:

OPERATING GRANTS FUND – To account for a variety of governmental fund operating grants, including law enforcement grants.

LOCAL TRANSPORTATION FUND – To account for revenues and expenditures of Local Transportation Fund allocations for streets, urban trails, and non-motorized facilities. Allocations for the City bus system are reported directly in the Bus Enterprise Fund.

TRAFFIC SAFETY FUND – To account for receipts and expenditures of traffic safety fines.

DOWNTOWN IMPROVEMENT DISTRICT FUND – To account for the fiscal activities of Business Improvement Area A and Downtown Modesto Community Benefit District of the City of Modesto.

STRATEGIC PLANNING AND DEVELOPMENT FUND – Established to provide a funding source for future village planning, general plan update and other large expenses related to planning and development. This fund was originally financed with an apportionment of the PERS rebate related to AB702. Subsequent funding has been provided by transfers from the General Fund. Future funding will be provided by fees imposed on private development.

SPECIAL GAS TAX STREET IMPROVEMENT FUND – To account for state-collected, locally-shared gas tax monies. This fund may be used for all street and traffic purposes including construction, purchase of rights-of-way, and maintenance.

Nonmajor Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. Nonmajor Capital Projects Funds include:

SPECIAL FUND FOR CAPITAL OUTLAYS – To account for capital outlay authorized by the City Council. No monies placed in this fund are to be disbursed except for this purpose unless authorized by a vote of the people.

PARKS FUND – To account for a discretionary transfer of General Fund property tax revenue to provide for the development of parks within the City, as directed by the City Council.

SECURITIES FOR FUTURE IMRPOVEMENTS FUND – To account for the collection of impact fees for approved development projects to construct facilities needed for future development.

CAPITAL GRANTS – To account for receipts and disbursements of a variety of Governmental Fund capital grants.

COMMUNITY FACILITIES DISTRICTS FUND – To account for the construction of public improvements deemed to benefit properties against which special taxes are levied.

SUCCESSOR REDEVELOPMENT HOUSING AGENCY FUND – To account for the housing redevelopment capital projects financed by the Successor Redevelopment Housing Agency of the City of Modesto.

CAPITAL FACILITY FEES FUND – To account for special fees collected on new building permits to be used for construction of certain growth related projects. The fees and related capital projects include police department expansion, fire department expansion, expressway loop, street lights, street improvements, parks, new traffic signals, City downtown, wastewater treatment, public transportation, and air quality improvements.

Nonmajor Debt Service Fund

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Nonmajor Debt Service Fund includes:

PUBLIC FINANCING AUTHORITY FUND – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
ASSETS						
Cash and cash equivalents	$ -	$ 1,369,099	$ -	$ 83,539	$ 1,006,830	$ 5,809,229
Receivables:						
Accounts, net	16,950	-	-	-	381,775	26,812
Interest	3,041	3,525	-	171	2,294	13,657
Taxes	81,810	-	-	5,075	-	304,024
Due from governments	3,065,329	-	3,358	-	-	42,675
Prepaid expenditures	115	-	-	-	-	600
Restricted assets:						
Cash and cash equivalents	-	244,580	3,087,018	-	-	-
Cash and cash equivalents with fiscal agent	652,290	-	-	-	-	-
Due from governments	-	-	111,743	-	-	-
Notes receivable, net	70,179	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-
Total assets	$ 3,889,714	$ 1,617,204	$ 3,202,119	$ 88,785	$ 1,390,899	$ 6,196,997
LIABILITIES AND AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 460,809	$ -	$ 496	$ 10,270	$ 62,504	$ 258,755
Accrued salaries and benefits	134,834	-	2,862	-	-	88,752
Interest payable	-	-	-	-	-	-
Due to other funds	414,329	-	-	-	-	-
Unearned revenue	162,932	1,372,624	-	-	-	13,816
Refundable deposits	4,000	-	-	-	-	-
Advances from other funds	10,814	-	-	-	-	-
Total liabilities	1,187,718	1,372,624	3,358	10,270	62,504	361,323
					-	
Deferred inflows of resources:						
Unavailable revenue	3,981,605	-	-	-	-	-
Fund balances:						
Nonspendable	115	-	-	-	-	600
Restricted	722,469	244,580	3,198,761	-	-	-
Assigned	-	-	-	78,515	1,328,395	5,835,074
Unassigned	(2,002,193)	-	-	-	-	-
Total fund balances	(1,279,609)	244,580	3,198,761	78,515	1,328,395	5,835,674
Total liabilities and fund balances	$ 3,889,714	$ 1,617,204	$ 3,202,119	$ 88,785	$ 1,390,899	$ 6,196,997

	Capital Projects						
	Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
$	295,754	$ 2,076	$ -	$ 6,781	$ 232,698	$ -	$ 412,016
	10,000	-	-	-	-	557	-
	32	1,774	-	-	38,468	-	64,977
	-	-	-	-	13,419	-	-
	-	-	-	3,464,446	184	1,192,004	824,242
	-	-	-	-	-	-	-
	-	855,557	66,397	-	16,774,444	-	29,284,573
	-	-	-	-	-	-	-
	-	-	-		-	-	-
	-	-	-	-	-	2,211,000	-
	-	-	-	-	-	-	80,000
$	305,786	$ 859,407	$ 66,397	$ 3,471,227	$ 17,059,213	$ 3,403,561	$ 30,665,808
$	14,310	$ 3,850	$ -	$ 650,779	$ 255,724	$ -	$ 231,362
	-	-	-	-	12,865	-	-
	-	-	-	-	-	1,634	-
	-	-	-	3,616,793	-	592,795	-
	10,000	-	-	-	-	-	-
	-	-	-	-	16,180	-	-
	-	-	-	-	-	145,727	1,069,873
	24,310	3,850	-	4,267,572	284,769	740,156	1,301,235
	-	-	-	265,943	-	-	-
	-	-	-	-	-	-	80,000
	-	855,557	66,397	-	16,774,444	2,211,000	29,284,573
	281,476	-	-	-	-	452,405	-
	-	-	-	(1,062,288)	-	-	-
	281,476	855,557	66,397	(1,062,288)	16,774,444	2,663,405	29,364,573
$	305,786	$ 859,407	$ 66,397	$ 3,471,227	$ 17,059,213	$ 3,403,561	$ 30,665,808

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Debt Service Public Financing Authority	Total
ASSETS		
Cash and cash equivalents	$ -	$ 9,218,022
Receivables:		
Accounts, net	-	436,094
Interest	-	127,939
Taxes	-	404,328
Due from governments	-	8,592,238
Prepaid expenditures	292	1,007
Restricted assets:		
Cash and cash equivalents	-	50,312,569
Cash and cash equivalents with fiscal agent	4,942,019	5,594,309
Due from governments	-	111,743
Notes receivable, net	-	2,281,179
Advances to other funds	-	80,000
Total assets	$ 4,942,311	$ 77,159,428
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 33,257	$ 1,982,116
Accrued salaries and benefits	-	239,313
Interest payable	-	1,634
Due to other funds	58,941	4,682,858
Unearned revenue	-	1,559,372
Refundable deposits	-	20,180
Advances from other funds	-	1,226,414
Total liabilities	92,198	9,711,887
Deferred inflows of resources:		
Unavailable revenue	-	4,247,548
Fund balances:		
Nonspendable	292	81,007
Restricted	4,942,019	58,299,800
Assigned	-	7,975,865
Unassigned	(92,198)	(3,156,679)
Total fund balances	4,850,113	63,199,993
Total liabilities and fund balances	$ 4,942,311	$ 77,159,428

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
REVENUES:						
Taxes	$ 383,589	$ -	$ -	$ 192,540	$ -	$ 1,210,290
Licenses and permits	58,224	-	-	-	-	33,437
Intergovernmental	1,620,094	2,725	-	-	366,775	3,968,029
Charges for services	4,994,538	-	193,771	-	19,070	1,068,376
Special assessments levied	57,619	-	-	678,616	-	-
Interest and rent	4,687	11,481	-	628	9,714	65,516
Net increase (decrease) in fair value of investments	(6,347)	(8,492)	-	(402)	(6,244)	(42,077)
Fines and forfeits	-	-	703,157	-	-	-
Miscellaneous	121,118	-	-	-	75,645	151,482
Total revenues	7,233,522	5,714	896,928	871,382	464,960	6,455,053
EXPENDITURES:						
Current:						
General government	272,910	-	-	-	-	-
Community development	872,793	-	-	850,528	457,243	-
Highways and streets	-	2,697	-	-	-	9,067,903
Public works	4,402,392	-	-	-	-	-
Parks and recreation	65,841		-	-	-	-
Public safety	3,622,769	-	188,746	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Community development	-	-	-	-	33,883	-
Highways and streets	-	(25,177)	-	-	-	47,954
Public works	5,764	-	-	-	-	-
Parks and recreation	-	-	-		-	-
Public safety	146,561	-	10,955	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	9,389,030	(22,480)	199,701	850,528	491,126	9,115,857
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,155,508)	28,194	697,227	20,854	(26,166)	(2,660,804)
OTHER FINANCING SOURCES (USES):						
Transfers in	408,512	-	-	-	367,000	125,000
Transfers out	(167,365)	(4,506)		-	-	(204,174)
Sale of assets	8,465	-	-	-	-	19,095
TOTAL OTHER FINANCING SOURCES (USES)	249,612	(4,506)	-	-	367,000	(60,079)
CHANGES IN FUND BALANCES	(1,905,896)	23,688	697,227	20,854	340,834	(2,720,883)
FUND BALANCES, JULY 1	626,287	220,892	2,501,534	57,661	987,561	8,556,557
FUND BALANCES, JUNE 30	$ (1,279,609)	$ 244,580	$ 3,198,761	$ 78,515	$ 1,328,395	$ 5,835,674

Capital Projects						
Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-
-	-	-	11,412,110	1,830	11,005	287,580
-	4,365	-	-	732,999	-	4,078,814
-	-	-	-	2,278,533	-	-
1,448	6,977	-	-	190,398	(6,398)	261,936
					-	-
143	(4,707)	-	-	(135,808)	4,361	(166,887)
-	-	-	-	-	-	-
-	21,463	-	-	58,321	-	-
1,591	28,098		11,412,110	3,126,273	8,968	4,461,443
-	-	-	-	-	-	-
17,461	-	-	-	2,505,936	-	84,281
-	-	-	170,054	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
			-			
-	-	-	-	-	-	-
59,620	-	-	-	859,045	-	230
-	-	-	11,984,735	-	-	1,200,693
-	-	-	-	-	-	-
-	42,930	-	181,041	-	-	318,813
125,605	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
202,686	42,930		12,335,830	3,364,981	-	1,604,017
(201,095)	(14,832)	-	(923,720)	(238,708)	8,968	2,857,426
463,696	70,000	-	352,106	-	-	230
-	(230)	-	-	-	-	(84,473)
-	-	-	-	-	-	-
463,696	69,770	-	352,106		-	(84,243)
262,601	54,938	-	(571,614)	(238,708)	8,968	2,773,183
18,875	800,619	66,397	(490,674)	17,013,152	2,654,437	26,591,390
$ 281,476	$ 855,557	$ 66,397	$ (1,062,288)	$ 16,774,444	$ 2,663,405	$ 29,364,573

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Debt Service Public Financing Authority	Total
REVENUES:		
Taxes	$ -	$ 1,786,419
Licenses and permits	-	91,661
Intergovernmental	1,301,083	18,971,231
Charges for services	-	11,091,933
Special assessments levied	-	3,014,768
Interest and rent	36,092	582,479
Net increase (decrease) in fair value of investments	-	(366,460)
Fines and forfeits	-	703,157
Miscellaneous	-	428,029
Total revenues	1,337,175	36,303,217
EXPENDITURES:		
Current:		
General government	-	272,910
Community development	-	4,788,242
Highways and streets	-	9,240,654
Public works	-	4,402,392
Parks and recreation	-	65,841
Public safety	-	3,811,515
Capital outlay:		
General government	-	
Community developement	-	952,778
Highways and streets	-	13,208,205
Public works	-	5,764
Parks and recreation	-	542,784
Public safety	-	283,121
Debt service:		
Principal retirement	1,835,000	1,835,000
Interest	2,008,367	2,008,367
Other	430,779	430,779
Total expenditures	4,274,146	41,848,352
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,936,971)	(5,545,135)
OTHER FINANCING SOURCES (USES):		
Transfers in	2,936,972	4,723,516
Transfers out	-	(460,748)
Sale of assets	-	27,560
TOTAL OTHER FINANCING SOURCES (USES)	2,936,972	4,290,328
CHANGES IN FUND BALANCES	1	(1,254,807)
FUND BALANCES, JULY 1	4,850,112	64,454,800
FUND BALANCES, JUNE 30	$ 4,850,113	$ 63,199,993

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Taxes	$ -	$ 400,000	$ 383,589	$ (16,411)
Licenses and permits	70,000	70,000	58,224	(11,776)
Intergovernmental	189,561	2,225,068	1,620,094	(604,974)
Charges for services	5,286,297	5,286,297	4,994,538	(291,759)
Special assessments	69,308	69,308	57,619	(11,689)
Interest and rent - interest	-	-	4,687	4,687
Net decrease in fair value of investments	-	-	(6,347)	(6,347)
Miscellaneous	142,360	142,360	121,118	(21,242)
Total revenues	5,757,526	8,193,033	7,233,522	(959,511)
EXPENDITURES:				
General government	284,720	509,945	272,910	237,035
Community development	939,487	939,599	872,793	66,806
Public works	5,639,406	4,553,116	4,408,156	144,960
Parks and recreation	189,561	630,888	65,841	565,047
Public safety	2,367,535	7,608,914	3,769,330	3,839,584
Total expenditures	9,420,709	14,242,462	9,389,030	4,853,432
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(3,663,183)	(6,049,429)	(2,155,508)	3,893,921
OTHER FINANCING SOURCES (USES):				
Transfers in	142,360	496,905	408,512	(88,393)
Transfers out	-	(178,716)	(167,365)	11,351
Sale of assets		-	8,465	8,465
TOTAL OTHER FINANCING SOURCES (USES)	142,360	318,189	249,612	2,030,376
CHANGES IN FUND BALANCE	(3,520,823)	(5,731,240)	(1,905,896)	5,924,297
FUND BALANCE, JULY 1	626,287	626,287	626,287	-
FUND BALANCE (DEFICIT), JUNE 30	$ (2,894,536)	$ (5,104,953)	$ (1,279,609)	$ 5,924,297

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Original	Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental	$ -	$ -	$ 2,725	$ 1,848
Interest and rent - interest	-	-	11,481	11,481
Net decrease in fair value of investments	-	-	(8,492)	(8,492)
Total revenues	-	-	5,714	4,837
EXPENDITURES:				
Highways and streets	-	-	(22,480)	22,480
EXCESS OF REVENUES OVER EXPENDITURES	-	-	28,194	28,194
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(4,506)	(4,506)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(4,506)	(4,506)
CHANGES IN FUND BALANCE	-	-	23,688	23,688
FUND BALANCE, JULY 1	220,892	220,892	220,892	-
FUND BALANCE, JUNE 30	$ 220,892	$ 220,892	$ 244,580	$ 23,688

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Charges for services	$ 146,190	$ 146,190	$ 193,771	$ 47,581
Motor vehicle fines	330,057	330,057	703,157	373,100
Total revenues	476,247	476,247	896,928	420,681
EXPENDITURES:				
Public safety	558,767	616,814	199,701	417,113
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(82,520)	(140,567)	697,227	837,794
OTHER FINANCING USES:				
Transfers out	(500,000)	(500,000)	-	500,000
CHANGES IN FUND BALANCE	(582,520)	(640,567)	697,227	1,337,794
FUND BALANCE, JULY 1	2,501,534	2,501,534	2,501,534	-
FUND BALANCE, JUNE 30	$ 1,919,014	$ 1,860,967	$ 3,198,761	$ 1,337,794

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Taxes - business license tax	$ 176,010	$ 176,010	$ 192,540	$ 16,530
Special assessments levied	700,000	700,000	678,616	(21,384)
Interest and rent - interest	-	-	628	628
Net decrease in fair value of investments	-	-	(402)	(402)
Total revenues	876,010	876,010	871,382	(4,628)
EXPENDITURES:				
Community development	873,498	873,664	850,528	23,136
CHANGES IN FUND BALANCE	2,512	2,346	20,854	18,508
FUND BALANCE, JULY 1	57,661	57,661	57,661	-
FUND BALANCE, JUNE 30	$ 60,173	$ 60,007	$ 78,515	$ 18,508

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - STRATEGIC PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Charges for services	$ 91,560	$ 101,560	$ 19,070	$ (82,490)
Intergovernmental	100,000	272,302	366,775	94,473
Interest and rent - interest	150,054	150,054	9,714	(140,340)
Net decrease in fair value of investments	(75)	(75)	(6,244)	(6,169)
Miscellaneous	-	-	75,645	75,645
Total revenues	341,539	523,841	464,960	(58,881)
EXPENDITURES:				
Community development	903,094	1,615,396	491,126	1,124,270
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(561,555)	(1,091,555)	(26,166)	1,065,389
OTHER FINANCING SOURCES:				
Transfers in	600,000	725,000	367,000	(358,000)
CHANGES IN FUND BALANCE	38,445.00	(366,555)	340,834	707,389
FUND BALANCE, JULY 1	987,561	987,561	987,561	-
FUND BALANCE, JUNE 30	$ 1,026,006	$ 621,006	$ 1,328,395	$ 707,389

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budget			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Intergovernmental:				
Federal grants	$ 4,266,705	$ 5,266,705	$ 3,968,029	$ (1,298,676)
Taxes	1,000,000	-	1,210,290	1,210,290
Licenses and permits	-	-	33,437	33,437
Charges for services	546,215	546,215	1,068,376	522,161
Interest and rent	15,000	15,000	65,516	50,516
Net decrease in fair value of investments	-	-	(42,077)	(42,077)
Miscellaneous	-	-	151,482	151,482
Total revenues	5,827,920	5,827,920	6,455,053	627,133
EXPENDITURES:				
Highway and streets	9,451,180	9,542,654	9,115,857	426,797
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(3,623,260)	(3,714,734)	(2,660,804)	1,053,930
OTHER FINANCING SOURCES (USES):				
Transfers in	125,000	125,000	125,000	-
Transfers out	-	(47,668)	(204,174)	(156,506)
Sale of assets	-	-	19,095	19,095
TOTAL OTHER FINANCING SOURCES (USES)	125,000	77,332	(60,079)	(137,411)
CHANGES IN FUND BALANCE	(3,498,260)	(3,637,402)	(2,720,883)	916,519
FUND BALANCE, JULY 1	8,556,557	8,556,557	8,556,557	-
FUND BALANCE, JUNE 30	$ 5,058,297	$ 4,919,155	$ 5,835,674	$ 916,519

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

Nonmajor Enterprise Funds

Enterprise Funds are established to account for activities that render services on a user-charge basis to the general public. Nonmajor Enterprise Funds include:

PARKING FUND – Revenues in this fund consist of charges for off-street parking and the downtown parking garage, as well as in-lieu parking fees. The revenue is used to develop and maintain parking facilities.

STORM DRAIN FUND – To account for storm drain improvements, operations and maintenance. The activities of the fund include street cleaning, rock well maintenance, and compliance with Federal and State water quality standards on storm water discharge.

COMPOST FUND – To account for tip fees charged at the City's composting facility for processing various compostable materials and the sale of compost product. Excess revenues over expenses are set aside to protect the enterprise against market fluctuations, and to provide for capital improvements to the facility infrastructure.

AIRPORT FUND – To account for all airport operations as stipulated in the City-Stanislaus County agreement of January 1968. Amounts received from the Federal government, State of California, and Stanislaus County, requiring matching amounts by the City, are recorded in this fund and are appropriated to finance approved capital projects.

GOLF FUND – Revenues in this fund consist of fees charged for using the City's golf courses. The revenue is used to improve, operate, and maintain golf courses.

COMMUNITY CENTER FUND – Accounted for in this fund are all amounts collected for the purpose of operating and maintaining the Modesto Centre Plaza Community Center. Revenues include room rental, catering fees, ticket sales, and other charges for using the center.

ABATEMENT AND PUBLIC NUISANCE FUND – To account the activity for expenses and recovery for the cost for both dangerous and unsafe building and property abatements.

CITY OF MODESTO
COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2017

	Parking	Storm Drain	Compost
ASSETS			
Current assets:			
Cash and cash equivalents	$ 454,254	$ 10,483,768	$ 4,300,162
Receivables:			
Accounts	4,222	2,774	921,520
Interest	949	23,222	10,567
Taxes	-	-	-
Utilities, net	-	498,843	310,314
Prepaid expenses	299	23,753	-
Due from governments	-	13,615	152,788
Inventories	-	-	-
Total current assets	459,724	11,045,975	5,695,351
Noncurrent assets:			
Restricted cash and cash equivalents with fiscal agent	-	-	-
Land and construction in progress	3,131,804	2,128,939	1,140,000
Other capital assets, net of accumulated depreciation	5,136,419	12,884,761	1,389,238
Total noncurrent assets	8,268,223	15,013,700	2,529,238
Total assets	8,727,947	26,059,675	8,224,589
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	165,577	251,680	1,489,958
Total assets and deferred outflows of resources	$ 8,893,524	$ 26,311,355	$ 9,714,547
LIABILITIES			
Current liabilities:			
Accounts payable	$ 30,667	$ 142,941	$ 1,731,458
Accrued salaries and benefits	10,903	12,808	84,584
Interest payable	-	-	-
Due to other funds	-	-	-
Unearned revenue	-	6,726	17,808
Current portion - long-term debt	-	-	-
Total current liabilities	41,570	162,475	1,833,850
Noncurrent liabilities:			
Pollution remediation liability	-	-	2,600,000
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	889,200
Net pension liability	661,330	1,095,013	6,285,986
Total liabilities	702,900	2,582,192	11,609,036
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	27,131	42,357	317,016
Total deferred inflows of resources	27,131	42,357	317,016
NET POSITION			
Net investment in capital assets	8,268,223	15,013,700	2,529,238
Unrestricted	(104,730)	8,673,106	(4,740,743)
Total net position	8,163,493	23,686,806	(2,211,505)
Total liabilities, deferred inflows of resources, and net position	$ 8,893,524	$ 26,311,355	$ 9,714,547

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
$ 1,418,220	$ -	$ 126,674	$ 640,711	$ 17,423,789
19,645	319,285	37,443	13,386	1,318,275
2,928	15,368	-	1,424	54,458
1,752	-	-	-	1,752
-	-	-	-	809,157
208	-	-	-	24,260
131,430	-	-	-	297,833
-	34,521	-	-	34,521
1,574,183	369,174	164,117	655,521	19,964,045
-	684,986	-	-	684,986
3,877,655	275,741	3,667,020	-	14,221,159
8,408,971	1,163,780	3,540,176	-	32,523,345
12,286,626	2,124,507	7,207,196	-	47,429,490
13,860,809	2,493,681	7,371,313	655,521	67,393,535
154,113	-	131,377	-	2,192,705
$ 14,014,922	$ 2,493,681	$ 7,502,690	$ 655,521	$ 69,586,240
$ 118,707	$ 41,884	$ 36,780	$ 554	$ 2,102,991
9,808	6,846	8,654	-	133,603
-	33,890	-	-	33,890
-	530,026	-	-	530,026
4,622	420,589	-	9,345	459,090
-	355,000	-	-	355,000
133,137	1,388,235	45,434	9,899	3,614,600
-	-	-	-	2,600,000
-	2,565,000	-	-	2,565,000
-	-	-	-	2,213,904
631,162	-	587,795	-	9,261,286
764,299	3,953,235	633,229	9,899	20,254,790
9,780	-	40,525	-	436,809
9,780	-	40,525	-	436,809
12,286,626	(795,493)	7,207,196	-	44,509,490
954,217	(664,061)	(378,260)	645,622	4,385,151
13,240,843	(1,459,554)	6,828,936	645,622	48,894,641
$ 14,014,922	$ 2,493,681	$ 7,502,690	$ 655,521	$ 69,586,240

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Parking	Storm Drain	Compost
OPERATING REVENUES:			
Charges for services	$ 1,284,269	$ 5,894,268	$ 8,902,276
Miscellaneous	-	16,720	1,641
Total operating revenues	1,284,269	5,910,988	8,903,917
OPERATING EXPENSES:			
Salaries and wages	424,024	513,747	3,509,986
Contractual services	254,048	555,996	1,705,883
Utilities	161,183	36,615	30,732
Maintenance and supplies	59,336	2,169,811	1,901,761
Insurance	61,038	8,617	101,778
Employee benefits	149,386	190,125	1,399,985
Administration services	32,897	2,077,655	771,095
Allocated indirect administrative costs	31,484	87,927	241,041
Depreciation	448,424	521,532	149,997
Total operating expenses	1,621,820	6,162,025	9,812,258
OPERATING INCOME (LOSS)	(337,551)	(251,037)	(908,341)
NONOPERATING REVENUES (EXPENSES):			
Gain on disposition of capital assets	-	2,304	39,944
Operating grants	-	-	325,147
Tax revenue	-	-	-
Tax expense	(20,141)	-	-
Interest income	4,247	72,384	38,583
Net decrease in fair value of investments	(2,930)	(60,410)	(26,959)
Rental income	-	-	-
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	(18,824)	14,278	376,715
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(356,375)	(236,759)	(531,626)
Capital contributions	-	-	-
Transfers in	-	700,000	206,632
Transfers out	-	-	(114,356)
CHANGES IN NET POSITION	(356,375)	463,241	(439,350)
NET POSITION (DEFICIT), JULY 1	8,519,868	23,223,565	(1,772,155)
NET POSITION (DEFICIT), JUNE 30	$ 8,163,493	$ 23,686,806	$ (2,211,505)

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
$ 594,767	$ 2,236,100	$ 301,124	$ 117,677	$ 19,330,481
1,385	-	4,312	-	24,058
596,152	2,236,100	305,436	117,677	19,354,539
343,815	-	443,403	-	5,234,975
224,739	2,218,241	152,452	52,865	5,164,224
105,757	52,312	219,164	-	605,763
46,277	231,871	150,008	146	4,559,210
30,174	34,782	27,697	-	264,086
144,929	-	120,468	-	2,004,893
93,827	109,665	82,653	5,718	3,173,510
31,639	45,346	2,957	-	440,394
738,580	51,227	752,830	-	2,662,590
1,759,737	2,743,444	1,951,632	58,729	24,109,645
(1,163,585)	(507,344)	(1,646,196)	58,948	(4,755,106)
-	-	-	-	42,248
303,449	-	-	-	628,596
199,124	-	-	-	199,124
(508)	-	-	-	(20,649)
3,383	(9,980)	-	5,452	114,069
(2,548)	(13,613)	-	(3,567)	(110,027)
125,838	95,722	462,031	-	683,591
-	(151,666)	-	-	(151,666)
-	(3,638)	-	-	(3,638)
628,738	(83,175)	462,031	1,885	1,381,648
(534,847)	(590,519)	(1,184,165)	60,833	(3,373,458)
1,773,826	-	-	-	1,773,826
-	701,652	535,492	-	2,143,776
-	-	-	-	(114,356)
1,238,979	111,133	(648,673)	60,833	429,788
12,001,864	(1,570,687)	7,477,609	584,789	48,464,853
$ 13,240,843	$ (1,459,554)	$ 6,828,936	$ 645,622	$ 48,894,641

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Parking	Storm Drain	Compost
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	$ 1,280,067	$ 5,887,091	$ 8,748,439
Receipts from interfund services provided	-	50,277	-
Payments to suppliers	(366,794)	(1,829,340)	(1,265,975)
Payments to employees	(575,479)	(712,422)	(4,956,782)
Payments for interfund services used	(251,915)	(3,351,516)	(2,826,605)
Net cash provided (used) by operating activities	85,879	44,090	(300,923)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	-	-	325,147
Taxes received	-	-	-
Transfers in	-	700,000	206,632
Transfers out	-	-	(114,356)
Payments on advances from other funds	-	-	(34,200)
Net cash provided (used) by noncapital financing activities	-	700,000	383,223
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(176,702)	(521,115)	(55,961)
Proceeds from sale of capital assets	-	2,304	42,769
Principal repayments	-	-	-
Interest paid	-	-	-
Trustee fees	-	-	-
Capital contributions	-	-	-
Net cash provided (used) by capital and related financing activities	(176,702)	(518,811)	(13,192)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received (paid)	4,348	71,883	39,791
Net increase in the fair value of investments	(2,930)	(60,410)	(26,959)
Rental income received	-	-	-
Net cash provided (used) by investing activities	1,418	11,473	12,832
Net increase (decrease) in cash and cash equivalents	(89,405)	236,752	81,940
CASH AND CASH EQUIVALENTS, JULY 1	543,659	10,247,016	4,218,222
CASH AND CASH EQUIVALENTS, JUNE 30	$ 454,254	$ 10,483,768	$ 4,300,162
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	$ 454,254	$ 10,483,768	$ 4,300,162
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	$ 454,254	$ 10,483,768	$ 4,300,162

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
$ 1,680,743	$ 2,449,342	$ 345,059	$ 133,640	$ 20,524,381
-	-	-	-	50,277
(1,479,346)	(2,428,771)	(471,113)	(78,153)	(7,919,492)
(491,170)	1,535	(568,849)	-	(7,303,167)
(269,525)	(237,375)	(180,154)	-	(7,117,090)
(559,298)	(215,269)	(875,057)	55,487	(1,765,091)
303,449	-	-	-	628,596
199,124	-	-	-	199,124
-	701,652	535,492	-	2,143,776
-	-	-	-	(114,356)
-	-	-	-	(34,200)
502,573	701,652	535,492	-	2,822,940
(1,836,361)	-	(40,006)	-	(2,630,145)
-	-	-	-	45,073
-	(340,000)	-	-	(340,000)
-	(117,776)	-	-	(117,776)
-	(3,638)	-	-	(3,638)
1,773,826	-	-	-	1,773,826
(62,535)	(461,414)	(40,006)	-	(1,272,660)
3,293	(49,234)		5,263	75,344
(2,548)	(13,613)	-	(3,567)	(110,027)
125,838	95,722	462,031	-	683,591
126,583	32,875	462,031	1,696	648,908
7,323	57,844	82,460	57,183	434,097
1,410,897	627,142	44,214	583,528	17,674,678
$ 1,418,220	$ 684,986	$ 126,674	$ 640,711	$ 18,108,775
$ 1,418,220	$ -	$ 126,674	$ 640,711	$ 17,423,789
-	684,986	-	-	684,986
$ 1,418,220	$ 684,986	$ 126,674	$ 640,711	$ 18,108,775

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2017

	Parking	Storm Drain	Compost
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	$ (337,551)	$ (251,037)	$ (908,341)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	448,424	521,532	149,997
Taxes paid	(20,141)	-	-
Change in assets, liabilities, and deferred resources:			
(Increase) decrease in accounts receivable	(4,202)	1,864	(111,140)
Increase in taxes receivable	-	-	-
(Increase) decrease in utilities receivable	-	17,791	(50,174)
(Increase) decrease in due from other governments	-	(1)	(11,972)
Increase (decrease) in accounts payable	1,717	(222,987)	659,056
Decrease in inventories	-	-	-
(Increase) decrease in prepaid expenses	(299)	(21,248)	654
Increase (decrease) in accrued salaries and benefits	697	(4,545)	(22,594)
Decrease in net pension liability and deferred resources	(2,766)	(4,005)	(24,217)
Increase in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	6,726	17,808
Total adjustments	423,430	295,127	607,418
Net cash provided (used) by operating activities	$ 85,879	$ 44,090	$ (300,923)

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
$ (1,163,585)	$ (507,344)	$ (1,646,196)	$ 58,948	$ (4,755,106)
738,580	51,227	752,830	-	2,662,590
(508)	-	-	-	(20,649)
6,146	26,457	39,623	6,618	(34,634)
(1,752)	-	-	-	(1,752)
-	-	-	-	(32,383)
1,075,575	-	-	-	1,063,602
(1,215,742)	(36,623)	(16,565)	(19,424)	(850,568)
-	1,804	-	-	1,804
(208)	60,890	229	-	40,018
97	1,535	(2,905)	-	(27,715)
(2,523)	-	(2,073)	-	(35,584)
-	187,646	-	-	187,646
4,622	(861)	-	9,345	37,640
604,287	292,075	771,139	(3,461)	2,990,015
$ (559,298)	$ (215,269)	$ (875,057)	$ 55,487	$ (1,765,091)

Internal Service Funds

Internal Service Funds are established to finance and account for services and commodities furnished by a designated agency of a governmental unit to other departments of the same governmental unit. Since the services and commodities are supplied exclusively to other departments of a governmental jurisdiction, they are distinguishable from those public services which are rendered to the public in general and which are accounted for in General, Special Revenue, or Enterprise Funds. Internal Service Funds include:

FLEET MANAGEMENT FUND – To provide the maintenance necessary for the City's equipment pool, which serves the needs of all City departments.

CENTRAL SERVICES FUND – To provide office supplies, various maintenance and construction materials, records storage, and mail services to all City departments.

INFORMATION AND TECHNOLOGY SERVICES FUND – To finance and account for the replacement, upgrade and maintenance of the City's network and technology infrastructure, and to develop and implement a coordinated city-wide information technology plan.

INSURANCE FUND – To finance and account for the City's insurance and risk management programs.

EMPLOYEE BENEFITS MANAGEMENT FUND – To account for all compensated absences and other employee benefits. Insurance benefits for current employees are accounted for in the Insurance Fund.

BUILDING SERVICES FUND – To account for the true cost of occupying and maintaining office space, to better reflect the value of that space, and to accumulate amounts for future building repair costs.

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CITY OF MODESTO
COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS
JUNE 30, 2017

	Fleet Management	Central Services	Information & Technology Services
ASSETS			
Current assets:			
Cash and cash equivalents	$ 8,981,025	$ 1,561,495	$ 4,559,712
Receivables:			
Accounts	19,726	-	-
Interest	19,303	3,585	11,068
Prepaid expenses	584	182	1,896
Due from governments	-	-	-
Inventories	-	19,142	-
Total current assets	9,020,638	1,584,404	4,572,676
Noncurrent assets:			
Advances to other funds	-	-	-
Restricted assets - cash and cash equivalents	-	-	-
Restricted assets - cash from fiscal agent	-	-	-
Land and construction in progress	1,167,334	-	1,320,900
Other capital assets, net of accumulated depreciation	12,518,430	66,385	4,084,368
Total noncurrent assets	13,685,764	66,385	5,405,268
Total assets	22,706,402	1,650,789	9,977,944
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	741,185	79,659	1,159,212
Total assets and deferred outflows of resources	$ 23,447,587	$ 1,730,448	$ 11,137,156
LIABILITIES			
Current liabilities:			
Accounts payable	$ 153,342	$ 4,387	$ 241,964
Accrued salaries and benefits	42,628	1,083	61,256
Unearned revenue	14,335	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Total current liabilities	210,305	5,470	303,220
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB obligation	-	-	-
Net pension liability	3,139,056	441,856	5,111,605
Total liabilities	3,349,361	447,326	5,414,825
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	181,585	42,312	366,037
NET POSITION			
Net investment in capital assets	13,685,764	66,385	5,405,268
Restricted	-	-	-
Unrestricted	6,230,877	1,174,425	(48,974)
Total net position	19,916,641	1,240,810	5,356,294
Total liabilities, deferred inflows of resources, and net position	$ 23,447,587	$ 1,730,448	$ 11,137,156

Insurance	Employee Benefits Management	Building Services	Total
$ 12,015,889	$ -	$ 883,360	$ 28,001,481
1,261,189	33,750	-	1,314,665
116,565	18,997	2,053	171,571
488,826	-	-	491,488
-	-	45,291	45,291
-	-	-	19,142
13,882,469	52,747	930,704	30,043,638
-	88,647	-	88,647
-	8,814,712	-	8,814,712
150,262	-	-	150,262
-	-	-	2,488,234
-	-	81,851	16,751,034
150,262	8,903,359	81,851	28,292,889
14,032,731	8,956,106	1,012,555	58,336,527
151,798	59,721	188,905	2,380,480
$ 14,184,529	$ 9,015,827	$ 1,201,460	$ 60,717,007
$ 531,080	$ 35,734	$ 115,370	$ 1,081,877
8,583	2,888	10,613	127,051
82,051	-	-	96,386
-	3,176,739	-	3,176,739
5,682,904	-	-	5,682,904
6,304,618	3,215,361	125,983	10,164,957
-	5,965,142	-	5,965,142
22,201,877	-	-	22,201,877
-	54,499,384	-	54,499,384
604,712	334,996	701,138	10,333,363
29,111,207	64,014,883	827,121	103,164,723
40,096	26,849	13,310	670,189
-	-	81,851	19,239,268
-	8,814,712	-	8,814,712
(14,966,774)	(63,840,617)	279,178	(71,171,885)
(14,966,774)	(55,025,905)	361,029	(43,117,905)
$ 14,184,529	$ 9,015,827	$ 1,201,460	$ 60,717,007

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Fleet Management	Central Services
OPERATING REVENUES:		
Charges for services	$ 6,964,494	$ 16,695
Sales	-	1,486,322
Total operating revenues	6,964,494	1,503,017
OPERATING EXPENSES:		
Salaries and wages	1,286,378	140,666
Cost of sales	-	1,111,541
Contractual services	2,067,722	75,131
Utilities	3,964	656
Maintenance and supplies	1,587,341	132,617
Insurance	68,735	4,022
Claims	-	-
Employee benefits	575,954	65,354
Administration services	346,444	30,500
Allocated indirect administrative costs	274,466	-
Depreciation	2,372,920	11,370
Total operating expenses	8,583,924	1,571,857
OPERATING INCOME (LOSS)	(1,619,430)	(68,840)
NONOPERATING REVENUES (EXPENSES):		
Gain (loss) on disposition of capital assets	37,426	5,487
Interest income	78,983	14,626
Net decrease in fair value of investments	(53,073)	(9,749)
Total nonoperating revenues (expenses)	63,336	10,364
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,556,094)	(58,476)
Capital contributions	22,242	-
Transfers in	112,824	-
Transfers out	(154,722)	(16,126)
CHANGES IN NET POSITION	(1,575,750)	(74,602)
NET POSITION (DEFICIT), JULY 1	21,492,391	1,315,412
NET POSITION (DEFICIT), JUNE 30	$ 19,916,641	$ 1,240,810

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
$ 4,761,759	$ 21,861,923	$ 3,390,609	$ 2,785,311	$ 39,780,791
-	-	-	-	1,486,322
4,761,759	21,861,923	3,390,609	2,785,311	41,267,113
2,304,356	319,865	101,879	428,997	4,582,141
-	-	-	-	1,111,541
861,795	601,125	184,399	1,786,086	5,576,258
103,289	233	-	152,815	260,957
874,195	7,914	15,692	66,134	2,683,893
29,146	16,246,164	2,286	5,309	16,355,662
-	13,619,346	-	-	13,619,346
849,529	220,150	2,378,365	155,269	4,244,621
28,565	29,817	33,286	175,123	643,735
-	-	-	-	274,466
640,913	-	-	3,059	3,028,262
5,691,788	31,044,614	2,715,907	2,772,792	52,380,882
(930,029)	(9,182,691)	674,702	12,519	(11,113,769)
(6,113)	-	-	-	36,800
44,839	436,840	76,777	8,015	660,080
(31,939)	(277,156)	(52,278)	(5,391)	(429,586)
6,787	159,684	24,499	2,624	267,294
(923,242)	(9,023,007)	699,201	15,143	(10,846,475)
-	-	-	-	22,242
167,365	-	-	748	280,937
(142,360)	-	(618,091)	-	(931,299)
(898,237)	(9,023,007)	81,110	15,891	(11,474,595)
6,254,531	(5,943,767)	(55,107,015)	345,138	(31,643,310)
$ 5,356,294	$ (14,966,774)	$ (55,025,905)	$ 361,029	$ (43,117,905)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Fleet Management	Central Services	Information & Technology Services
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	$ 295,386	$ -	$ -
Receipts from interfund services provided	6,672,154	1,503,017	4,761,759
Payments to suppliers	(3,722,136)	(1,211,902)	(1,924,423)
Payment of insurance claims	-	-	-
Payments to employees	(1,871,324)	(212,099)	(3,178,681)
Payments for interfund services used	(1,207,555)	(115,809)	(119,798)
Net cash provided (used) by operating activities	166,525	(36,793)	(461,143)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Receipts on advances to other funds	-	-	-
Transfers in	112,420	-	167,365
Transfers out	-	(14,974)	(142,360)
Net cash provided (used) by noncapital financing activities	112,420	(14,974)	25,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,816,066)	(19,324)	(1,210,187)
Proceeds from sale of capital assets	193,262	5,825	-
Net cash provided (used) by capital and related financing activities	(2,622,804)	(13,499)	(1,210,187)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	78,754	14,436	47,516
Net increase in the fair value of investments	(53,073)	(9,749)	(31,939)
Net cash provided by investing activities	25,681	4,687	15,577
Net increase (decrease) in cash and cash equivalents	(2,318,178)	(60,579)	(1,630,748)
CASH AND CASH EQUIVALENTS, JULY 1	11,299,203	1,622,074	6,190,460
CASH AND CASH EQUIVALENTS, JUNE 30	$ 8,981,025	$ 1,561,495	$ 4,559,712
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	$ 8,981,025	$ 1,561,495	$ 4,559,712
Restricted cash and cash equivalents	-	-	-
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	$ 8,981,025	$ 1,561,495	$ 4,559,712

Insurance	Employee Benefits Management	Building Services	Total
$ -	$ 517,177	$ 675,930	$ 1,488,493
22,067,061	2,873,432	2,082,933	39,960,356
(18,211,754)	(184,193)	(1,859,068)	(27,113,476)
(9,331,096)	-	-	(9,331,096)
(542,593)	(3,835,575)	(588,109)	(10,228,381)
(56,040)	(57,835)	(320,988)	(1,878,025)
(6,074,422)	(686,994)	(9,302)	(7,102,129)
-	75,000	-	75,000
-	-	-	279,785
-	-	-	(157,334)
	75,000	-	197,451
-	-	-	(4,045,577)
-	-	-	199,087
-	-	-	(3,846,490)
409,958	77,515	7,970	636,149
(277,156)	(52,278)	(5,391)	(429,586)
132,802	25,237	2,579	206,563
(5,941,620)	(586,757)	(6,723)	(10,544,605)
18,107,771	9,401,469	890,083	47,511,060
$ 12,166,151	$ 8,814,712	$ 883,360	$ 36,966,455
$ 12,015,889	$ -	$ 883,360	$ 28,001,481
-	8,814,712	-	8,814,712
150,262	-	-	150,262
$ 12,166,151	$ 8,814,712	$ 883,360	$ 36,966,455

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2017

	Fleet Management	Central Services
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (1,619,430)	$ (68,840)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,372,920	11,370
Change in assets, liabilities, and deferred resources:		
(Increase) decrease in accounts receivable	(11,289)	-
Increase in due from governments	-	-
(Increase) decrease in prepaid expenses	7,820	3,247
Decrease in inventories	-	314,097
Increase (decrease) in accounts payable	(588,839)	(290,588)
Increase (decrease) in accrued salaries and benefits	3,052	(4,994)
Increase in compensated absences	-	-
Decrease in net OPEB obligation	-	-
Decrease in net pension liability and deferred resources	(12,044)	(1,085)
Increase in unearned revenue	14,335	-
Increase in claims liability	-	-
Total adjustments	1,785,955	32,047
Net cash provided (used) by operating activities	$ 166,525	$ (36,793)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital asset transfers	$ (154,318)	$ (1,152)
Interfund loan transfer correction	-	-

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
$ (930,029)	$ (9,182,691)	$ 674,702	$ 12,519	$ (11,113,769)
640,913	-	-	3,059	3,028,262
-	180,205	-	-	168,916
-	-	-	(26,448)	(26,448)
264,447	(484,614)	-	116	(208,984)
-	-	-	-	314,097
(411,678)	(897,927)	(6,365)	5,295	(2,190,102)
(6,326)	(23)	(14,515)	(588)	(23,394)
-	-	351,931	-	351,931
-	-	(1,691,947)	-	(1,691,947)
(18,470)	(2,555)	(800)	(3,255)	(38,209)
-	24,933	-	-	39,268
-	4,288,250	-	-	4,288,250
468,886	3,108,269	(1,361,696)	(21,821)	4,011,640
$ (461,143)	$ (6,074,422)	$ (686,994)	$ (9,302)	$ (7,102,129)
$	$ -	$ -	$ 748	$ (154,722)
	-	(618,091)	-	(618,091)

AGENCY FUNDS

Agency Funds account for assets held by the City as an agent for individuals, governmental entities and non-public organizations.

SPECIAL DISTRICTS - To account for collection of special district assessments from property owners and forwarding these collections to trustees for payment to bondholders.

TUOLUMNE RIVER REGIONAL PARK - To account for cash and investments of the Tuolumne River Regional Park, a joint powers agency between the City of Modesto, Stanislaus County and City of Ceres. The agency provides financing, development, and maintenance of the Tuolumne River Regional Park facilities. The cash and investments of the Park are invested as part of the City's investment pool.

STANISLAUS DRUG ENFORCEMENT AGENCY - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, Riverbank, and Waterford. The agency's purpose is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. Cash and investments of the Agency are invested in the City's investment pool.

MODESTO-CERES FIRE PROTECTION AGENCY - To record and distribute the special assessments for fire protection that were established under the Industrial Fire District. This is a joint powers agency between the Modesto Regional Fire Authority, the City of Ceres, and the Industrial Fire District. Cash and investments of the Agency are invested in the City's investment pool.

CITY/COUNTY JOINT POWERS FINANCING AUTHORITY - To account for cash and investments of the City/County Capital Improvements and Financing Agency, a joint powers agency between the City of Modesto and Stanislaus County. The agency builds and maintains a joint City-County government complex in downtown Modesto. The cash and investments of the Agency are invested as part of the City's investment pool.

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CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Special Districts				
ASSETS				
Cash and cash equivalents	$ 680,457	$ 1,856,688	$ 2,071,544	$ 465,601
Cash and cash equivalents with fiscal agent	2,936,138	2,042,710	2,036,369	2,942,479
	$ 3,616,595	$ 3,899,398	$ 4,107,913	$ 3,408,080
LIABILITIES				
Due to special district bondholders	$ 3,616,595	$ 3,899,398	$ 4,107,913	$ 3,408,080
Tuolumne River Regional Park				
ASSETS				
Cash and cash equivalents	$ 22,126	$ 1,363,804	$ 1,378,975	$ 6,955
LIABILITIES				
Deposits held as agent for others	$ 22,126	$ 1,363,804	$ 1,378,975	$ 6,955
Stanislaus Drug Enforcement Agency				
ASSETS				
Cash and cash equivalents	$ 2,616,832	$ 2,030,376	$ 2,309,594	$ 2,337,614
LIABILITIES				
Deposits held as agent for others	$ 2,616,832	$ 2,030,376	$ 2,309,594	$ 2,337,614
Modesto-Ceres Fire Protection Agency				
ASSETS				
Cash and cash equivalents	$ 207,093	$ 575,926	$ 562,683	$ 220,336
LIABILITIES				
Deposits held as agent for others	$ 207,093	$ 575,926	$ 562,683	$ 220,336
City/County Joint Powers Financing Authority				
ASSETS				
Cash and cash equivalents	$ 18,631	$ 1,848	$ 117	$ 20,362
LIABILITIES				
Deposits held as agent for others	$ 18,631	$ 1,848	$ 117	$ 20,362
Totals - All Agency Funds				
ASSETS				
Cash and cash equivalents	$ 3,545,139	$ 5,828,642	$ 6,322,913	$ 3,050,868
Cash and cash equivalents with fiscal agent	2,936,138	2,042,710	2,036,369	2,942,479
	$ 6,481,277	$ 7,871,352	$ 8,359,282	$ 5,993,347
LIABILITIES				
Due to special district bondholders	$ 3,616,595	$ 3,899,398	$ 4,107,913	$ 3,408,080
Deposits held as agent for others	2,864,682	3,971,954	4,251,369	2,585,267
	$ 6,481,277	$ 7,871,352	$ 8,359,282	$ 5,993,347

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STATISTICAL SECTION

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Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information to aid in understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends
These schedules contain trend information to help the reader understand how the City's financial performance has changed over time:

1. Net Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balances of Governmental Funds

Revenue Capacity
This schedule gives information on the City's most significant local revenue source, the water usage charges:

1. Water Utility System – Ten Largest Customers
2. Water revenues by customer class
3. Water rates

Debt Capacity
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Debt Margin
4. Revenue Bond Coverage, Wastewater Revenue Bonds

Demographic and Economic Information
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

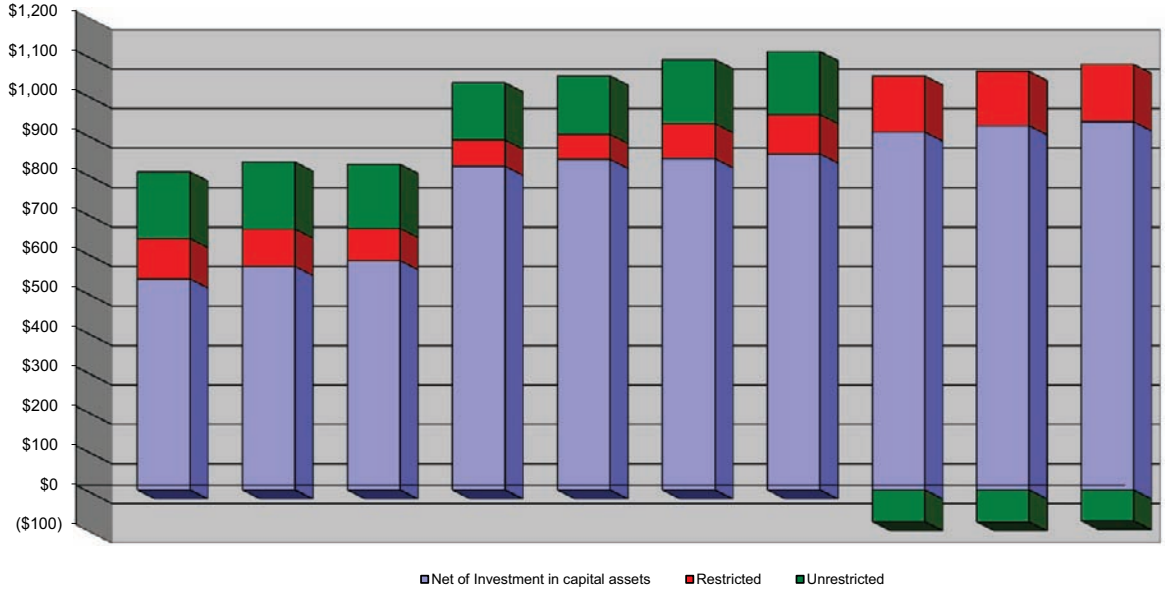
1. Demographic and Economic Statistics
2. Principal Employers
3. Principal Property Taxpayers

Operating Information
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time City Government Employees by Function
2. Operating Indicators by Function
3. Capital Asset Statistics by Function/Program

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

CITY OF MODESTO
NET POSITION BY COMPONENT (1)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)



	2008	2009	2010	2011	2012	2013	2014	2015 (2)	2016	2017
Governmental activities										
Net investment in capital assets	$339,396,266	$347,357,492	$329,592,169	$338,010,133	$362,755,958	$361,582,237	$347,647,419	$378,145,625	$381,887,289	$376,743,556
Restricted	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677	121,105,182	115,619,807	123,851,082
Unrestricted	4,627,884	(472,402)	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253	(179,570,210)	(173,275,294)	(191,483,628)
Total governmental activities net position	$446,626,848	$441,704,863	$425,520,463	$411,121,584	$421,927,689	$423,860,935	$434,379,349	$319,680,597	$324,231,802	$309,111,010
Business-type activities										
Net investment in capital assets	$194,435,373	$218,432,739	$251,025,494	$481,186,894	$473,757,198	$476,681,835	$502,684,950	$527,784,338	$539,821,175	$555,163,217
Restricted	-	-	-	-	-	25,571,860	22,398,957	20,622,619	22,052,595	21,525,961
Unrestricted	163,792,245	169,639,845	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831	99,450,370	92,324,550	113,595,981
Total business-type activities net position	$358,227,618	$388,072,584	$398,687,011	$619,220,041	$625,760,853	$665,135,994	$675,271,738	$647,857,327	$654,198,320	$690,285,159
Primary government										
Net investment in capital assets	$533,831,639	$565,790,231	$580,617,663	$819,197,027	$836,513,156	$838,264,072	$850,332,369	$905,929,963	$921,708,464	$931,906,773
Restricted	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634	141,727,801	137,672,402	145,377,043
Unrestricted	168,420,129	169,167,443	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084	(80,119,840)	(80,950,744)	(77,887,647)
Total primary government net position	$804,854,466	$829,777,447	$824,207,474	$1,030,341,625	$1,047,688,542	$1,088,996,929	$1,109,651,087	$967,537,924	$978,430,122	$999,396,169

1) Accounting standards require that net position be reported in three components in the financial statements: net investment in capital assets; restricted; and unrestricted. Net position is considered restricted when a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.
2) The significant decrease in net position was due to the implementation of GASB 68 related to the City's net pension liability.

CITY OF MODESTO
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	$15,997,582	$12,700,264	$12,093,091	$12,473,794	$14,236,573	$12,041,953	$11,221,704	$12,085,051	$12,838,583	$13,945,824
Community development	14,619,525	14,694,997	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466	11,888,475	12,552,115	15,419,529
Highways and streets	26,436,475	23,682,253	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315	21,269,704	20,149,011	22,481,002
Public works	11,471,344	9,151,786	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135	9,810,989	10,749,465	13,169,149
Parks and recreation	14,264,334	15,070,007	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816	4,641,611	3,493,743	3,947,898
Public safety	88,651,249	84,395,987	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682	86,782,741	86,907,876	104,348,464
Interest on long-term debt	4,998,482	6,114,875	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471	3,204,203	2,691,894	2,500,849
Total governmental activities expenses	176,438,991	165,810,169	160,724,324	169,584,766	154,610,734	161,882,262	135,701,589	149,682,774	149,382,687	175,812,715
Business-type activities:										
Water	1,982,066	2,011,386	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829	54,718,239	59,127,625	63,008,231
Sewer	36,713,351	38,190,214	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896	30,281,361	33,093,921	36,248,877
Bus	23,974,989	22,416,713	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568	18,614,175	19,709,745	21,979,360
Parking	6,349,113	6,140,963	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418	1,513,185	1,625,943	1,628,226
Storm drain	1,312,511	1,130,816	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441	3,913,204	5,312,896	6,119,472
Compost	1,444,667	1,682,644	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222	7,841,048	11,998,345	9,648,481
Airport	14,834,612	15,210,224	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547	2,025,146	1,787,081	1,744,557
Golf	2,497,161	2,440,599	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109	2,998,505	3,130,536	2,871,167
Community center	2,465,825	2,303,256	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928	1,852,585	1,981,307	1,934,179
Abatement and public nuisance	-	-	-	-	34,609	42,879	31,877	93,067	84,152	51,624
Total business-type activities expenses	91,574,295	91,526,815	102,592,957	100,926,439	118,931,429	106,319,598	135,142,835	123,850,515	137,851,551	145,234,174
Total primary government expenses	$268,013,286	$257,336,984	$263,317,281	$270,511,205	$273,542,163	$268,201,860	$270,844,424	$273,533,289	$287,234,238	$321,046,889
Program revenues										
Governmental activities:										
Charges for services:										
General government	$6,726,893	$6,987,127	$6,323,865	$6,804,398	$6,799,202	$6,262,963	$5,825,407	$5,912,157	$6,539,908	$5,082,405
Community development	7,869,742	4,788,324	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984	3,385,050	6,885,850	10,378,999
Highway and streets	5,804,342	8,222,178	2,801,213	3,179,788	4,178,567	761,394	873,566	1,744,505	1,154,290	1,101,813
Public works	5,110,428	1,349,956	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641	6,621,704	5,469,419	5,908,332
Parks and recreation	5,590,196	4,006,123	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001	1,344,923	771,733	1,614,443
Public safety	4,868,612	4,625,935	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758	4,218,000	3,868,346	4,847,914
Operating grants and contributions	14,221,390	11,424,548	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684	5,862,566	3,630,185	5,050,771
Capital grants and contributions	17,930,957	6,595,213	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154	5,878,550	1,708,602	2,117,867
Total government activities program revenues	$68,122,560	$47,999,404	$51,211,051	$52,903,515	$44,684,839	$47,529,401	$35,586,195	$34,967,455	$30,028,333	$36,102,544
Business-type activities:										
Charges for services:										
Water	$1,297,484	$1,256,360	$1,239,995	$1,274,482	$1,291,401	$1,169,293	$1,092,347	$59,800,535	$55,992,533	$69,075,873
Sewer	51,679,042	53,218,692	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110	46,193,997	47,859,680	49,905,078
Bus	29,340,615	35,854,857	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304	3,424,662	3,352,615	3,253,046
Parking	5,338,838	5,301,150	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133	1,239,439	1,289,211	1,284,269
Storm drain	1,075,032	1,397,708	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133	5,874,349	5,588,169	5,910,988
Compost	593,349	661,524	675,565	1,019,177	619,689	619,904	634,530	7,191,145	7,352,767	8,903,917
Airport	3,182,762	2,944,108	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504	551,373	622,383	596,152
Golf	2,124,672	1,984,769	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280	2,574,496	2,431,904	2,236,100
Community center	532,471	492,989	489,562	433,460	420,059	263,581	230,801	257,991	326,839	305,436
Abatement and public nuisance	-	-	-	-	71,567	302,563	201,825	128,636	166,641	117,677
Operating grants and contributions	12,459,707	11,462,346	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179	14,223,954	14,153,568	15,975,703
Capital grants and contributions	9,793,356	4,527,875	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940	13,820,127	4,753,223	19,617,513
Total business-type activities program revenue	117,417,328	119,102,378	122,819,204	129,867,659	141,587,253	143,601,683	143,023,086	155,280,704	143,889,533	177,181,752
Total primary government program revenues	$185,539,888	$167,101,782	$174,030,255	$182,771,174	$186,272,092	$191,131,084	$178,609,281	$190,248,159	$173,917,866	$213,284,296
Net (Expense)/Revenue										
Governmental activities	($108,316,431)	($117,810,765)	($109,513,273)	($116,681,251)	($109,925,895)	($114,352,861)	($100,115,394)	($114,715,319)	($119,354,354)	($139,710,171)
Business-type activities	25,843,033	27,575,563	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251	31,430,189	6,037,982	31,947,578
Total primary government net expense	($82,473,398)	($90,235,202)	($89,287,026)	($87,740,031)	($87,270,071)	($77,070,776)	($92,235,143)	($83,285,130)	($113,316,372)	($107,762,593)

(continued)

City of Modesto
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011 (1)	2012	2013	2014	2015 (5)	2016	2017
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Utility users tax	$ 19,173,295	$ 19,093,222	$ 19,117,518	$ 19,119,037	$ 19,230,879	$ 20,399,116	$ 20,153,653	$ 19,591,170	$ 19,564,921	$ 20,113,023
Property taxes, levied for general purposes (2)	16,202,587	13,863,471	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010	13,551,827	14,552,304	15,384,518
Property taxes, generated by and allocated to the airport	5,813,822	6,228,634	6,521,515	5,750,235	2,884,357	-	-	-	-	-
Transient occupancy tax	2,038,255	1,853,732	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825	2,097,952	2,523,087	2,669,484
Franchise tax	7,735,131	4,779,854	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130	5,768,146	6,194,733	6,431,223
Business license tax, levied for general purposes	9,680,721	9,330,563	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820	11,421,759	11,944,291	12,255,062
Business license tax, levied for downtown improvement district	202,100	196,253	169,471	172,520	177,026	170,222	181,689	188,247	186,123	192,540
Grants and contributions not restricted to specific programs:										
Sales tax (state appropriation)	26,305,982	24,578,230	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939	28,437,594	29,878,815	30,204,125
Motor vehicle license fee	16,856,108	15,255,503	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642	13,871,248	14,548,427	15,385,069
Gas tax funding	-	-	-	-	-	-	-	5,924,101	4,533,572	3,968,029
Community facilities district fees	-	-	-	-	-	-	-	4,570,403	3,829	1,830
Special assessments, levied	-	-	-	-	-	-	-	1,924,623	3,168,260	3,014,768
Proceeds from Modesto Regional Fire Authority dissolution	-	-	-	-	-	-	-	2,500,721	-	-
Other	917,347	3,285,651	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250	25,866,105	13,101,149	15,842,047
Unrestricted investment earnings	9,960,367	5,247,506	1,211,702	696,848	(411,571)	52,893	441,383	564,314	582,565	362,856
Miscellaneous	3,469,916	5,809,581	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480	2,281,008	2,440,696	515,206
Transfers	(779,437)	(5,490,881)	402,303	1,503,170	2,838,873	1,055,670	(41,312)	(775,377)	(567,177)	(1,750,401)
Total government activities	117,576,194	104,031,319	94,255,297	103,146,840	104,930,663	104,999,196	111,314,509	137,783,841	122,655,595	124,589,379
Business-type activities:										
Taxes:										
Property taxes, generated by and allocated to the airport	182,031	202,460	265,587	309,699	253,974	257,687	254,200	237,546	206,854	199,124
Business license tax, generated by and allocated to the airport	19,188	-	-	-	-	-	-	-	-	-
Unrestricted investment earnings	7,099,765	6,227,615	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148	554,180	2,247,061	872,935
Connection fees (3)	-	-	-	-	-	1,200,800	524,914	-	-	-
Miscellaneous	-	253,032	-	-	-	-	-	1,214,729	1,368,761	1,316,801
Settlements	779,437	5,490,881	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317	13,851	-	-
Transfers, net	14,525,389	-	447,102	187,096	222,379	116,711	110,376	775,377	567,177	1,750,401
Special item (4)	(625,620)	(2,211,514)	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)	-	-	-
Total business-type activities	21,980,190	9,962,474	2,140,031	213,732	(1,092,706)	560,693	2,300,537	2,795,683	4,389,853	4,139,261
Total primary government	$139,556,384	$113,993,793	$96,395,328	$103,360,572	$103,837,957	$105,559,889	$113,615,046	$140,579,524	$127,045,448	$128,728,640
Change in Net Position										
Governmental activities	$9,259,763	($13,779,446)	($15,257,976)	($13,534,411)	($4,995,232)	($9,353,665)	$11,199,115	$23,068,522	$3,301,241	($15,120,792)
Business-type activities	47,823,223	37,538,037	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788	34,225,872	10,427,835	36,086,839
Total primary government	$57,082,986	$23,758,591	$7,108,302	$15,620,541	$16,567,886	$28,489,113	$21,379,903	$57,294,394	$13,729,076	$20,966,047

(1) The amount reported under utility users taxes and property taxes were keyed backwards in 2011. The amounts have been fixed to reflect the correct numbers in these two categories.
(2) Due to the dissolution of the Redevelopment agencies, no tax increments will be reported on the entity-wide statements.
(3) Starting in 2015, connection fee revenues were reported as part of program revenues for the Water fund.
(4) Starting in 2015, the special item related to pollution remediation has been reported as a liability. Any expenses incurred will be accounted for as a reduction to the liability.
(5) Starting in 2015, general revenues for grants and contributions not restricted to specific programs other related governmental activities were reclassified to provide more specific category revenue types.

CITY OF MODESTO
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011 (b)	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	$ 3,816,559	$ 3,568,273	$ 2,871,715	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved	11,942,168	11,185,485	10,103,645	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	123,061	126,603	102,152	2,770,844	2,647,692	2,515,146
Restricted	-	-	-	4,313,287	3,998,539	3,713,640	3,718,682	1,341,972	2,092,126	1,970,622
Committed	-	-	-	-	-	-	3,000,000	3,000,000	3,000,000	15,800,000
Assigned	-	-	-	458,415	519,051	1,173,377	1,024,149	3,119,753	6,503,769	4,854,307
Unassigned	-	-	-	10,215,682	10,806,111	11,758,746	12,069,864	14,586,931	12,822,134	4,509,693
Total General Fund	$ 15,758,727	$ 14,753,758	$ 12,975,360	$ 14,987,384	$ 15,446,762	$ 16,772,366	$ 19,914,847	$ 24,819,500	$ 27,065,721	$ 29,649,768
All Other Governmental Funds										
Reserved	$ 42,799,130	$ 39,607,945	$ 39,686,892	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved, reported in:										
Special revenue funds	8,746,111	12,808,809	6,867,750	-	-	-	-	-	-	-
Capital project funds	71,780,583	58,718,023	54,341,594	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	119	746	3,907	88,057	86,242	81,007
Restricted	-	-	-	118,919,268	109,145,041	106,724,809	108,672,378	79,643,971	80,563,574	85,531,411
Assigned	-	-	-	3,647,941	2,604,281	3,965,851	3,700,733	14,962,522	10,063,058	7,975,865
Unassigned	-	-	-	(23,614,308)	(18,852,239)	(32,965,286)	(34,656,617)	(3,866,450)	(724,841)	(3,156,679)
Total all other governmental funds	$ 123,325,824	$ 111,134,777	$ 100,896,236	$ 98,952,901	$ 92,897,202	$ 77,726,120	$ 77,720,401	$ 90,828,100	$ 89,988,033	$ 90,431,604

The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

Note: The City has elected to show ten years of data for this schedule.
(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

CITY OF MODESTO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes	$57,142,392	$55,345,729	$52,606,197	$52,068,220	$49,856,697	$50,034,153	$50,096,127	$52,619,101	$54,965,459	$57,045,850
Licenses and permits	153,545	132,459	138,811	139,073	131,302	175,720	174,734	149,888	186,624	201,445
Intergovernmental	71,179,504	63,606,634	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885	88,906,770	76,317,229	72,069,739
Charges for services	33,319,642	27,051,151	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298	22,337,357	20,429,860	24,454,286
Special assessments levied	35,294	37,299	38,520	1,852,529	1,860,905	1,781,896	2,063,784	1,924,623	3,168,260	3,014,768
Interest and rent	5,236,476	2,909,155	1,322,005	838,178	1,145,251	835,994	1,019,357	957,846	1,297,734	1,402,387
Net increase (decrease) in fair value of investments	1,404,913	860,820	399,322	(89,608)	(452,987)	(584,090)	(423,827)	(320,398)	102,422	(572,616)
Fines and forfeits	2,614,523	2,443,506	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607	1,171,076	904,802	1,263,407
Miscellaneous	3,469,916	5,809,581	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746	2,784,295	2,286,597	516,844
Total Revenues	174,556,205	158,196,334	144,321,053	156,249,438	145,111,923	151,867,461	146,312,711	170,530,558	159,658,987	159,396,110
Expenditures										
Current:										
General government	15,107,461	13,715,577	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579	11,334,202	12,414,982	11,542,131
Community development	13,820,295	14,137,095	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817	11,511,154	12,453,678	13,264,050
Highways and streets	12,549,018	9,721,445	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899	9,672,790	8,498,783	9,240,654
Public works	9,719,098	7,667,125	6,124,685	6,035,524	5,283,123	2,993,702	3,088,701	9,228,780	10,393,169	10,919,102
Parks and recreation	12,605,651	13,307,764	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862	4,212,301	3,385,484	3,269,360
Public safety	82,707,285	78,103,260	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533	81,353,131	84,022,670	86,475,891
Capital outlay	22,745,308	27,663,037	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002	30,339,677	19,817,025	21,431,186
Debt service:										
Principal retirement	2,265,000	1,093,000	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000	1,789,335	2,345,362	2,535,093
Interest	3,473,369	3,033,829	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672	2,417,840	2,043,278	2,075,202
Other	1,337,611	1,395,211	1,408,771	57,557	48,738	932,460	872,350	783,264	697,405	430,779
Total Expenditures	176,330,096	169,837,343	155,606,865	153,585,852	147,364,386	163,122,899	140,139,415	162,642,474	156,071,836	161,183,448
Excess of revenues over (under) expenditures	(1,773,891)	(11,641,009)	(11,285,812)	2,663,586	(2,252,463)	(11,255,438)	6,173,296	7,888,084	3,587,151	(1,787,338)
Other Financing Sources (Uses)										
Transfers in	24,429,880	19,237,526	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817	8,157,278	6,960,425	5,559,720
Transfers out	(22,579,265)	(18,149,564)	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)	(10,682,539)	(10,572,346)	(6,659,759)
Proceeds of loan payable	244,650	209,575	-	-	-	-	-	-	-	-
Proceeds of lease revenue bonds	-	65,170,000	-	-	-	-	-	-	-	-
Refunding of lease revenue bonds	-	(65,210,000)	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	1,070,472	330,947	5,883,756
Sale of assets	-	34,900	-	-	-	72,489	200,838	94,489	106,582	31,239
Payments to refunded debt escrow agent	-	(2,431,247)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	2,095,265	(1,138,810)	(56,691)	(2,511,977)	(2,839,203)	(114,150)	(3,001,339)	(1,360,300)	(3,174,392)	4,814,956
Extraordinary Items:										
RDA dissolution transactions	-	-	-	-	(403,850)	-	-	-	-	-
RDA advance receivable elimination	-	-	-	-	(966,127)	-	-	-	-	-
Total extraordinary items	-	-	-	-	(1,369,977)	-	-	-	-	-
Change in fund balances	321,374	(12,779,819)	(11,342,503)	151,609	(6,461,643)	(11,369,588)	3,171,957	6,527,784	412,759	3,027,618
FUND BALANCES, July 1	138,763,177	139,084,551	125,888,535	113,871,596	113,940,285	108,343,964	94,498,486	97,635,248	115,647,600	117,053,754
PRIOR PERIOD ADJUSTMENTS	-	(416,197)	(674,436)	(82,920)	865,322	(2,475,890)	(35,195)	11,484,568	993,395	
FUND BALANCES, June 30	$139,084,551	$125,888,535	$113,871,596	$113,940,285	$108,343,964	$94,498,486	$97,635,248	$115,647,600	$117,053,754	$120,081,372
Debt service as a percentage of noncapital expenditures	0.04830	0.04041	0.05695	0.04333	0.04696	0.03577	0.03775	0.03920	0.03877	0.03742

The debt service percentage was revised to only include principal and interest.

CITY OF MODESTO
REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE
WATER UTILITY SYSTEM
(YEAR ENDED JUNE 30, 2017)

Ten Largest Customers of Water Utility System, Year Ended 06/30/2017

Customer	Usage (ccf) (1)	% of Total Usage	Water Sales Revenue ($)	% of Total Water Sales Revenue
1) Modesto City Schools	347,228	1.70%	$ 796,932	1.36%
2) City of Modesto-Stores	274,205	1.34%	$ 796,192	1.36%
3) Stanislaus Food Products	385,849	1.88%	$ 650,097	1.11%
4) Foster Farms	322,837	1.58%	$ 567,002	0.97%
5) Seneca Foods	257,370	1.26%	$ 419,120	0.71%
6) Modesto Irrigation District	191,324	0.93%	$ 378,262	0.64%
7) Stanislaus Housing Authority	122,298	0.60%	$ 325,320	0.55%
8) Sunopta	171,687	0.84%	$ 308,870	0.53%
9) Yosemite Community College	99,435	0.49%	$ 237,710	0.40%
10) E & J Gallo	109,387	0.53%	$ 233,701	0.40%
Total Top Ten	2,281,620	11.14%	$ 4,713,206	8.03%

Total Flat/Metered Revenues (Water Sales) $ 58,728,175

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 06/30/2017

Residential - Flat Rates	$ 6,767,446
Commercial, Industrial and Municipal - Metered Rates	$ 51,960,729
Total Water Sales (2)	$ 58,728,175

Water Rates and Charges as of 07/01/2016

The average monthly flat rate service charge for residential customers is: $ 54.72

Commercial Accounts:

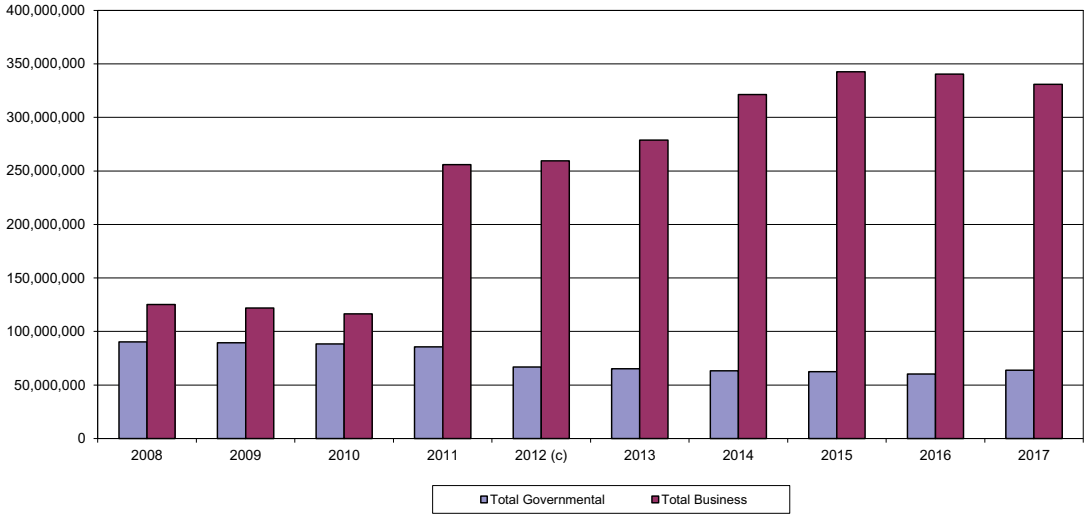
Meter Size	
3/4"	$ 20.79
1"	$ 29.30
1 1/2"	$ 50.58
2"	$ 76.11
3"	$ 156.98
4"	$ 276.14
6"	$ 561.28
8"	$ 1,029.42
10"	$ 1,625.23
12"	$ 2,135.93

In addition to these minimum charges, commercial accounts are charged $1.79 per 100 cubic feet of water used.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

Source:
City of Modesto-Utilities Division

CITY OF MODESTO
RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years



	Governmental Activities					
Fiscal Year	Loans Payable (h)	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2008	$ 693,788	$ 19,935,000	$ 65,210,000	$ 4,187,220	$ 137,392	$ 90,163,400
2009	903,362	19,000,000	65,170,000	3,999,252	454,401	89,527,015
2010	905,000	18,015,000	64,275,000	3,802,436	1,221,553	88,218,989
2011	905,030	16,975,000	63,255,000	3,594,658	975,955	85,705,643
2012 (c)	500,000	-	62,130,000	3,392,000	742,937	66,764,937
2013	500,000	-	60,870,000	3,201,000	502,622	65,073,622
2014	500,000	-	59,475,000	3,000,000	256,945	63,231,945
2015	500,000	-	57,970,000	2,789,000	1,070,472	62,329,472
2016	500,000	-	56,305,000	2,568,000	942,057	60,315,057
2017	500,000	-	54,470,000	2,335,000	6,358,720	63,663,720

	Business-Type Activities								
Fiscal Year	Loans Payable	Certificates of Participation	Reimbursement Agreement related to MID (e)	Revenue Bonds (b)	Capital Leases	Total (f)	Total Primary Government	Percentage of Personal Income (a) (e)	Per Capita (a) (e)
2008	$ 1,754,300	$ 71,915,000	-	$ 51,420,000	$ 77,485	$ 125,166,785	$ 215,330,185	3.76%	$ 1,025
2009	1,543,554	70,545,000	-	49,760,000	-	121,848,554	211,375,569	3.78%	999
2010	1,326,174	67,066,213	-	48,050,000	-	116,442,387	204,661,376	3.90%	1,017
2011 (d)	6,522,243	50,757,779	-	198,654,489	-	255,934,511	341,640,154	5.43%	1,693
2012 (d)	16,098,866	50,237,067	-	193,098,177	-	259,434,110	326,199,047	7.14%	1,584
2013	41,921,784	49,681,357	-	187,251,865	-	278,855,006	343,928,628	7.29%	1,663
2014	88,922,403	49,634,062	-	182,792,914	-	321,349,379	384,581,324	8.15%	1,860
2015	117,690,257	48,989,556	137,055,810	39,057,561	-	342,793,184	405,122,656	8.63%	1,937
2016 (g)	125,787,342	48,330,053	132,375,084	33,945,516	-	340,437,995	400,753,052	8.21%	1,891
2017	124,280,500	47,630,552	127,484,358	31,605,936	-	331,001,346	394,665,066	8.13%	1,859

(a) See Demographic and Economic Statistics for personal income and population data.
(b) The MID Treatment and Delivery issued by MID on behalf of the City has been reported as a City liability.
(c) The Certificates of Participation bonds for the Governmental Activities due to the dissolution of the Redevelopment Agency.
(d) In 2011, the OPEB was reported in the Certificates of Participation in error. In 2012 the Loans payable increase from the bond reimbursements related to the State Revolving loan approved for the construction of a new tertiary treatment plant.
(e) In 2015, the Reimbursement agreement with MID was reclassified from revenue bonds payable to reimbursement agreement related to MID since this long-term debt is listed under MID but is the City's liability due to nature of the treatment and delivery agreement.
(f) The total for Business-Type Activities did not include the capital leases in error. The total has been updated to account for this debt.
(g) Starting in 2016, the amounts presented include net of unamortized premiums or discounts.
(h) Starting in 2010, governmental activities loans payables were previously incorrectly reported as $1,638 less than they should have. The amounts here reflect corrected amounts.

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2017

Jurisdiction	Net Debt Outstanding (1)	Percentage Applicable to City of Modesto (2)	Amount Applicable to City of Modesto
Direct debt:			
City of Modesto	$ 63,663,720	100%	$ 63,663,720
Overlapping General Obligation debt - school districts:			
Ceres Unified School District	65,088,815	4.50%	2,927,561
Hart-Ransom Union School District	5,478,381	30.82%	1,688,691
Modesto Elementary School District	8,710,677	77.78%	6,775,554
Modesto High School District	34,857,498	67.70%	23,598,982
Paradise Elementary School District	365,000	0.00%	-
Salida Union Elementary District	410,000	28.99%	118,859
Stanislaus Union School District	28,609,931	74.54%	21,325,857
Sylvan School District	49,789,283	77.87%	38,768,708
Yosemite Community College District	282,693,267	33.60%	94,988,074
Total overlapping debt	476,002,852		190,192,286
Total direct and overlapping debt	$ 539,666,572		$ 253,856,006

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.

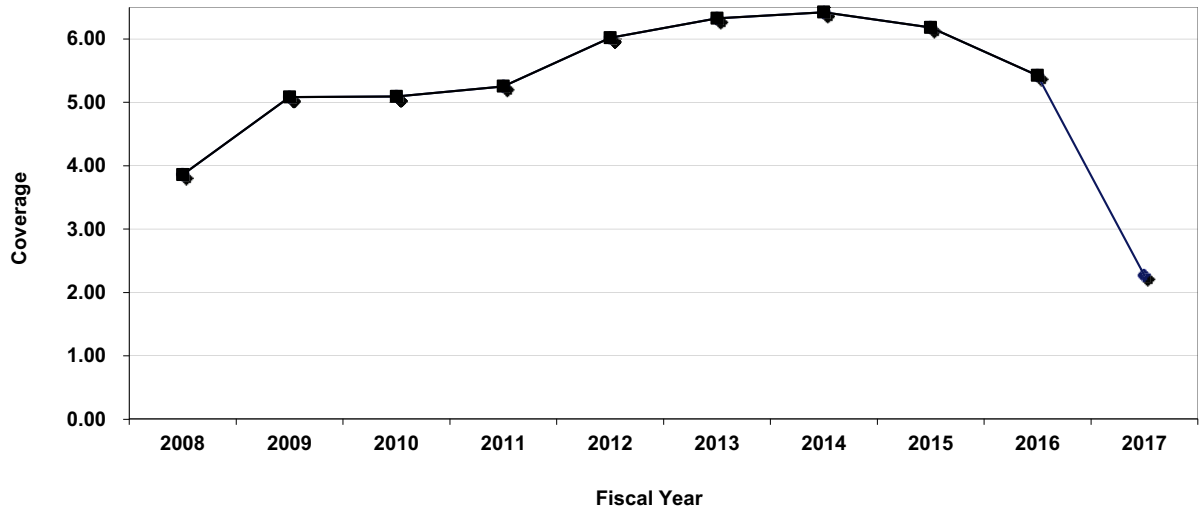
CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2017

Net assessed value (1)(3)			$ 14,678,535,296
Plus homeowners' exemption (1)(3)			201,745,315
Gross assessed value (1)(3)			$ 14,880,280,611
Debt limit - 15% of gross assessed value (2)			$ 2,232,042,092
Amount of debt applicable to debt limit:			
Total general bonded debt, including special assessment debt		$ -	
Less: Assets in debt service funds available for payment of principal	$ -		
Other deductions: Special assessment debt	-		
Total deductions		-	
Total amount of debt applicable to debt limit			-
Legal debt margin			$ 2,232,042,092

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
2008	2,327,946,572	-	2,327,946,572	0%
2009	2,138,574,915	-	2,138,574,915	0%
2010	1,945,371,241	-	1,945,371,241	0%
2011	1,856,710,771	-	1,856,710,771	0%
2012	1,823,551,939	-	1,823,551,939	0%
2013	1,724,049,678	-	1,724,049,678	0%
2014	1,825,518,342	-	1,825,518,342	0%
2015	2,017,621,335	-	2,017,621,335	0%
2016	2,120,160,392	-	2,120,160,392	0%
2017	2,232,042,092	-	2,232,042,092	0%

Note: The City has elected to show ten years worth of data for this schedule.
(1) Source: Stanislaus County Auditor
(2) Section 43605 California Government Code.
(3) Figures are based on Stanislaus County

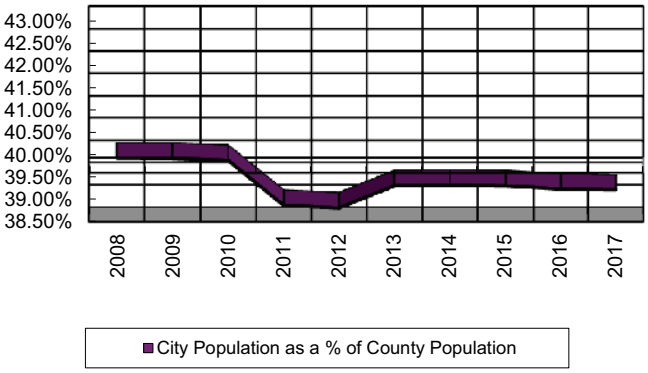
CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
LAST TEN FISCAL YEARS (4)

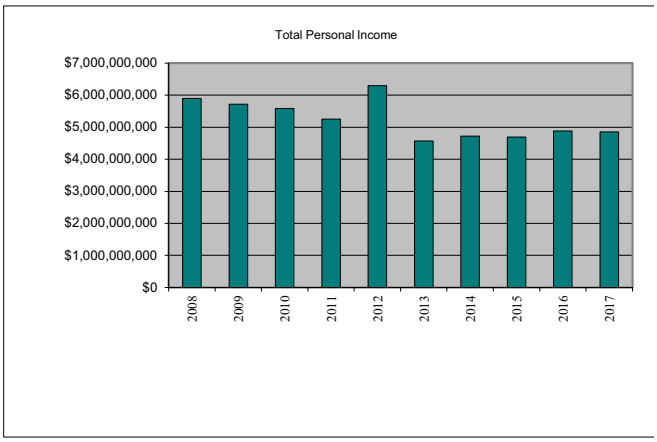


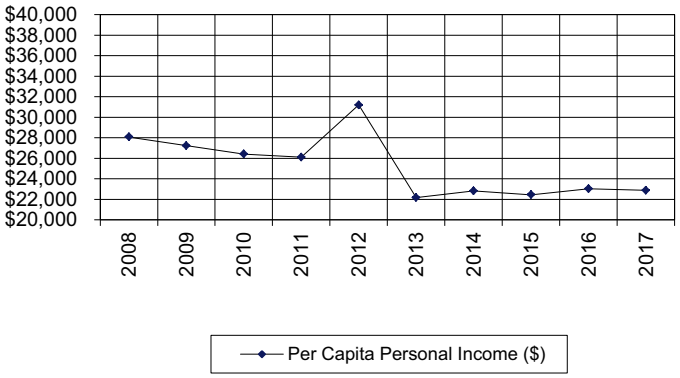
Fiscal Year	Gross Revenue (1)	Operating Expenses (2)(4)	Net Revenue Available for Debt Service	Debt Service Requirements(3)	Coverage
2008	$ 32,214,071	$ 16,280,914	$ 15,933,157	$ 4,127,837	3.86
2009	37,539,860	17,050,138	20,489,722	4,030,633	5.08
2010	39,086,504	18,161,292	20,925,212	4,110,221	5.09
2011	39,844,523	18,722,729	21,121,794	4,021,108	5.25
2012	43,453,216	19,287,894	24,165,322	4,014,808	6.02
2013	45,018,125	19,586,799	25,431,326	4,019,558	6.33
2014	47,233,028	19,860,430	27,372,598	4,261,980	6.42
2015	46,853,368	21,207,025	25,646,343	4,150,322	6.18
2016	50,207,559	25,418,140	24,789,419	4,570,286	5.42
2017	50,907,228	25,212,214	25,695,014	11,311,098	2.27

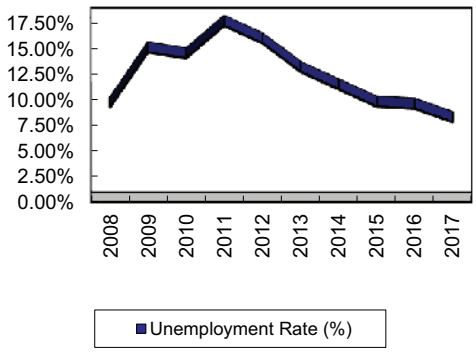
Notes: (1) Consists of all receipts of the Sewer fund not dedicated to capital spending purposes and including charges for services, connection fees, interest and rental income.
(2) Reflects total sewer fund operating expenses less depreciation; also includes certain transfers out that are made for operational costs incurred in other funds.
(3) Includes total principal and interest of Wastewater Refunding Revenue Bonds Series 2005 A and 2005 B and 2006 Wastewater Revenue Bonds. In fiscal year 2016-17, began repaying State Revolving Fund loan for Phase 2 - Tertiary Treatment Project debt service.
(4) The amount reported in 2014 was corrected from $28,203,399 to $19,860,430. The former amount included $8.4 million for the State Revolving Fund loan which should not have been included in the calculation.

CITY OF MODESTO
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS









Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income ($)	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
2008	209,936	5,895,212,816	28,081	9.20%	525,903	39.92%
2009	210,088	5,720,906,328	27,231	14.60%	526,383	39.91%
2010	211,536	5,586,877,296	26,411	14.02%	530,584	39.87%
2011	201,165	5,251,613,490	26,106	17.20%	517,685	38.86%
2012	201,761	6,294,337,917	31,197	15.50%	519,940	38.80%
2013	205,987	4,566,113,829	22,167	12.70%	524,124	39.30%
2014	206,785	4,719,247,270	22,822	11.00%	526,042	39.31%
2015	209,186	4,693,924,654	22,439	9.30%	532,297	39.30%
2016	211,903	4,880,973,702	23,034	9.10%	540,214	39.23%
2017	212,287	4,856,701,986	22,878	7.80%	541,466	39.21%

Source: State of California, Department of Finance (population)
State of California, Employment Development Department (unemployment rate)
U.S. Department of Commerce, Census Bureau (income)

CITY OF MODESTO
PRINCIPAL EMPLOYERS

	2016/17			2008/09		
Employer	Number of (1) Employees	Rank	Percentage of Total City Employment	Number of (1) Employees	Rank	Percentage of Total City Employment
Modesto City Schools				3,231	2	3.2%
Gallo Vineyards, Inc	3,000	1	1.31%			
Doctors Medical Center	2,260	2	0.99%	2,000	6	2.00%
Seneca				2,100	4	2.1%
Memorial Medical Center	2,056	3	0.90%	2,071	3	2.00%
Carlo Rossi Winery	2,000	4	0.87%			
E & J Gallo	2,000	4	0.87%	3,250	1	2.00%
Ecco Domani Winery	2,000	4	0.87%			
Peter Vella Winery	2,000	4	0.87%			
Zabaco Winery	2,000	4	0.87%			
Stanislaus Food Products				1,600	8	1.6%
Kaiser Permanente Modesto				1,500	9	1.5%
DelMonte Foods, Inc	1,500	5	0.65%	2,000	5	2.00%
City of Modesto	1,219	6	0.53%	1,239	10	1.2%
Modesto Junior College	1,007	7	0.44%	1,746	7	1.7%
Copperidge Winery	1,001	8	0.44%			
Community Services Agency	1,000	9	0.44%			
Modesto Bee	651	10	0.28%			
Subtotal	21,042		10.34%	17,506		16.09%
Total Labor Force	229,200			102,100		
Total City Population	212,287			210,088		

Source: Stanislaus Economic Development & Workforce Alliance (reflects peak seasonal employment, may include estimates)
(1) The number of employees include both part-time and full time.

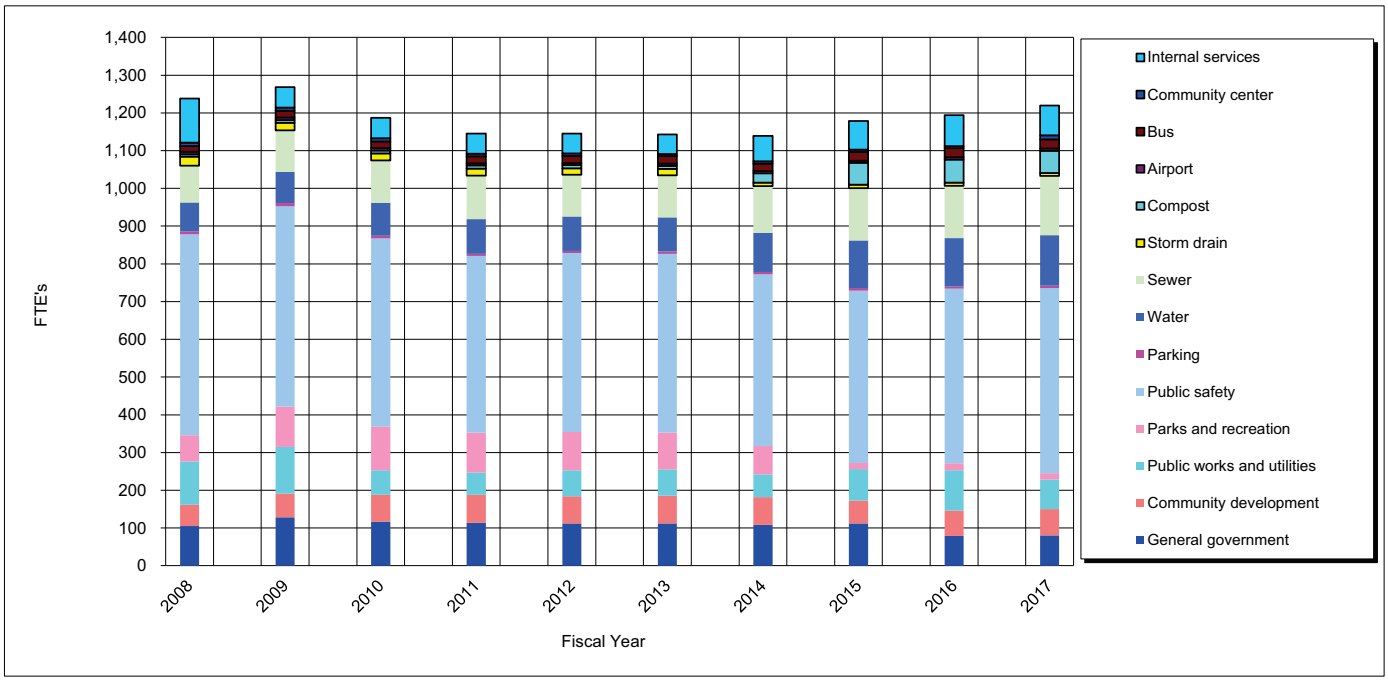
CITY OF MODESTO
PRINCIPAL PROPERTY TAXPAYERS

	2016/17			2008/09		
Employer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pacific Gas & Electric Company	$ 3,887,621	1	0.76%	$ 1,838,227	4	0.33%
World International, LLC	3,212,117	2	0.63%	3,589,757	1	0.65%
Gallo Glass Co	3,040,497	3	0.59%	2,543,430	2	0.46%
Gallo E & J Winery	2,865,296	4	0.56%	1,980,255	3	0.36%
Bronco Wine Co	1,586,536	5	0.31%			
Excel Monte Vista LP	1,566,192	6	0.31%			
WR Griffin Patterson LLC	1,443,301	7	0.28%			
E & J Gallo Winery	1,435,809	8	0.28%			
SBC California				1,378,681	5	0.25%
Doctors Med Center of MOD Inc	1,397,390	9	0.27%	1,368,817	6	0.25%
Hunt Wesson Foods Inc	1,304,059	10	0.25%	1,141,780	9	0.21%
Del Monte Corp				1,099,179	10	0.20%
Recot Inc (Frito Lay)				1,215,949	7	0.22%
Foster Dairy Farms				1,167,115	8	0.21%
Subtotal	$ 21,738,818		4.24%	$ 17,323,190		3.14%
Total assessed value of $	$ 513,253,305			$ 550,894,585		

Source: Stanislaus Country Treasurer-Tax Collector

Note: Information based on entire Stanislaus County

CITY OF MODESTO
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function										
General government	105.00	128.60	116.60	113.60	112.00	112.00	108.00	112.10	79.00	80.00
Community development	57.00	62.20	71.20	74.20	72.20	74.00	73.80	60.75	67.00	70.00
Public works and utilities	114.00	124.00	65.00	59.00	69.00	69.00	60.00	83.00	107.00	78.00
Parks and recreation	70.00	107.25	116.00	106.23	101.48	97.50	75.38	16.50	18.50	17.50
Public safety	532.00	530.75	499.00	467.75	473.75	474.00	455.00	456.50	462.50	490.50
Parking	8.00	8.00	7.00	6.00	6.00	6.00	6.00	7.00	6.00	6.00
Water	77.00	83.00	87.00	92.00	91.00	91.00	104.00	126.00	128.00	134.00
Sewer	97.00	110.00	112.00	115.00	111.00	111.00	124.00	139.00	139.00	157.00
Storm drain	24.00	20.00	19.00	19.00	17.00	17.00	9.00	9.00	8.00	8.00
Compost	6.00	7.00	8.00	8.00	8.00	8.00	24.80	57.80	61.80	58.80
Airport	7.00	6.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Bus	15.00	18.00	18.00	18.00	18.00	20.00	20.00	23.00	24.00	24.00
Community center	9.50	8.50	8.50	7.25	7.25	5.50	5.50	6.00	5.00	11.00
Internal services	117.00	54.00	54.00	53.00	53.00	52.00	67.30	76.00	82.00	79.00
Total	1,238.50	1,268.05	1,187.30	1,145.03	1,145.68	1,143.00	1,138.78	1,178.65	1,193.80	1,219.80

Source: City of Modesto

CITY OF MODESTO
OPERATING INDICATORS BY FUNCTION

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety:										
Fire:										
Fire calls for service(1)	23,246	22,911	20,888	20,400	20,970	22,846	24,281	24,712	21,135	26,288
Primary fire inspections conducted	976	1,069	1,012	1,214	1,618	818	989	1,050	764	1,060
Police:										
Communication Center calls answered										
Police calls for service	121,434	116,383	167,576	154,549	168,242	174,113	123,357	122,270	129,439	129,802
Law violations:										
Part I and Part II crimes	60,595	57,844	52,182	49,914	47,175	52,272	53,032	50,729	53,609	53,142
Physical arrests (adult and juvenile)	14,185	12,471	15,105	11,872	11,536	12,418	15,039	18,634	12,303	11,760
Traffic violations	25,739	26,914	30,941	24,278	16,330	14,761	15,477	12,700	11,451	15,428
Parking violations	16,079	21,391	18,041	20,452	15,772	12,150	12,327	5,493	6,139	10,841
Public works										
Streets:										
Street resurfacing (lane miles)	9	1	7	6	-	6	12	8	4	12
Potholes repaired (square miles)	40,411	39,473	39,705	27,724	38,290	13,282	12,573	14,515	24,059	8,745
Water utility customer repaired (sq. ft)	-	58,737	6,990	58,044	112,136	81,261	29,108	611	-	-
Crack sealing (lane miles)	-	-	16	23	-	20	33	12	37	29
Airport:										
Number of passengers enplaned (2)	49,525	28,470	25,640	22,514	19,188	16,532	11,703	-	-	-
Number of tenant aircraft	195	184	190	183	184	184	172	162	173	162
Number of hangars	109	109	118	118	118	118	118	119	119	119
Number of runways	2	2	2	2	2	2	2	2	2	2
Annual fuel consumption in gallons	1,140,426	672,406	639,971	311,500	645,283	653,153	682,769	582,473	443,272	582,602
Bus service:										
Number of buses	56	56	56	63	55	65	55	56	60	59
Number of routes	20	20	20	20	20	20	20	21	21	21
Total route miles	362	362	362	362	362	362	362	362	362	362
Average weekday number of passengers	12,599	12,599	12,524	10,688	11,553	11,616	12,538	11,598	12,441	10,523
Total number of passengers carried	3,699,846	3,699,846	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824	3,416,314	3,664,689	3,108,307
Community development										
Building safety & NPU:										
Permits issued	4,182	3,242	3,733	3,801	3,288	3,566	3,871	4,511	4,939	4,973
Estimated cost of construction	$ 157,006,451	$ 96,127,131	$ 67,488,906	$ 73,397,148	$ 76,362,371	$ 81,095,370	$ 58,850,241	$ 137,453,763	$ 92,768,634	$ 118,527,812
Building Inspections made	39,172	32,362	32,846	29,034	25,549	27,816	30,034	31,571	23,187	36,158
Traffic electrical:										
Street lights	13,595	13,764	13,765	13,765	13,765	13,765	13,761	13,764	13,764	13,764
Traffic signals	140	146	149	143	143	144	144	147	151	153
Lighted ped walks*	-	28	28	28	30	28	29	28	28	28
Beacons*	-	1	12	5	8	8	11	11	11	11
Four way flashers*	-	9	9	9	9	10	10	10	10	10
School flashers*	-	22	22	22	22	22	22	22	23	24
CCTV*	-	38	38	38	38	41	41	41	41	41
Hubs*	-	5	5	5	5	6	6	6	6	6
Culture and recreation:										
Recreation class participants	4,255	3,271	3,171	2,297	2,072	264,670	150,514	151,323	150,091	150,500
Solid waste:										
Recyclables processed (tons per year)	106,664	74,288	47,170	50,789	67,317	37,647	46,936	55,020	56,493	71,155
Yard waste	38,889	41,235	48,856	60,408	58,650	55,147	39,117	48,832	58,730	62,859
Commercial food waste	280	597	667	814	735	765	827	817	845	914
Waste tires	7,120	5,214	3,683	2,388	1,247	1,674	4,969	4,152	4,497	4,931

(1) FY13 Fire calls for service was originally reported incorrectly due to duplicate entries found on the NFIRS reports. This figure was corrected 10/24/2014.
Source: City of Modesto - Various Departments
(2) The enplanements subsided with the loss of commercial service in FY 2014.

CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function/Program										
Public safety:										
Fire stations	11	11	11	11	11	11	11	11	11	11
Police stations	1	1	1	1	1	1	1	1	1	1
Police patrol units	102	70	100	98	98	105	105	105	105	104
Public works										
Streets:										
Miles of streets (1)	675	675	675	676	684	684	691	691	692	692
Water:										
Miles of water mains	994	1,007	1,008	1,008	1,008	1,009	1,009	914	887	887
Fire hydrants	7,301	7,412	7,516	7,536	7,566	7,584	7,596	7,748	7,845	7,859
Storage capacity (thousands of gallons)	9,400,000	9,400,000	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000	12,300,000	18,300,000	18,300,000
Wastewater:										
Miles of sanitary sewers	656.7	642	642	642	642	639	639	639	639	655
Miles of storm sewers	133.6	183	183	183	183	183	183	183	183	170
Number of treatment plants (2)	2	2	2	2	2	2	2	2	2	2
Treatment capacity (millions of gallons)(5)	70	72	72	72	72	70	70	70	70	19
Community services:										
City parks (3)	76	76	76	76	76	76	76	76	76	76
City parks acreage	1,088	1,088	1,088	1,088	1,088	1,110	1,110	1,110	1,240	1,240
Playgrounds	55	55	55	55	55	55	55	58	58	58
City trails	4	4	4	4	7	7	7	6	6	6
City trails miles	12	12	12	12	14	14	14	15	15	15
Regional park acreage	324	324	324	324	324	324	324	375	375	375
Regional park facilities:										
Golf courses (18 holes)	2	2	2	2	2	2	2	2	2	2
Golf courses (9 holes)	1	1	1	1	1	1	1	1	1	1
Clubhouse and banquet facility	8	8	8	8	8	8	8	8	8	8
Historic house (4)	4	4	4	4	4	4	4	4	3	3
Community gardens	2	2	2	2	2	2	2	2	2	1
Community centers	6	7	7	6	6	7	7	7	7	7
Senior centers	1	1	1	1	1	1	1	1	1	1
Sports centers	1	1	1	1	1	1	1	1	1	1
Performing arts centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	13	13	13	4	4	4	4	4	4	1
Tennis courts	37	37	37	37	37	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24	24	24	24	24	24
Soccer/football fields	22	22	22	22	22	29	29	29	29	29
Splash play in Existing parks	-	-	-	-	10	10	10	10	10	10

(1) Information now reported from the City's GIS system.
(2) The City has both a Primary and a Secondary treatment facility.
(3) The number of parks for fiscal years 2013, 2014, 2015 was reported incorrectly as 77. Figures have been corrected to reflect accurately.
(4) The number of historic houses was reduced by one due to the Crismon House burning down. There are no plans to rebuild.
(5) The City has a new process and permit. Previous permit was 70 MGD seasonal Oct. through May. Current permit is 19 MGD year round.
Source: City of Modesto - Various Departments

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CONTINUING DISCLOSURE SECTION

Continuing Disclosure Section

This part of the Comprehensive Annual Financial Report provides information in order to comply with the City's contractual commitment established by certain continuing disclosure undertaking of the City, entered into in accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule") for the City's bond obligations listed below. In contrast to the financial section, the continuing disclosure section information is not subject to independent audit.

1. Wastewater Revenue Bonds, Series 2006 A
2. Wastewater Revenue Refunding Bonds, Series 2015
3. Water Revenue Refinancing Certificates of Participation, 2008 Series A
4. Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G
5. Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
YEAR ENDED JUNE 30, 2017

Wastewater Revenue Bonds, Series 2006 A, and
Wastewater Revenue Refunding Bonds, Series 2015

Connection charge information: The Sewer Enterprise imposes connection fees on an on-time basis to new users of the sewer system and to users who significantly expand their usage. The fees have three components:

Capacity charge:	$2,643 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.
Sub-trunk sewer charge:	$645 per acre
Connection (lateral) charge:	$33 per linear foot of lot frontage adjacent to the sewer line.

Customer Base by Type of Account

Category	Number of Accounts	% of Total Accounts	% of Sewer Fee Operating Revenue
Residential	57,947	94.61%	49.56%
Commercial	3,259	5.32%	10.45%
Industrial	42	0.07%	29.80%
Total	61,248	100.00%	89.82%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/17

User	Sewer Fee Revenue	% of Sewer Fee Operating Revenue
1) Stanislaus Food Products	$ 1,409,172	3.17%
2) E & J Gallo Winery	$ 1,358,209	3.06%
3) Foster Farms	$ 1,152,448	2.59%
4) Frito Lay, Inc.	$ 1,088,277	2.45%
5) Del Monte Foods	$ 1,062,966	2.39%
6) City of Ceres	$ 1,020,714	2.30%
7) Seneca	$ 452,282	1.02%
8) Sunopta	$ 430,868	0.97%
9) Nestle Food Company	$ 395,568	0.89%
10) Rizo Lopez Foods	$ 334,130	0.75%
Total (Top Ten Customers)	$ 8,704,634	19.60%
Total (All Customers)	$ 44,410,464	

The average single-family residence monthly sewer charge is: $31.92

Commercial Group	Charge Per 1,000 Gallons	Fixed Charge
Group 1 (no food, just toilets or working facilities)	$2.76	$4.40
Group 2 (commercial laundromats, service stations, hotels without food)	$3.78	$4.40
Group 3 (industrial laundromats, hotels with food)	$4.80	$4.40
Group 4 (restaurants, bakeries, auto steam, markets)	$6.03	$4.40

Industrial users pay a minimum account charge of $4.40 with additional charges of: $2,604.00 per million gallons of flow, $213.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and $441.00 per 1,000 pounds of Total Suspended Solids (TSS).
Industrial users on the Cannery Segregation line pay a minimum account charge of $4.40 with additional charges of: $2,680.00 pe $1.39 per 1,000 pounds of excess biochemical oxygen demand (BOD), and $4.04 per 1,000 pounds of Total Suspended Solids (TSS) while in production during the months of July, August and September.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

Updates of other required disclosures may be found elsewhere in this report, as follows:

Statement of Revenues, Expenses and Changes in Fund Net Position	Page 27	
Principal Amount of Bonds and Other Parity Debt	Page 51-52	(Note III-C)
Historical Debt Service Coverage	Page 137	

(continued)

CITY OF MODESTO
WASTEWATER COMPARISON INFORMATION
YEAR ENDED JUNE 30, 2017

Residential, commercial and industrial rates have increased according to the following approved schedule.

CITY OF MODESTO
WASTEWATER SYSTEM
Ten Year History of Rate Increases

Fiscal Year	Percent Increase
2007-08	30.00
2008-09	30.00
2009-10	0.00
2010-11	3.00
2011-12	8.00
2012-13	6.00
2013-14	6.00
2014-15	2.00
2015-16	3.00
2016-17	6.00

Comparative Monthly Wastewater Service Charges.

The City's residential charges as of July 1, 2016 are set forth below with a comparison to other Central Valley and Northern California cities.

CITY OF MODESTO
WASTEWATER SYSTEM
Monthly Sewer Charge Comparison
Residential Service
As of July 1, 2016

City	Monthly Residential Charge
Fresno	$25.75
Lodi	$25.63
Modesto	**$29.36**
Stockton	$38.36
Tracy	$34.00
Turlock	$31.20

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2017

CITY OF MODESTO
WASTEWATER SYSTEM
Wastewater Connection Fees Comparison
As of July 1, 2016

City	Connection Fee
Fresno (1)	$3,438.50
Lodi (2)	$2,932.00
Modesto	**$2,643.00**
Stockton	$635.00
Tracy	$6,727.00
Turlock	$2,636.66

(1) Connection fees are based on the size of the lot & location.
(2) Connection fees are based on the size of the water meter.

Water Revenue Refinancing Certificates of Participation, 2008 Series A
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G(1)
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F(1)

Reserve Account Requirement as of 6/30/17	$ 4,011,410
Surety Policy Value:	$ (2,082,513)
Balance in Parity Reserve Account as of 6/30/17	$ (1,942,080)
Shortfall/(Excess) Reserve Coverage:	$ (13,183)

Balance in Rate Stabilization Account as of 6/30/17:

Ten Largest Customers of Water Utility System, Year Ended 6/30/17

Customer	Business Type	Usage (ccf) (2)	% of Total Usage	Water Sales Revenue ($)	% of Total Water Sales Revenue
1) Modesto City Schools	Education	347,228	1.70%	$796,932	1.68%
2) City of Modesto - Stores	Local Government	274,205	1.34%	$796,192	1.67%
3) Stanislaus Food Products	Cannery	385,849	1.88%	$650,097	1.37%
4) Foster Farms	Dairy Processor	322,837	1.58%	$567,002	1.19%
5) Seneca Foods	Cannery	257,370	1.26%	$419,120	0.88%
6) Modesto Irrigation District	Power Company	191,324	0.93%	$378,262	0.80%
7) Stanislaus Housing Authority	Housing Authority	122,298	0.60%	$325,320	0.68%
8) Sunpota	Cannery	171,687	0.84%	$308,870	0.65%
9) Yosmite Community College	Education	99,435	0.49%	$237,710	0.50%
10) E & J Gallo	Processor	109,387	0.53%	$233,701	0.49%
Total Top Ten		2,281,620	11.14%	$4,713,206	9.91%

Total Flat/Metered Revenues (Water Sales) $47,562,579

(1) Grover Landscaping maintains City parks
(2) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/2017

Residential - flat rates	$ 6,767,446
Commercial, industrial and municipal - metered rates	$ 51,960,729
Total Water Sales	$ 58,728,175

The average monthly flat rate service charge for residential customers is: $ 54.72

Current Water Rates as of 07/01/2015- Commercial Accounts

Meter Size	
3/4"	$ 20.79
1"	$ 29.30
1 1/2"	$ 50.58
2"	$ 76.11
3"	$ 156.98
4"	$ 276.14
6"	$ 561.28
8"	$ 1,029.42
10"	$ 1,625.23
12"	$ 2,135.93

In addition to these minimum charges, commercial accounts are charged $1.79 per 100 cubic feet of water used.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

(1) Water Fund parity debt obligations, issued by the Modesto Irrigation District Financing Authority, on behalf of the City, and pursuant to the 1992 Treatment and Delivery Agreement between the District and the City.
On August 14, 2013 Modesto Irrigation District Financing Authority refunded the 1998 D Bond, with the 2013 G Bond.
As of 6/30/2017, the balance of the 2013 G Bond was $30,870,000 and the balance of the 2007 F Bond was $93,190,000.

(continued)

CITY OF MODESTO
CITY WATER- HISTORICAL DEBT SERVICE COVERAGE
CONTINUING DISCLOSURE REQUIREMENTS
LAST TEN FISCAL YEARS

CITY WATER UTILITY SYSTEM
Historical Debt Service Coverage

	2008	2009	2010	2011	2012	2013 (1)	2014	2015 (11)	2016 (12)	2017
Charges for services	$ 52,927,134	$ 52,990,138	$ 51,572,801	$ 51,876,505	$ 53,453,708	$ 56,906,488	$ 56,940,812	$ 54,779,417	$ 51,489,077	$ 63,253,114
Connection charges	1,943,456	1,113,082	647,579	452,021	516,839	295,632	357,432	1,024,626	935,987	1,435,654
Refunds, damages & recoveries	232,570	29,033	428,083	460,766	166,522	260,802	215,271	20,988	511,063	57,533
Interest and rental income	1,984,517	2,055,531	1,006,611	588,917	670,046	174,224	235,246	353,305	535,823	574,899
Draw from (deposit to) rate stabilization fund	-	-	-	-	-	-	-	-	-	-
Service credits[2]	604,082	501,671	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999	3,033,487	3,026,911	3,304,911
Miscellaneous	13,190	32,586	25,782	58,083	118,203	150,949	154,700	365,808	2,979,500	231,134
Total gross operating revenues	57,704,949	56,722,041	55,851,223	55,999,278	57,891,783	60,990,046	60,582,460	59,577,631	59,478,361	68,857,245
Operating expenses [3]	23,664,217	28,359,392	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298	33,773,198	38,722,320	35,508,887
Operating transfers [4][5]	65,000	482,503	765,000	776,000	1,257,406	838,421	765,000	765,000	765,954	765,000
CIP expenses moved to operating [6]	2,156,833	3,054,407	1,127,185	-	-	-	-	-	-	-
Total operating expenses [7]	25,886,050	31,896,302	32,111,187	27,414,348	32,013,228	29,368,975	37,363,298	34,538,198	39,488,274	36,273,887
Net operating revenues	31,818,899	$ 24,825,739	$ 23,740,036	$ 28,584,930	$ 25,878,555	$ 31,621,071	$ 23,219,162	$ 25,039,433	$ 19,990,087	$ 32,583,358
1997 Refunding Certificate of Participation[8]	1,791,930	1,792,258	1,794,688	1,797,013	-	-	-	-	-	-
2006 Revenue Certificates of Participation	1,982,256	-	-	-	-	-	-	-	-	-
2008 Revenue Certificates of Participation	-	2,262,117	2,145,966	2,271,034	2,684,462	2,632,225	2,648,783	2,531,179	2,313,857	2,468,593
MID Treatment & Delivery Agreement[9]	6,681,894	6,672,406	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208	9,930,040	10,203,352	10,202,108
CDWR Loan	264,719	263,079	264,719	264,719	255,942	264,719	264,719	262,692	131,322	-
ARRA Grant		-	-	-	5,137	36,289	36,103	36,095	36,089	36,084
Total debt service	$ 10,720,799	$ 10,989,860	$ 11,661,291	$ 15,126,807	$ 13,834,331	$ 13,822,993	$ 11,834,813	$ 12,760,006	$ 12,684,620	$ 12,706,785
Debt service coverage (14)	2.97	2.26	2.04	1.89	1.87	2.50	1.96	1.96	1.58	2.56

(1) In fiscal year 2012-13, the amount reported for Charges for Services was incorrectly reported in the amount of $59,906,488. The correct amount is $56,906,488 which is reflected in the table above.
(2) Service Credits are reimbursements from other City funds of costs associated with employee time worked on other projects.
In fiscal year 2009-10 Cashiering, Utilities, and Collections division was moved into the Water Fund. This caused a structural change and in return an increase in service credits.
(3) Beginning in fiscal year 2008-09 total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration. Reduced fiscal year 2016 Operating Expenses as the 131,322 CDWR Loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the debt service section.
(4) Operating transfers in fiscal year 2008-09 increased due to an administrative oversight and funds were returned to the correct fund.
(5) Includes operating transfers for building rental fee of $65,000 annually and commencing in fiscal year 2009-10 $700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In fiscal year 2011-12 $668,610 a one time transfer for information technology internal service funds.
(6) In fiscal year 2009-10, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. This prior period adjustment has been reflected in this table in the years costs were incurred.
(7) Total operating expenses excludes depreciation and amortization, as well as the debt service component under the Treatment and Delivery Agreement. Fiscal year 2016 Total operating expense reduced from 39,619,604 to 39,488,274 since the Operating expenses was adjusted (see note 3)
(8) 1997 COPS were prepaid in full in fiscal year 2010-11
(9) Increased fiscal year 2015 2008 Revenue Certificates of Participation from 2,501,891 to 2,531,179 to account for actual expenditure instead of the internal transfer.
(10) Debt service payment increased by $4.1 million in fiscal year 2010-11 due to the expiration of capitalized interest. Fiscal year 2015 MID Treatment & Delivery Agreement increased from 9,905,923 to 9,930,040 to account for actual expenditure.
(11) Reduced fiscal year 2014-15 Operating expenses from 40,349,338 to 33,773,198.
(12) The sale of the Waterford-Hickman Water System for $2.6 million had a significant impact to the Water Fund debt service calculation. Without the sale of this system Water Fund debt service coverage would have been 1.35. Reduced fiscal year 2015-16 Operating Expenses as the 131,322 Del Estate Water Company loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the Debt service section.
(13) Del Estate Water Company (CDWR) loan payment for fiscal year 2014-15 was reduced from 264,719 to 262,692 and fiscal year 2015-16 reduced from 264,719 to 131,322. Loan repayment was completed in fiscal year 2015-16.
(14) Changed fiscal year 2014-15 ARRA Grant from 36,290 to 36,095 and changed fiscal year 2015-16 ARRA Grant from 36,290 to 36,089.
(15) Fiscal year 2015-16 Debt service coverage increased from 1.55 to 1.57 and fiscal year 2014-15 Debt service coverage increased from 1.45 to 1.96 after above stated changes were made.
(16) The financial figures reported only reflect net operating revenues in the Water Operating Fund.

Source: City of Modesto

CITY OF MODESTO
CITY WATER UTILITY SYSTEM
PROJECTED OPERATING RESULTS [1]
CONTINUING DISCLOSURE REQUIREMENTS

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2018-22. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary.

	Fiscal Year Projected 2018	Fiscal Year Projected 2019	Fiscal Year Projected 2020	Fiscal Year Projected 2021 (5)	Fiscal Year Projected 2022
Charges for services[2]	$ 66,000,000	$ 71,940,000	$ 78,415,000	$ 85,472,000	$ 85,472,000
Connection charges	346,000	331,000	331,000	331,000	331,000
Refunds, damages & recoveries	189,000	192,000	196,000	200,000	200,000
Interest and rental income	174,000	174,000	175,000	176,000	176,000
Draw from (deposit to) rate stabilization fund	-	-	-	-	-
Service credits	2,753,000	2,781,000	2,808,000	2,836,000	2,836,000
Miscellaneous	27,000	27,000	28,000	28,000	28,000
GF (parks loan) P/I	54,000	54,000	54,000	54,000	54,000
Total gross operating revenues	$69,543,000	$75,499,000	$82,007,000	$89,097,000	$89,097,000
Operating expenses[3]	41,756,000	42,542,000	43,369,000	44,213,000	45,097,260
Operating transfers	765,000	765,000	765,000	765,000	765,000
Total operating expenses[4]	$42,521,000	$43,307,000	$44,134,000	$44,978,000	$45,862,260
Net operating revenues	27,022,000	32,192,000	37,873,000	44,119,000	43,234,740
2008 Revenue Certificates of Participation	2,492,000	2,504,000	2,486,000	2,466,000	2,466,000
MID Treatment & Delivery Agreement	10,088,000	10,081,000	10,082,000	10,080,000	10,080,000
CDWR Loan	-	-	-	-	
ARRA Grant	36,000	36,000	36,000	36,000	36,000
New Future Debt	-	2,468,000	2,468,000	2,468,000	2,468,000
Total debt service	12,616,000	15,089,000	15,072,000	15,050,000	15,050,000
Debt service coverage	2.14	2.13	2.51	2.93	2.87

* Please note that fiscal year 2018 thru fiscal year 2021 projection is derived from the May 2016 Water Rate and Fee Study. Fiscal year 2011-22 has been kept flat until another Water Rate and Fee Study is completed.

(2) Revenues do NOT include a Consumer Price Index (CPI) increase. There were approved water rate increases as follows: fiscal year 2016-17 at 25.04%, fiscal year 2017-18 at 11.08%, fiscal year 2018-19 at 9.00%, fiscal year 2019-20 at 9.00%, and

(3) Operating expenses have assumed an inflationary rate of 2% in 2018-22 thru fiscal year 2021-22.

(4) Total operating expenses exclude depreciation and amortization, as well as the debt service component under the MID Treatment & Delivery Agreement.

(5) Increase in Debt Service Coverage from fiscal year 2017-18 to fiscal year 2020-21 is due to larger increase in water rates compared to operating expenses. See note (2) and note (3). The increase in water rates is intended to fund pay-as-you-go CIPs not reflected on this table.

Source: City of Modesto.

CITY OF MODESTO
CITY WATER UTILITY SYSTEM STATISTICS
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2017

CITY WATER UTILITY SYSTEM STATISTICS
(Calendar Years 2008 through 2017)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Service Accounts	76,852.0	76,899.0	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0	74,665.0	72,825.0	73,135.0
Total Water Production (MG)(1)	25,182.0	23,824.0	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0	17,692.0	15,155.0	15,319.5
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	175.2	175.2	175.2	175.2	175.2	175.2
Peak Daily Distribution (MGD)	116.5	113.0	110.0	98.5	97.2	99.8	95.3	84.6	74.7	84.3
Average Daily Distribution (MGD)	68.8	65.3	59.5	57.2	59.5	59.2	56.5	48.5	41.5	42.0

(1) "MG" means million gallons.
(2) "MGD" means million gallons daily.

CITY WATER UTILITY SYSTEM
Service Area Total Production (Billion Gallons)
(Fiscal Years 2008 through 2017)

Fiscal Year Ended	Well Water	Surface Water	Total
2008	14.74	10.44	25.18
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76
2013	10.62	10.99	21.61
2014	10.72	9.91	20.63
2015	10.63	5.85	16.48
2016	9.22	5.02	14.24
2017	8.63	5.86	14.49

CITY WATER UTILITY SYSTEM
Average Monthly Water Rates Comparison
Flat Rate (1" Service)
As of July 1, 2016

City	Flat Rate Typical Home
Fresno (1)	$ 13.80
Lodi (2)	$ 26.92
Modesto	**$ 54.72**
Stockton (1)	$ 31.00
Tracy (2)	$ 20.40
Turlock (1)	$ 21.20

(1) Water is metered. Charge varies per meter size.
(2) Water is both metered and flat rate. Charge varies per meter and dwelling size.

The following table sets forth connection fees for all users except multi-family units by meter size for year 2016-2017:

CITY WATER UTILITY SYSTEM
Connection Fees Comparison
Except Multiple Family Units
(Fiscal Year 2016-2017)

Meter Size	Connection Fees
5/8" meter**	$2,202
1" meter	$3,671
1-1/2" meter	$7,341
2" meter	$11,746
3" meter	$25,695
4" meter	$46,250
6" meter	$95,437
8" meter	$176,191
10" meter	$278,970
12" meter	$367,065

**NOTE- Single-family residences qualify for the 5/8" connection fee only under the following conditions:
Single story, single-family residences on a lot of 4,000 square feet or less.
Two-story single family residence on a lot of 4,000 square feet or less, provided the request for such a service accompanied by a report from a licensed professional engineer that certifies that the 5/8" service is adequate to meet the needs of the proposed dwelling.
A 5/8" "service" shall not be allowed for a single-family dwellings of greater than 2 stories on lots less than 4,000 square feet.

CITY WATER UTILITY SYSTEM
Sale of Water
(Year Ended June 30, 2017)*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues ($000)										
Residential (Flat Rates)	$31,495	$30,585,450	$21,256,928	$16,888,754	$14,464,689	$12,955,005	$10,723,594	$9,037,477	$7,320,096	$6,767,446
Commercial, Industrial and Municipal (Metered)	17,890	20,445,393	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862	43,118,855	40,242,493	51,960,729
Total Water Sales	$49,385	$51,030,843	$50,015,340	$50,079,180	$51,627,550	$55,407,867	$54,817,456	$52,156,332	$47,562,589	$58,728,175

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2016-17.

CITY WATER UTILITY SYSTEM
Monthly Single Family Residential Flat Water Rates (1)

Lot Size	Effective July 1,2007	Effective July 1, 2008	Effective July 1, 2009	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016
0-5,000 sq. ft. lot	$35.45	$37.23	$37.23	$38.01	$38.69	$39.89	$40.81	$40.81	$40.81	$47.38
5,001-7,000 sq. ft. lot	40.30	42.31	42.31	43.20	43.98	45.34	46.38	46.38	46.38	54.72
7,001-11,000 sq. ft. lot	47.82	50.21	50.21	51.26	52.18	53.80	55.04	55.04	55.04	69.22
11,001-17,000 sq. ft. lot	50.76	53.30	53.30	54.42	55.40	57.12	58.43	58.43	58.43	90.88
over 17,000 sq. ft. lot	59.68	62.66	62.66	63.98	65.13	67.15	68.69	68.69	68.69	101.80

(1) Single family residential properties with water meters that are read for billing purposes, are charged the meter water rate.

NOTE: Additional financial information available at www.modestogov.com

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2016-17.

CITY WATER UTILITY SYSTEM
Water Rates and Charges
Commercial Accounts

	Effective July 1, 2008	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016
Volume-based Rate ($/hcf)	$1.28	$1.28	$1.28	$1.33	$1.33	$1.37	$1.40	$1.40	$1.40	$1.79
Fixed Monthly Meter Charge (in addition to volume-based charges)										
5/8"-3/4" meter	$13.71	$13.71	$13.71	$14.00	$14.25	$14.69	$15.03	$15.03	$15.03	$20.79
1" meter	19.45	19.45	19.45	19.86	20.22	20.85	21.33	21.33	21.33	29.30
1-1/2" meter	33.66	33.66	33.66	34.37	34.99	36.07	36.90	36.90	36.90	50.58
2" meter	50.79	50.79	50.79	51.86	52.79	54.43	55.68	55.68	55.68	76.11
3" meter	96.51	96.51	96.51	98.54	100.31	103.42	105.80	105.80	105.80	156.98
4" meter	147.88	147.88	147.88	150.99	153.71	158.48	162.13	162.13	162.13	276.14
6" meter	290.51	290.51	290.51	296.61	301.95	311.31	318.47	318.47	318.47	561.28
8" meter	461.75	461.75	461.75	471.45	479.94	494.82	506.20	506.20	506.20	1,029.42
10" meter	661.58	661.58	661.58	675.47	687.63	708.95	725.26	725.26	725.26	1,625.23
12" meter	1,232.31	1,232.31	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92	1,350.92	1,350.92	2,135.93

Note: Additional financial information is available at www.modestogov.com

CITY OF MODESTO
BOND RATINGS
FISCAL YEAR ENDED JUNE 30, 2017

Bonds	Moody's Rating	Standard & Poor's Rating	Fitch Rating
1993 Golf Certificates of Participation		AA-	
Wastewater Revenue Bonds, Series 2006A	A2	AA	AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa3	AA+/A-1	

Sources: www.moodys.com
www.standardandpoors.com
www.Fitchratings.com

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. Reference is directed to the Indenture for the complete text thereof. Copies of the Indenture are available from the City Clerk/Auditor of the City of Modesto.

Definitions

"**Accreted Value**" means, with respect to any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified therein.

"**Annual Debt Service**" means, for any Fiscal Year, the aggregate amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

"**Average Annual Debt Service**" means, as of any date of calculation, an amount equal to (i) the Annual Debt Service remaining to be paid on all Bonds and Parity Debt on the date of calculation, divided by (ii) the number of Fiscal Years (or partial years) commencing with the Fiscal Year of the date of calculation to and including the Fiscal Year which includes the first date on which none of such Bonds or Parity Debt remains Outstanding. Such interest and principal will be calculated on the assumption that no Bonds or Parity Debt at the date of calculation will cease to be Outstanding except by reason of the payment when due of each principal installment (including mandatory sinking account payments).

"**Balloon Indebtedness**" means any Series of Bonds or Parity Debt 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Bonds or Parity Debt were issued to be amortized by payment or redemption prior to such date.

"**Bond Obligation**" means, as of any given date of calculation, (1) with respect to any Current Interest Indebtedness, the principal amount thereof, and (2) with respect to any Capital Appreciation Indebtedness, the Accreted Value thereof.

"**Bonds**" means the City of Modesto, California Wastewater Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

"**Business Day**" means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed.

"**Capital Appreciation Indebtedness**" means Bonds and Parity Debt on which interest is compounded and paid less frequently than annually.

"**Certificate,**" "**Statement,**" "**Request,**" "**Requisition**" or "**Order**" of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its City Manager, Finance Director or any other person authorized by the City Manager or Finance Director to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, certificates and opinions will include the statements provided for in the Indenture.

"**City**" means the City of Modesto, California.

"**City Council**" means the City Council of the City or any other legislative body of the City hereafter provided for pursuant to law.

"**Code**" means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

"**Continuing Disclosure Agreement**" means any Continuing Disclosure Agreement executed and delivered by the City relating to any Series of Bonds.

"**Corporate Trust Office**" or "**corporate trust office**" means the corporate trust office of the Trustee at One California Street, Suite 2550, San Francisco, California 94111, Attention: Corporate Trust Services, or such other or additional offices as may be designated by the Trustee.

"**Current Interest Indebtedness**" means Bonds and Parity Debt on which interest is paid at least annually.

"**Debt Service**" means, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts:

(a) The Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period;

(b) The minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding;

provided, that for the purposes of determining compliance with the requirements for issuance of additional Bonds or Parity Debt, the rate covenant contained in the Indenture and the amount of the Reserve Fund Requirement, the following provisions apply:

(i) Generally. Except as otherwise provided in subparagraph (ii) below with respect to Variable Interest Rate Indebtedness, in subparagraph (iii) below with respect to Bonds or Parity Debt with respect to which a Public Finance Contract is in force, and in subparagraph (iv) below with respect to Balloon Indebtedness, interest on any Bond or Parity Debt will be calculated based on the actual amount of interest that is payable under such Bond or Parity Debt;

(ii) Interest on Variable Interest Rate Indebtedness. Interest deemed to be payable on any Variable Interest Rate Indebtedness for periods when the actual interest rate can be determined will be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined will be calculated on the assumption that the interest rate on such Variable Interest Rate Indebtedness would be equal to (a) the average rate that accrued on such Variable Interest Rate Indebtedness over the preceding twelve (12) months, or (b) if the Variable Interest Rate Indebtedness has not been accruing interest at a variable rate for twelve (12) months, the average interest rate that accrued on any outstanding Variable Interest Rate Indebtedness for which interest is computed on substantially the same basis during the preceding twelve (12) month period, or (c) if no such comparable Variable Interest Rate Indebtedness was outstanding during the twelve (12) months preceding the date of calculation, then (x) if the interest on such Variable Interest Rate Indebtedness is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or, if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if interest on such Variable Interest Rate Indebtedness is not excluded from gross income for purposes of Federal income taxation, 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(iii) Interest on Bonds or Parity Debt with respect to which a Public Finance Contract is in force. Interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be based on the net economic effect on the City expected to be produced by the terms of such Bonds or Parity Debt and such Public Finance Contract, including

but not limited to the effects that (a) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a Variable Interest Rate instead will be treated as an obligation bearing interest at a fixed interest rate, and (b) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a fixed interest rate instead will be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds or Parity Debt plus the Public Finance Contract Payments minus the Public Finance Contract Receipts, and for the purpose of calculating as nearly as practicable the Public Finance Contract Receipts and the Public Finance Contract Payments under such Bonds or Parity Debt, the following assumptions will be made:

(1) City Obligated to Pay Net Variable Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net variable interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest rate on such Bonds or Parity Debt for future periods when the actual interest rate cannot yet be determined will be assumed (but only during the period the Public Finance Contract is in effect) to be equal to the sum of (x) the fixed rate or rates stated in such Bonds or Parity Debt, minus (y) the fixed rate paid by the Qualified Counterparty to the City, plus (z) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Public Finance Contract (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with subparagraph (ii) above; and

(2) City Obligated to Pay Net Fixed Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net fixed interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest on such Bonds or Parity Debt will be included in the calculation of Debt Service (but only during the period the Public Finance Contract is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Public Finance Contract;

(iv) Interest on Balloon Indebtedness. If any outstanding Bonds or Parity Debt constitute Balloon Indebtedness (and such Bonds or Parity Debt do not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below) or if Bonds or Parity Debt proposed to be incurred would constitute Balloon Indebtedness (and such Bonds or Parity Debt would not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below), then such Balloon Indebtedness

will be treated as if the principal amount of such Bonds or Parity Debt were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of thirty (30) years; provided, however, that the full principal amount of such Balloon Indebtedness will be included in making such calculation if such principal amount is due within ninety (90) days of the date such calculation is being made); and, if interest accrues under such Balloon Indebtedness at other than a fixed rate, the interest rate used for such computation will be (x) if the interest on such Bonds or Parity Debt is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Bonds or Parity Debt on the date incurred, or if there are no such United States Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if the interest on such Bonds or Parity Debt is not excluded from gross income for purposes of Federal income taxation, the rate equal to 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Balloon Indebtedness, or, if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(v) Exclusion of Certain Short-Term Indebtedness. If any outstanding Bonds or Parity Debt constitute Short Term Indebtedness or if the Bonds or Parity Debt proposed to be issued would constitute Short Term Indebtedness, and such Short Term Indebtedness are or will be payable only out of Net Revenues of the Fiscal Year in which such Short Term Indebtedness are incurred, then such Short Term Indebtedness will be disregarded and not included in calculating Debt Service;

(vi) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with a trustee for such Bonds or Parity Debt, then the interest payable from such amounts with respect to such Bonds or Parity Debt will be disregarded and not included in calculating Debt Service.

"**Defeasance Securities**" means any of the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i) held by a bank or trust company as custodian, under which the owner thereof is the real party in interest and has the right to

proceed directly and individually against the obligor and the underlying bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America are not available to any person claiming through the custodian or to whom the custodian may be obligated; or

(iii) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (iii) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate, and (d) which have been rated "AAA" by Standard & Poor's and "Aaa" by Moody's or which are eligible to be rated "AAA" by Standard & Poor's under the then existing defeasance criteria of Standard & Poor's;

"**Enterprise**" means any and all facilities of the City for the disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage and any necessary lands, rights of way and other real or personal property useful in connection therewith. The term "Enterprise" does not include, however, facilities relating to the production, distribution and use of methane gas.

"**Event of Default**" means any of the events specified as such in the Indenture as described under the caption "Events of Default" below.

"**Fiscal Year**" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City which designation will be provided to the Trustee in a Certificate of the City.

"**Gross Revenues**" means all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, and (c) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise

Fund; but excluding (x) the proceeds of any ad valorem property taxes received by the City to pay debt service on any outstanding obligations of the City, (y) any contributed capital (other than connection fees), and (z) any moneys received by the City as a result of litigation arising out of perchloroethylene (PCE) contamination that are to be expended on capital costs of the Enterprise.

"**Indenture**" means the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, as originally executed and as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

"**Independent Accountant**" means any accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial interest, direct or indirect, with the City; and

(c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

"**Interest Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

"**Investment Securities**" means the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corporation;

(iv) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that at the time of their purchase such obligations are rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(v) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i), (ii) or (iii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i), (ii) or (iii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (v) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (v), as appropriate, and (d) which have been rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vi) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than three (3) years, rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee), provided that such certificates of deposit will be purchased directly from such a bank, trust company or national banking association and will be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (iv), inclusive, which will have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and will be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured will furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee will be entitled to rely on each such undertaking;

(viii) taxable commercial paper or tax-exempt commercial paper, rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(ix) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation provided that the variable rate obligations themselves are rated in their respective highest Rating Categories for its short-term rating, if any, and not lower than their respective ratings on the Bonds for its long-term rating, if any, by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds), and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(x) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars ($100,000,000) and with short-term debt rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective four highest short-term rating categories or with government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), or (iii) above, which will have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and will be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured will furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee will be entitled to rely on each such undertaking;

(xi) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of the definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of the definition of Investment Securities and which money market fund is rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds); provided that as used in this clause (xi) and clause (xii) investments will be deemed to satisfy the requirements of clause (x) if they meet the requirements set forth in clause (x)

ending with the words "clauses (i), (ii), or (iii) above" and without regard to the remainder of such clause (x);

(xii) investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by Standard & Poor's and "Aa" by Moody's; provided that the terms of the investment agreement will be approved in writing by each insurer of the Bonds, if any;

(xiii) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xii) of the definition of Investment Securities and which companies are rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) or have an investment advisor registered with the Securities and Exchange Commission with not less than 5 years experience investing in such securities and obligations and with assets under management in excess of $500,000,000;

(xiv) the California Asset Management Program (CAMP);

(xv) forward purchase and sale agreements for underlying securities otherwise authorized under this definition of "Investment Securities" with providers acceptable to each insurer of the Bonds, if any; and

(xvi) any other investment approved by the City Council.

"**Maximum Annual Debt Service**" means the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year using the principles and assumptions set forth under the definition of Debt Service.

"**Moody's**" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term "Moody's" will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"**Net Revenues**" means, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period.

"**Operating Expenses**" means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar

costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) interest on the Bonds and any Parity Debt.

"**Opinion of Bond Counsel**" means a written opinion of a law firm of national standing in the field of public finance selected by the City.

"**Outstanding,**" when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City will have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) for which money has been set aside for the payment of the interest, principal or Redemption Price due as provided in the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

"**Owner**" or "**Bondholder**" or "**Bondowner,**" whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

"**Parity Debt**" means any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

"**Parity Reserve Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

"**Principal Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

"**Public Finance Contract**" means a written agreement for the purpose of managing or reducing the City's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the issuance of Bonds or Parity Debt, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

"**Public Finance Contract Payments**" means the amounts periodically required to be paid by the City to all Qualified Counterparties under all Public Finance Contracts.

"**Public Finance Contract Receipts**" means the amounts periodically required to be paid by all Qualified Counterparties to the City under all Public Finance Contracts.

"**Qualified Counterparty**" means a party (other than the City or a party related to the City) who is the other party to a Public Finance Contract and (1) (A) who is rated at least "A2" from Moody's and "A" from Standard & Poor's, or (B) whose senior debt obligations are rated

at least "A2" from Moody's and "A" from Standard & Poor's, or guaranteed by an entity so rated, or (C) whose obligations under the Public Finance Contract are guaranteed for the entire term of the Public Finance Contract by a bond insurer or other institution which has been assigned a credit rating at least equal to "A2" from Moody's and "A" from Standard & Poor's, or (D) whose obligations under the Public Finance Contract are collateralized in such a manner as to obtain a rating at least equal to the ratings assigned by each of the Rating Agencies to the Bonds or Parity Debt to which such Public Finance Contract relates, and (2) who is otherwise qualified to act as the other party to a Public Finance Contract under all applicable laws of the State.

"**Rating Category**" means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"**Rebate Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

"**Rebate Requirement**" means the Rebate Requirement defined in the Tax Certificate.

"**Redemption Fund**" means the fund by that name established with the Trustee pursuant to the Indenture.

"**Redemption Price**" means, with respect to any Bond (or portion thereof) the Bond Obligation of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

"**Reserve Fund Requirement**" means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event will the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

"**Serial Bonds**" means Bonds, maturing in specified years, for which no mandatory sinking fund payments are provided.

"**Series,**" whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any

Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

"**Sewer Enterprise Fund**" means the existing fund by that name established and held by the City with respect to the Enterprise.

"**Short-Term Indebtedness**" means Bonds or Parity Debt having an original maturity of less than or equal to one year and which are not renewable at the option of the City for a term greater than one year beyond the date of original incurrence.

"**Standard & Poor's**" means Standard & Poor's, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"**State**" means the State of California.

"**Supplemental Indenture**" means any indenture hereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"**Tax Certificate**" means the Tax Certificate delivered by the City at the time of the issuance and delivery of any Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"**Term Bonds**" means Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"**Trustee**" means The Bank of New York Mellon Trust Company, N.A., acting as trustee under the Indenture, or its successor, as Trustee as provided in the Indenture.

"**Variable Interest Rate**" means any variable interest rate or rates to be paid under any Bonds or Parity Debt, the method of computing which variable interest rate will be as specified in the Supplemental Indenture providing for the issuance of the applicable Bonds or the instrument providing for the issuance of the Parity Debt, which Supplemental Indenture or other instrument will also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate will remain in effect, and (ii) the time or times based upon which any change in such variable interest rate will become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

"**Variable Interest Rate Indebtedness**" means, for any period of time, any Bonds or Parity Debt that bear a Variable Interest Rate during such period, except that no Bonds or Parity Debt will be treated as a Variable Interest Rate Indebtedness if the net economic effect of a Public Finance Contract with respect to any particular Bonds or Parity Debt is to produce

obligations that bear interest at a fixed interest rate, and any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be treated as a Variable Interest Rate Indebtedness if the net economic effect of the Public Finance Contract is to produce obligations that bear interest at a Variable Interest Rate.

Issuance of Bonds and Parity Debt

Issuance of Bonds. The City may by Supplemental Indenture establish one or more Series of Bonds payable from Net Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the City may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as will be determined by the City, but only, with respect to each Series of Bonds, upon compliance by the City with the provisions of the Indenture (except any Series of Bonds delivered under a Supplemental Indenture of even date with the Indenture may be issued upon compliance by the City with the requirements of the Indenture described under subparagraph (c) under "Proceedings for Issuance of Additional Series of Bonds" below and without further condition) and any additional requirements set forth in said Supplemental Indenture and subject to the following specific conditions, which are made conditions precedent to the issuance of any such additional Series of Bonds:

(a) no Event of Default shall have occurred and then be continuing;

(b) the aggregate principal amount of Bonds issued under the Indenture will not exceed any limitation imposed by law or otherwise;

(c) there will be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or no reserve fund; and

(d) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, will at least equal one hundred twenty-five percent (125%) of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt under the Indenture are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional Series of Bonds or Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such

Fiscal Year or such twelve (12) month period, were not in service, all in an amount equal to ninety-five percent (95%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by a Certificate of the City filed with the Trustee.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional Series of Bonds or Parity Debt but which, during all or any part of such Fiscal Year or such twelve (12) month period, was not in effect, in an amount equal to ninety-five percent (95%) of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such twelve (12) month period, all as shown by a Certificate of the City filed with the Trustee.

In the event additional assets or revenues are included within the definition of "Net Revenues" by a Supplemental Indenture, such additional assets or revenues will be included in the calculations in (d) above, as appropriate, as if such additional assets or revenues had always been included in Net Revenues.

Proceedings for Issuance of Additional Series of Bonds. Whenever the City determines to issue a Series of Bonds pursuant to the Indenture, the City will authorize the execution of a Supplemental Indenture specifying the principal amount, and prescribing the form or forms of Bonds of such additional Series and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions and place or places of payment of principal or Redemption Price, if any, of and interest on such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of the Indenture.

Before such additional Series of Bonds is issued and delivered, the City will file the following documents with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied):

(a) an executed copy of the Supplemental Indenture authorizing such Series;

(b) a Certificate of the City stating that no Event of Default has occurred and is then continuing;

(c) an Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the City in accordance with the Indenture; that such Series, when duly executed by the City and authenticated and delivered by the Trustee, will be valid and binding limited obligations of the City, and that upon the delivery of such Series the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted by law or otherwise;

(d) the Certificate of the City required by the Indenture; and

(e) a Certificate of the City or of an independent certified public accountant that upon delivery of such Bonds, the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted under the Indenture.

Issuance of Refunding Bonds. Notwithstanding any provisions in the Indenture, there will be no limitation on the ability of the City to issue any Bonds at any time to refund any outstanding Bonds or Parity Debt; provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds will not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded.

Limitations on the Issuance of Obligations. The City will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Net Revenues, except the following:

(a) Bonds of any Series authorized pursuant to the Indenture as described under the captions "Issuance of Bonds" and "Proceedings for Issuance of Additional Series of Bonds" above;

(b) refunding Bonds authorized pursuant to the Indenture as described under "Issuance of Refunding Bonds" above.

(c) Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Net Revenues, provided that the following conditions to the issuance of such Parity Debt are satisfied:

(1) such Parity Debt has been duly and legally authorized for any lawful purpose;

(2) no Event of Default shall have occurred and then be continuing, as evidenced in a Certificate of the City filed with the Trustee;

(3) unless such Parity Debt is for the refunding purposes specified in the Indenture, the City will have obtained and placed on file with the Trustee a Certificate of the City that (on the basis of calculations as of the date of delivery of such Parity Debt) the requirements of the Indenture with respect to additional Bonds have been met with respect to such Parity Debt;

(4) the City will have filed with the Trustee an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance with law and constitutes a valid and binding obligation of the City payable from Net Revenues on a parity with the Bonds; and

(5) the Trustee will be designated as paying agent or trustee for such Parity Debt and the City will deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Debt (but the Trustee will not be responsible for the validity or sufficiency of such proceedings or such Parity Debt); or

(d) Obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Revenues, after the prior payment of all amounts then required to be paid under the Indenture from Net Revenues, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture.

Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts

Pledge of Net Revenues. The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged under the Indenture. All Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and any Parity Debt in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. There are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Said pledge will constitute a first lien on the Net Revenues and amounts in such funds and will be valid and binding from and after delivery by the Trustee of the Bonds or Parity Debt, without any physical delivery thereof or further act.

The Net Revenues are pledged to the payment of Bonds and Parity Debt without priority or distinction of one over the other and the Net Revenues constitute a trust fund for the security and payment of the Bonds and Parity Debt; but nevertheless out of Net Revenues, certain amounts may be applied for other purposes as provided in the Indenture.

Out of Net Revenues, there will be applied as set forth in the Indenture all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any reserve fund requirements with respect thereto. All remaining Net Revenues, after making the foregoing allocation, will be available to the City for all lawful City purposes. The pledge of Net Revenues in the Indenture made will be irrevocable until all of the Bonds and all Parity Debt are no longer outstanding.

Sewer Enterprise Fund. In order to carry out and effectuate the obligation of the City contained in the Indenture to pay the Bonds, so long as any Bonds are Outstanding, the City covenants and agrees that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City will have no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City covenants and agrees to maintain the Sewer Enterprise Fund at all times so long as any Bonds will be Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited

with the Trustee, all as provided in the Indenture, will nevertheless be disbursed, allocated, and applied solely to the uses and purposes set forth in the Indenture.

All amounts in the Sewer Enterprise Fund required to pay Operating Expenses of the Enterprise will be applied for such purpose from time to time by the City. So long as any Bonds are Outstanding, the City will transfer the remaining moneys in the Sewer Enterprise Fund to the Trustee as required for deposit into the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Owners of the Bonds) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

(1) Interest Fund. The City will transfer to the Trustee and the Trustee will set aside in the Interest Fund on or before the third Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

(2) Principal Fund: Sinking Accounts. The City will transfer to the Trustee and the Trustee will set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund payments will be made without priority of any payment into any one such Sinking Account over any other such payment.

(3) Parity Reserve Fund. Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to the Indenture, the City will transfer to the Trustee and the Trustee will set aside in the Parity Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund until there is on deposit in the Parity Reserve Fund an amount equal to the Reserve Fund Requirement.

Any Net Revenues remaining in the Sewer Enterprise Fund after the transfers described above, except as otherwise provided in a Supplemental Indenture, will be held free and clear of the Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of

the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If on any principal payment date, interest payment date or mandatory sinking fund redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, are insufficient to make such payments, the Trustee will immediately notify the City, by telephone or facsimile machine, of such deficiency and direct that the City transfer the amount of such deficiency to the Trustee on such payment date. The City covenants and agrees to transfer to the Trustee from any Net Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

Application of Interest Fund. All amounts in the Interest Fund will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In addition if so directed by the City, the Trustee may deposit into the Interest Fund, Public Finance Contract Receipts of the City and may pay from the Interest Fund, Public Finance Contract Payments on behalf of the City.

Application of Principal Fund. All amounts in the Principal Fund will be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts will be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee will establish and maintain within the Principal Fund a separate sinking account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a mandatory sinking fund payment is due, the Trustee will transfer the amount of such mandatory sinking fund payment (being the principal thereof, in the case of Current Interest Bonds and the Accreted Value, in the case of Capital Appreciation Bonds from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each mandatory sinking fund payment date established for such Sinking Account, the Trustee will apply the mandatory sinking fund payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. If the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or purchased or redeemed Term Bonds of such Series and maturity at any time from the Redemption Fund and allocable to said mandatory sinking fund payment, or if the City has purchased or otherwise acquired Term Bonds and deposited such Term Bonds with the Trustee, such Term Bonds so purchased or deposited or redeemed by the Trustee or the City will be applied, to the extent of the full principal amount

thereof, to reduce said mandatory sinking fund payment. All Term Bonds so purchased or deposited as described under this caption, "Application of Principal Fund" will be cancelled and destroyed by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding will be withdrawn by the Trustee and transferred to the City to be deposited in the Sewer Enterprise Fund. All Term Bonds so purchased will be allocated first to the next succeeding mandatory sinking fund payment for such Series and maturity of Term Bonds, then as a credit against such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed from the Redemption Fund will be credited to such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City.

Application of Redemption Fund. The Trustee will establish, maintain and hold in trust a special fund designated as the "Redemption Fund" when required. All moneys deposited by the City with the Trustee for the purpose of redeeming Bonds of any Series pursuant to optional redemption or special mandatory redemption provisions applicable to such Series of Bonds will, unless otherwise directed by the City, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund will be allocated to mandatory sinking fund payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

Parity Reserve Fund. The Trustee will establish and maintain and hold in trust so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the "Parity Reserve Fund." Amounts on deposit in the Parity Reserve Fund are pledged to the payment of the Bonds and any Parity Debt to be secured by the Parity Reserve Fund and will be applied only for such purposes as permitted in the Indenture. The Trustee will deposit in the Parity Reserve Fund, upon the direction of the City, the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there will be on deposit therein a sum equal to at least the amount required to be on deposit therein as described in this paragraph. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement, notice thereof will be provided to the insurer of the Bonds, if any, and such amount will be increased to the Reserve Fund Requirement as described in this paragraph not later than twelve months thereafter. Moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) will be transferred by the Trustee to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. The Trustee will also, from

such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in the immediately succeeding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts Parity Reserve Fund") on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such letter of credit will have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit will provide by its terms that it may be drawn upon as provided in the Indenture. At least one year prior to the stated expiration of such letter of credit, the City will either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Bonds or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements described in the immediately succeeding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund." Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee will deliver the then effective letter of credit to or upon the order of the City. If the City fails to deposit a replacement letter of credit, extended letter of credit, surety bond or insurance policy with the Trustee, the City will immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Fund Requirement will be on deposit in the Parity Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Fund Requirement, as of the date following the expiration of the letter of credit, is not on deposit in the Parity Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee will draw on the letter of credit to fund the amount of any such deficiency in the Parity Reserve Fund.

The City may also provide for all or any part of the Parity Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such surety bond or insurance policy will be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers. Such surety bond or insurance policy will have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City will immediately implement the actions described in clause (i) or (iii) of the immediately preceding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund"

above or make the required deposits to the Parity Reserve Fund. Repayment of any draw under any such surety bond or insurance policy, and any expenses and accrued interest related to such draw (collectively the "Policy Costs") will commence in the first month following each such draw, and will be paid at the time specified in the first paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund" above in an amount not less than one-twelfth (1/12th) of the aggregate of the Policy Costs related to such draw. If and to the extent that cash has also been deposited in the Parity Reserve Fund, all such cash will be used (including investments purchased with such cash, which will be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under surety bond or insurance policy, and repayment of any Policy Costs will be made prior to any replenishment of any such cash amounts. If the City fails to repay any Policy Costs in accordance with the Indenture, the insurance company issuing such surety bond or insurance policy will be entitled to exercise any and all remedies available at law or under the Indenture other than (i) an acceleration of the interest on or principal of the Bonds as provided in the Indenture or (ii) any other remedy that would adversely affect Bondholders. The Trustee will ascertain the necessity for a claim upon any surety bond or insurance policy provided pursuant to the provisions of the Indenture described under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund" and provide notice to the insurance company issuing such bond or policy in accordance with the terms and conditions of such bond or insurance policy not less than two (2) Business Days prior to any interest payment date upon which such a claim should be paid.

In the event of any deficiency in the Principal Fund or Interest Fund for the payment of principal and interest payments for the Bonds pursuant to clause (A) above, the Trustee will, after first applying all cash and Investment Securities held in the Parity Reserve Fund to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due, on a pro rata basis with respect to the portion of the Parity Reserve Fund held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies), draw under each letter of credit or surety bond or insurance policy issued with respect to the Parity Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due. In the event that the Trustee has written notice from the City or any Bondholder that any payment of principal of, or interest on, a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, credited to the Parity Reserve Fund so provide, will so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Bondholder the principal of and interest so recovered. All amounts in the Parity Reserve Fund (other than amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Parity Reserve Fund) may be used and withdrawn by the Trustee, if so directed by the City, for the payment or redemption of all Bonds then Outstanding, or for the payment of the final principal and interest payments of the Bonds.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture will be invested, as directed by the City, solely in Investment Securities; provided, however, that Investment Securities (other than those described in clauses (x), (xii), (xv) or (xvi) of the definition thereof) purchased with moneys held by the Trustee in the Parity Reserve Fund will have an average weighted term to maturity not greater than five years. All Investment Securities will, as directed by the City in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the City. The Trustee may conclusively rely upon any investment direction from the City as a certification to the Trustee that such investment constitutes an Investment Security. If and to the extent the Trustee does not receive investment instructions from the City with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys will be invested in Investment Securities described in clause (xi) of the definition thereof and the Trustee will thereupon request investment instructions from the City for such moneys.

Unless otherwise provided in the Indenture or in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account, other than the Rebate Fund, will be transferred by the Trustee to the City for deposit in the Sewer Enterprise Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited in the Rebate Fund, except as otherwise provided in the Indenture. Notwithstanding anything to the contrary contained in the Indenture, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account from which such accrued interest was paid.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture will be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the City, may impose its customary charge therefor. The Trustee may sell or present for redemption, any Investment Securities so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Trustee and the City will each keep proper books of record and accounts containing complete and correct entries of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records will specify the account or fund to which each investment (or portion thereof) is to be allocated and will set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and

dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

The Trustee will also provide to the City in accordance with a Request of the City, with respect to each Investment Security such documentation as is reasonably available to the Trustee and specified by the City to the Trustee in writing and is required by the Code or other applicable law to be obtained by the City as evidence to establish that each investment had been acquired and disposed of on an established market in an arm's-length transaction at a price equal to its fair market value and with no amounts having been paid to reduce the yield on the investments, or will be United States Treasury Obligations-State and Local Government Series as set forth in the Tax Certificate.

Covenants

Pursuant to the Indenture, the City has covenanted as follows:

Punctual Payment. The City will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and will punctually pay or cause to be paid all mandatory sinking fund payments, but in each case only out of Net Revenues, as provided in the Indenture.

Operation of Enterprise in Efficient and Economical Manner. The City covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise in good repair and working order.

Waiver of Laws. The City will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the City to the extent permitted by law.

Further Assurances. The City will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Discharge of Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds, the City will pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City will also pay from the Gross Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprise or upon any part thereof or upon any of the Gross Revenues or the Net Revenues therefrom.

Against Sale, Eminent Domain. Except as provided in the Indenture, the City covenants that the property, facilities and improvements of the Enterprise will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless: (a) the City will cause to be filed with the Trustee written evidence from each Rating Agency that such sale or other disposition will not cause a reduction or withdrawal of the rating then assigned to the Bonds by each such Rating Agency; (b) such sale or other disposition will be so arranged as to provide for a continuance of payments into the Sewer Enterprise Fund sufficient in amount to permit payment therefrom of the principal of and interest on and premiums, if any, due upon the call and redemption, thereof of the Outstanding Bonds, and also to provide for such payments into the funds as are required under the terms of the Indenture and any Supplemental Indenture; and (c) the City will have filed with the Trustee an opinion of nationally- recognized bond counsel to the effect that such sale or other disposition will not adversely affect the exemption from federal income taxation of interest on the Bonds. The City further covenants that the Net Revenues or any other funds pledged or otherwise made available to secure payment of the principal of and interest on the Outstanding Bonds will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of the Indenture. The City further covenants that it will not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the principal and interest of the Bonds or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues. If any substantial part of the Enterprise is sold the payment therefor will either be used for the acquisition and/or construction of improvements and extensions of the Enterprise or will be deposited with the Trustee and will be used to redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, will either (a) be used for the acquisition and or construction of improvements and extension of the Enterprise, or (b) be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

Insurance. The City covenants that it will at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the physical Enterprise will

either (a) be used for repairing or rebuilding the damaged or destroyed Enterprise, and to the extent not so applied will be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

Any such insurance will be in the form of policies or contracts for insurance with insurers of good standing and will be payable to the City, or may in the form of self-insurance by the City. The City will establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The City will file or cause to be filed with the Trustee, annually within one hundred twenty (120) days after the close of each Fiscal Year, a Certificate of the City (a) stating that the City is then in compliance with the requirements of the Indenture described under this caption "Covenants-Insurance," and (b) stating whether during the preceding Fiscal Year any loss has been incurred with respect to the Enterprise and, it so, the amount of insurance proceeds, including the proceeds of any self-insurance fund covering such loss and specifying the reasonable and necessary costs of repair, reconstruction or replacement thereof.

Records and Accounts. The City covenants that it will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries will be made of all transactions relating to the Enterprise. Said books will, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Enterprise to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Trust Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

Rates and Charges. The City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

(a) all Operating Expenses estimated by the City to become due and payable in such Fiscal Year;

(b) the Debt Service on the Outstanding Bonds and Parity Debt becoming due and payable during such Fiscal Year;

(c) all other payments required for compliance with the Indenture and the instruments pursuant to which any Parity Debt will have been issued; and

(d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

In addition, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the amount determined pursuant to the (b) above. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce such fees and charges below those then in effect unless the Gross Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Indenture described in this caption "Covenants Rates and Charges."

No Priority for Additional Obligations. The City covenants that no additional bonds, notes or other indebtedness will be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds. Nothing in the Indenture will prohibit or impair the authority of the City to issue bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

Tax Covenants. The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the City may exclude the application of the tax covenants contained in the Indenture to such Series of Bonds. The City will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the City, or take or omit to take any action that would cause the Bonds to be arbitrage bonds within the meaning of Section 148(a) of the Code. To that end, the City will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the City is of the opinion that for purposes of the tax covenants contained in the Indenture it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the City will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the City agrees that there will be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The City specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement at the times and in the amounts determined under and as described in the Tax Certificate.

Notwithstanding any of the tax covenants contained in the Indenture, if the City will receive an Opinion of Bond Counsel to the effect that any action required by the tax covenants contained in the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the City and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture will be deemed to be modified to that extent.

Continuing Disclosure Agreement. The City will comply with and carry out all of its obligations under any Continuing Disclosure Agreement executed in connection with a Series of Bonds. Upon the failure of the City to comply with the Continuing Disclosure Agreement relating to any Series of Bonds, the Trustee (at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Owners of at least 25% in aggregate Bond Obligation of the related Series of Bonds, will, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City, to comply with its obligations under this paragraph. For purposes of the covenant described in this paragraph, "Beneficial Owner" will have the meaning prescribed thereto in the respective Continuing Disclosure Agreement relating to such Series of Bonds.

Events of Default and Remedies

Events of Default. The following events will be Events of Default under the Indenture:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) failure by the City to observe or perforin any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in (a) or (b) under this caption "Events of Default," for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee; except that, if such failure can be remedied but not within such thirty (30) day period and if the City has taken all action reasonably possible to remedy such failure within such thirty (30) day period, such failure shall not become an Event of Default for so long as the City shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee or any insurer of the Bonds;

(d) default by the City under any agreement governing any Parity Debt and the continuance of such default beyond the therein stated grace period, if any, with respect to such default;

(e) the filing by the City of a petition in voluntary bankruptcy for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or an assignment by the City for the benefit of creditors, or the admission by the City in writing to its insolvency or inability to pay debts as they mature, or the consent by the City in writing to the appointment of a trustee or receiver for itself;

(f) the entering by a court of competent jurisdiction of an order, judgment or decree declaring the City insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(g) the assumption, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction of custody or control of the City or of the Net Revenues and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Application of Net Revenues and Other Funds After Default; Acceleration. If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all Net Revenues held by it and received thereafter and the Trustee shall apply all Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

In each and every such case during the continuance of such Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any

such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the City shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Net Revenues, and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in

accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

Limitation on Bondholders' Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the City. Nothing in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective due dates therefor or upon call for redemption, as provided in the Indenture, but only out of the Net Revenues and other assets pledged in the Indenture therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the City, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the

Indenture, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

The Trustee

Appointment; Duties, Immunities and Liabilities of Trustee. The Bank of New York Trust Company, N.A. serves as successor Trustee under the Indenture and accepts the trust imposed upon it as Trustee under the Indenture and to perform all the functions and duties of the Trustee under the Indenture, subject to the terms and conditions set forth in the Indenture. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied covenants shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The City may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with the requirements of the Indenture, or will become incapable of acting, or will be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer will take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon will appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture, will signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the City or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the City will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as described under this caption "The Trustee," the City will give notice of the succession of such Trustee to the trusts under the Indenture by mail to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the City.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company or bank having the powers of a trust company having a corporate trust office in the State, having a combined capital and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture described in this paragraph, the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with the provisions of the Indenture described in this paragraph, the Trustee will resign immediately in the manner and with the effect described under this caption "The Trustee."

If, by reason of the judgment of any court, the Trustee or any successor Trustee is rendered unable to perform its duties under the Indenture, and if no successor Trustee be then appointed, all such duties and all of the rights and powers of the Trustee under the Indenture will be assumed by and vest in the Treasurer of the City in trust for the benefit of the Bondowners.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger,

conversion or consolidation to which it is a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company will be eligible under the Indenture, will be the successor to such Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond), and makes no representations as to the validity or sufficiency of the Indenture or of the Bonds or of any Investment Security, as to the sufficiency of the Net Revenues, or the priority of the lien of the Indenture thereon, or as to the financial or technical feasibility of the Enterprise and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Indenture. The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under the Indenture. The Trustee may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

The Trustee will not be liable for any error of judgment made in good faith by a responsible officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture, but the Trustee will be answerable for the negligence or misconduct of any such attorney, agent, or receiver selected by it; provided, however, that the Trustee will not be answerable for the negligence or misconduct of any attorney or certified public accountant selected by it with due care.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Indenture, including, without limitation, the provisions of the Indenture, unless such Bondholders has offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Indenture.

The Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to, any Event of Default (other than an Event of Default described under (a) or (b) under the caption "Events of Default" above) or event which would, with the giving of notice, the passage of time or both, constitute an Event of Default, unless the Trustee shall have actual knowledge of such event or shall have been notified of such event by the City or the Owners of twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Indenture (including, without limitation, the covenants of the City set forth in the Indenture relating to insurance and records and accounts), other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Indenture and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee under the Indenture.

No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

The Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

The Trustee will not be responsible for:

(1) the application or handling by the City of any Net Revenues or other moneys transferred to or pursuant to any Requisition or Request of the City in accordance with the terms and conditions of the Indenture;

(2) the application and handling by the City of any other fund or account designated to be held by the City under the Indenture;

(3) any error or omission by the City in making any computation or giving any instruction pursuant to the covenant provisions of the Indenture relating to insurance and records and accounts and may rely conclusively on any computations or instructions furnished to it by the City in connection with the requirements of the Indenture and the Tax Certificate; or

(4) the construction, operation or maintenance of the Enterprise by the City.

Whether or not therein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture described under this caption "The Trustee."

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

Amendments

Amendments Permitted with Consent. The Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding has been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding described under this under this caption "Amendments."

For any Series of Bonds for which there is a letter of credit or policy of bond insurance in place securing such Series of Bonds, the written consents of each provider of a letter of credit or a policy of bond insurance for such Series of Bonds filed with the Trustee shall be accepted in lieu of consent of the Owners of such Series of Bonds and shall be deemed to be the consent of all of the Owners of such Series of Bonds for purposes of satisfying the requirements descried in the preceding paragraph, provided that at the time such consent is given, the payment of all the principal of and interest on all Outstanding Bonds of such Series will be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which will be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of Moody's or Standard & Poor's.

No such modification or amendment will (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof exclusively, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Net Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution and delivery by the Trustee and the City of any

Supplemental Indenture under the provisions of the Indenture described under this caption "Amendments Permitted With Consent," the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

A copy of each Supplemental Indenture entered into by the City and the Trustee pursuant to the provisions described under this caption "Amendments Permitted with Consent" will be sent by the City to Moody's and Standard & Poor's.

Amendments Not Requiring Consent. The Indenture and the rights and obligations of the City, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the City;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Indebtedness or Parity Debt with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Indenture;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect the interests of the Owners of the Bonds;

(6) if the City agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(7) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture; and

(8) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Defeasance

Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount and subject to the conditions as described under "Deposit of Moneys or Securities with Trustee" to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City pays all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the City, then and in that case (but subject to any additional requirements in connection therewith as may be imposed by any insurer of the Bonds and set forth in a Supplemental Indenture), at the election of the City (evidenced by a Certificate of the City filed with the Trustee signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds have not been surrendered for payment, the Indenture and the pledge of Net Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Trustee will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount and subject to the conditions as described under "Deposit of Moneys or Securities with Trustee" to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee have been made for the giving of such notice, then (but subject to any additional requirements with respect thereto as may be imposed by any insurer of the Bonds and set forth in

a Supplemental Indenture) all liability of the City in respect of such Bond will cease, terminate and be completely discharged, provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City will remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture and the continuing duties of the Trustee under the Indenture.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held will be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that the Trustee has been irrevocably instructed (by the terms of the Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Liability of City Limited to Net Revenues

Notwithstanding anything in the Indenture or in the Bonds contained, the City will not be required to advance any moneys derived from any source other than the Net Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

The Bonds are special, limited obligations of the City. The Bonds will not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but will be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds will not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

April ___, 2018

City of Modesto
Modesto, California

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto, California, a charter city and municipal corporation existing under the laws of the State of California (the "City"), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2018A, in the aggregate principal amount of $11,340,000 (the "Series 2018A Bonds"). The Series 2018A Bonds are being issued under and pursuant to (i) Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law"), and (ii) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and The Bank of New York Mellon Trust Company, N.A., successor trustee (the "Trustee") to U.S. Bank National Association, as amended and supplemented (the "Indenture"), including as amended and supplemented by a Fourth Supplemental Indenture, dated as of April 1, 2018 (the "Fourth Supplemental Indenture"). The Series 2018A Bonds are being issued to provide funds to refund all of the City of Modesto, California, Wastewater Revenue Refunding Bonds, Series 2006A. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Indenture.

In our capacity as bond counsel, we have reviewed the Charter of the City, the Bond Law, the Indenture, certifications of the City, the Trustee and others, opinions of the City Attorney and counsel to the Trustee, the Tax Certificate executed and delivered by the City in connection with the issuance of the Series 2018A Bonds (the "Tax Certificate"), and such other documents, certificates, opinions and matters of law as we have deemed necessary to enable us to render the opinions expressed herein. We have assumed, but have not verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and have assumed the accuracy and completeness of, certificates and letters (including opinion letters), and on oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

Our services as bond counsel were limited to such examination and to rendering the opinions set forth below. Furthermore, we have assumed compliance with all covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Series 2018A Bonds to be included in gross income for federal tax purposes. With respect to the opinions expressed herein, we call attention to the fact that the enforceability of the rights and obligations under the Series 2018A Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in

appropriate cases and to the limitations on legal remedies against charter cities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Enterprise is subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion that, under existing law:

1. The Series 2018A Bonds constitute the valid and binding special limited obligations of the City.

2. The Series 2018A Bonds are payable exclusively from and are secured by a pledge of Net Revenues of the Enterprise and certain amounts pledged under the Indenture. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2018A Bonds.

3. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the City. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2018A Bonds, of the Net Revenues of the Enterprise, and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. Additional bonds and other Parity Debt of the City have been, and may from time to time hereafter be, issued under the Indenture which are payable from Net Revenues on a parity basis with the Series 2018A Bonds.

5. Assuming compliance by the City with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the Series 2018A Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Series 2018A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2018A Bonds is not includable in the gross income of the owners of the Series 2018A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2018A Bonds to be included in gross income retroactive to the date of issuance of the Series 2018A Bonds.

6. Interest on the Series 2018A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Series 2018A Bonds 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 Series 2018A Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt or accrual of interest on, the Series 2018A Bonds. Further, certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Series 2018A Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect of any change to any document pertaining to the Series 2018A Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Series 2018A Bonds for federal income tax purposes.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date

hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2018A Bonds.

This opinion is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the "Disclosure Agreement"), dated as of April ___, 2018, is executed and delivered by the City of Modesto, California (the "Issuer") and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the "Disclosure Dissemination Agent" or "DAC") for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to assist the Issuer in processing certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute "advice" within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer's behalf regarding the "issuance of municipal securities" or any "municipal financial product" as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a "Municipal Advisor" as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"Annual Filing Date" means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

"Annual Report" means an Annual Report containing Annual Financial Information described in and consistent with Section 3 of this Disclosure Agreement.

"Audited Financial Statements" means the annual financial statements of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

"Bonds" means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

"Certification" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"Disclosure Dissemination Agent" means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

"Disclosure Representative" means the Director of Finance of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"Failure to File Event" means the Issuer's failure to file an Annual Report on or before the Annual Filing Date.

"Force Majeure Event" means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent's reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

"Holder" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

"Information" means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"Notice Event" means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

"Obligated Person" means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

"Official Statement" means that Official Statement prepared by the Issuer in connection with the Bonds, as listed in Exhibit A.

"Trustee" means the institution, if any, identified as such in the document under which the Bonds were issued.

"Voluntary Event Disclosure" means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

"Voluntary Financial Disclosure" means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the 31st day of March following the end of each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2018. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 10:00 a.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, if any, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) hereof with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. "Principal and interest payment delinquencies;"

2. "Non-Payment related defaults, if material;"

3. "Unscheduled draws on debt service reserves reflecting financial difficulties;"

4. "Unscheduled draws on credit enhancements reflecting financial difficulties;"

5. "Substitution of credit or liquidity providers, or their failure to perform;"

6. "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"

7. "Modifications to rights of securities holders, if material;"

8. "Bond calls, if material;"

9. "Defeasances;"

10. "Release, substitution, or sale of property securing repayment of the securities, if material;"

11. "Rating changes;"

12. "Tender offers;"

13. "Bankruptcy, insolvency, receivership or similar event of the obligated person;"

14. "Merger, consolidation, or acquisition of the obligated person, if material;" and

15. "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as "Failure to provide annual financial information as required" when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. "amendment to continuing disclosure undertaking;"

2. "change in obligated person;"

3. "notice to investors pursuant to bond documents;"

4. "certain communications from the Internal Revenue Service;" other than those communications included in the Rule;

5. "secondary market purchases;"

6. "bid for auction rate or other securities;"

7. "capital or other financing plan;"

8. “litigation/enforcement action;”

9. “change of tender agent, remarketing agent, or other on-going party;”

10. “derivative or other similar transaction;” and

11. “other event-based disclosures;”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. “quarterly/monthly financial information;”

2. “Timing of annual disclosure (120 days);”

3. “change in fiscal year/timing of annual disclosure;”

4. “change in accounting standard;”

5. “interim/additional financial information/operating data;”

6. “budget;”

7. “investment/debt/financial policy;”

8. “information provided to rating agency, credit/liquidity provider or other third party;”

9. “consultant reports;” and

10. “other financial/operating data.”

(viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 3:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the information provided in the Official Statement with respect to the City in the most recent Fiscal Year

in Tables 3-15 and Table 18; provided that, with respect to Tables 6 and 10, the City will provide such information on an "as available" basis.

(b) Audited Financial Statements as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. In such event, Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Issuer is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other

proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Issuer shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. The Issuer will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws.

The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a

successor, the Issuer shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, if any, for the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Florida (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of page intentionally left blank.]

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Disclosure Dissemination Agent

By:_____
Name:_____
Title:_____

CITY OF MODESTO, CALIFORNIA
as Issuer

By:_____
Name:_____
Title:_____

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer	City of Modesto, California
Obligated Person(s)	City of Modesto, California
Name of Bond Issue:	Wastewater Revenue Refunding Bonds, Series 2018A
Date of Issuance:	April ___, 2018
Date of Official Statement	_____, 2018

CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Issuer: City of Modesto, California

Obligated Person: City of Modesto, California

Name(s) of Bond Issue(s): Wastewater Revenue Refunding Bonds, Series 2018A

Date(s) of Issuance: April ___, 2018

Date(s) of Disclosure Agreement: April ___, 2018

CUSIP Number: _____

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. [The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____].

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent, on behalf of the Issuer

_____

cc: Director Finance of the City of Modesto

EXHIBIT C-1
EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" may be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

_____

Number of pages attached: _____

____ Description of Notice Events (Check One):

1._____"Principal and interest payment delinquencies;"
2._____"Non-Payment related defaults, if material;"
3._____"Unscheduled draws on debt service reserves reflecting financial difficulties;"
4._____"Unscheduled draws on credit enhancements reflecting financial difficulties;"
5._____"Substitution of credit or liquidity providers, or their failure to perform;"
6._____"Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7._____"Modifications to rights of securities holders, if material;"
8._____"Bond calls, if material;"
9._____"Defeasances;"
10._____"Release, substitution, or sale of property securing repayment of the securities, if material;"
11._____"Rating changes;"
12._____"Tender offers;"
13._____"Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14._____"Merger, consolidation, or acquisition of the obligated person, if material;" and
15._____"Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

____ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of April ___, 2018 between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

_____

Number of pages attached: _____

____ Description of Voluntary Event Disclosure (Check One):

1._____"amendment to continuing disclosure undertaking;"
2._____"change in obligated person;"
3._____"notice to investors pursuant to bond documents;"
4._____"certain communications from the Internal Revenue Service;"
5._____"secondary market purchases;"
6._____"bid for auction rate or other securities;"
7._____"capital or other financing plan;"
8._____"litigation/enforcement action;"
9._____"change of tender agent, remarketing agent, or other on-going party;"
10._____"derivative or other similar transaction;" and
11._____"other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-3
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary financial disclosure" may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of April ___, 2018, between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

_____

Number of pages attached: _____

____ Description of Voluntary Financial Disclosure (Check One):

1._____"quarterly/monthly financial information;"
2._____"change in fiscal year/timing of annual disclosure;"
3._____"change in accounting standard;"
4._____"interim/additional financial information/operating data;"
5._____"budget;"
6._____"investment/debt/financial policy;"
7._____"information provided to rating agency, credit/liquidity provider or other third party;"
8._____"consultant reports;" and
9._____"other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

APPENDIX F

BOOK ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2018A Bonds. The Series 2018A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2018A Bond certificate will be issued in the aggregate principal amount of each maturity of the Series 2018A Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2018A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2018A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2018A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Series 2018A Bonds, except in the event that use of the book-entry system for the Series 2018A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2018A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2018A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018A Bonds, such as redemptions, defaults, and proposed amendments to the Series 2018A Bond documents. For example, Beneficial Owners of Series 2018A Bonds may

wish to ascertain that the nominee holding the Series 2018A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2018A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2018A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2018A Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2018A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds, and interest payments on the Series 2018A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC nor of its nominee, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2018A Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2018A Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 2018A Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The City and the Underwriter cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of, premium, if any, and interest on the Series 2018A Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 2018A Bonds or any error or delay relating thereto.

None of the City, the Underwriter or the Trustee will have any responsibility or obligation to Direct Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Direct Participant, or any Indirect Participant; (ii) the payment by DTC or any Direct Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Series 2018A Bonds; (iii) any notice that is permitted or required to be given to Holders under the Indenture; (iv) the selection by DTC, any Direct Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Series 2018A Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Direct Participants or Indirect Participants under the book-entry system.

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CITY OF MODESTO, CALIFORNIA • WASTEWATER REVENUE REFUNDING BONDS, SERIES 2018A

MODESTO
CALIFORNIA

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com

The execution and delivery of this Official Statement has been duly authorized by the City Council of the City.

CITY OF MODESTO, CALIFORNIA

By: _____

DeAnna Christensen
Finance Director

S&P Global
Ratings

One California Street,
31st Floor
San Francisco, CA
94111-5432
tel 415 371-5000
reference no.: 1518548

March 9, 2018

City of Modesto
1010 10th Street
Modesto, CA 95354
Attention: Ms. DeAnna Christensen, Finance Director

Re: ***US$12,650,000 Modesto, California, Wastewater Refunding Revenue Bonds, Series 2018A, dated: April 19, 2018, due: November 01, 2036***

Dear Ms. Christensen:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

This letter constitutes S&P Global Ratings' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating 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.

To maintain the rating, S&P Global Ratings must receive all relevant financial and other information, including notice of material changes to financial and other information provided to us and in relevant documents, as soon as such information is available. Relevant financial and other information includes, but is not limited to, information about direct bank loans and debt and debt-like instruments issued to, or entered into with, financial institutions, insurance companies and/or other entities, whether or not disclosure of such information would be required under S.E.C. Rule 15c2-12. You understand that S&P Global Ratings relies on you and your agents and advisors for the accuracy, timeliness and completeness of the information submitted in connection with the rating and the continued flow of material information as part of the surveillance process. Please send all information via electronic delivery to: pubfin_statelocalgovt@spglobal.com. If SEC rule 17g-5 is applicable, you may post such information on the appropriate website. For any information not available in electronic format or posted on the applicable website,

Please send hard copies to:
S&P Global Ratings
Public Finance Department
55 Water Street
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

S&P Global Ratings is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing S&P Global Ratings.

Sincerely yours,

S&P Global Ratings
a division of Standard & Poor's Financial Services LLC

mc
enclosures

cc: ***Mr. Nick Jones***
Ms. Sarah Hollenbeck
Mr. William Wong

S&P Global
Ratings

S&P Global Ratings
Terms and Conditions Applicable To Public Finance Credit Ratings

General. The credit ratings and other views of S&P Global Ratings are statements of opinion and not statements of fact. Credit ratings and other views of S&P Global Ratings are not recommendations to purchase, hold, or sell any securities and do not comment on market price, marketability, investor preference or suitability of any security. While S&P Global Ratings bases its credit ratings and other views on information provided by issuers and their agents and advisors, and other information from sources it believes to be reliable, S&P Global Ratings does not perform an audit, and undertakes no duty of due diligence or independent verification, of any information it receives. Such information and S&P Global Ratings' opinions should not be relied upon in making any investment decision. S&P Global Ratings does not act as a "fiduciary" or an investment advisor. S&P Global Ratings neither recommends nor will recommend how an issuer can or should achieve a particular credit rating outcome nor provides or will provide consulting, advisory, financial or structuring advice. Unless otherwise indicated, the term "issuer" means both the issuer and the obligor if the obligor is not the issuer.

All Credit Rating Actions in S&P Global Ratings' Sole Discretion. S&P Global Ratings may assign, raise, lower, suspend, place on CreditWatch, or withdraw a credit rating, and assign or revise an Outlook, at any time, in S&P Global Ratings' sole discretion. S&P Global Ratings may take any of the foregoing actions notwithstanding any request for a confidential or private credit rating or a withdrawal of a credit rating, or termination of a credit rating engagement. S&P Global Ratings will not convert a public credit rating to a confidential or private credit rating, or a private credit rating to a confidential credit rating.

Publication. S&P Global Ratings reserves the right to use, publish, disseminate, or license others to use, publish or disseminate a credit rating and any related analytical reports, including the rationale for the credit rating, unless the issuer specifically requests in connection with the initial credit rating that the credit rating be assigned and maintained on a confidential or private basis. If, however, a confidential or private credit rating or the existence of a confidential or private credit rating subsequently becomes public through disclosure other than by an act of S&P Global Ratings or its affiliates, S&P Global Ratings reserves the right to treat the credit rating as a public credit rating, including, without limitation, publishing the credit rating and any related analytical reports. Any analytical reports published by S&P Global Ratings are not issued by or on behalf of the issuer or at the issuer's request. S&P Global Ratings reserves the right to use, publish, disseminate or license others to use, publish or disseminate analytical reports with respect to public credit ratings that have been withdrawn, regardless of the reason for such withdrawal. S&P Global Ratings may publish explanations of S&P Global Ratings' credit ratings criteria from time to time and S&P Global Ratings may modify or refine its credit ratings criteria at any time as S&P Global Ratings deems appropriate.

Reliance on Information. S&P Global Ratings relies on issuers and their agents and advisors for the accuracy and completeness of the information submitted in connection with credit ratings and the surveillance of credit ratings including, without limitation, information on material changes to information previously provided by issuers, their agents or advisors. Credit ratings, and the maintenance of credit ratings, may be affected by S&P Global Ratings' opinion of the information received from issuers, their agents or advisors.

Confidential Information. S&P Global Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received from issuers, their agents or advisors. For these purposes, "Confidential Information" shall mean verbal or written information that the issuer or its agents or advisors have provided to S&P Global Ratings and, in a specific and particularized manner, have marked or otherwise indicated in writing (either prior to or promptly following such disclosure) that such information is "Confidential."

S&P Global Ratings Not an Expert, Underwriter or Seller under Securities Laws. S&P Global Ratings has not consented to and will not consent to being named an "expert" or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation, Section 7 of the U.S. Securities Act of 1933. S&P Global Ratings has not performed and will not perform the role or tasks associated with an "underwriter" or "seller" under the United States federal securities laws or other regulatory guidance, rules or recommendations in connection with a credit rating engagement.

Disclaimer of Liability. S&P Global Ratings does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a credit rating or the results obtained from the use of such information. S&P GLOBAL RATINGS GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. S&P Global Ratings, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to any person for any inaccuracies, errors, or omissions, in each case regardless of cause, actions, damages (consequential, special, indirect, incidental, punitive, compensatory, exemplary or otherwise), claims, liabilities, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in any way arising out of or relating to a credit rating or the related analytic services even if advised of the possibility of such damages or other amounts.

No Third Party Beneficiaries. Nothing in any credit rating engagement, or a credit rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of a credit rating. No person is intended as a third party beneficiary of any credit rating engagement or of a credit rating when issued.

S&P Global
Ratings

RatingsDirect®

Summary:

Modesto, California; Water/Sewer

Primary Credit Analyst:
Malcolm N D'Silva, Centennial +1 (303) 721-4526; malcolm.dsilva@spglobal.com

Secondary Contact:
Theodore A Chapman, Dallas (1) 214-871-1401; theodore.chapman@spglobal.com

Table Of Contents

Rationale

Outlook

Summary:

Modesto, California; Water/Sewer

Credit Profile		
US$12.65 mil wastewtr rfdg rev bnds ser 2018A dtd 04/19/2018 due 11/01/2036		
Long Term Rating	AA/Stable	New
Modesto wastewtr		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Modesto, Calif.'s series 2018A wastewater revenue refunding bonds. At the same time, we affirmed our 'AA' underlying rating (SPUR) on the city's existing wastewater revenue bonds. The rating reflects, in our opinion, a very strong enterprise risk profile and a very strong financial risk profile. The outlook on all ratings is stable.

The enterprise risk profile reflects our view of the wastewater system's:

- Service area participation in the largely agricultural Modesto metropolitan area economy, which has experienced above-average unemployment rates;
- Very low industry risk as a monopolistic service provider of an essential public utility;
- Moderately affordable service rates in the context of the service area's adequate income levels and elevated county poverty rates; and
- Good operational management practices and policies.

The financial risk profile reflects our view of the wastewater system's:

- Historically very strong all-in coverage metrics that we anticipate will stabilize above 1.5x as debt service costs escalates through fiscal 2022;
- Strong liquidity position, which we anticipate will be used for future capital spending, but will remain above the cash reserve policy levels;
- Moderate leverage level based on a pro forma debt-to-capitalization ratio of about 42%, including potential additional debt borrowing in the near future; and
- Good financial management practices and policies.

The city is issuing the series 2018A bonds to refund its series 2006A bonds for annual debt service savings.

We view the bond provisions as credit neutral. The bonds are secured by the net revenues of the city's wastewater system. Key bond provisions include a rate covenant set at 1.25x annual debt service and an additional bonds test set

at 1.25x maximum annual debt service. For the purpose of the additional bonds test, gross revenues may be adjusted to take into consideration revenue-generating system improvements to be constructed from bond proceeds and to annualize rate increases that were in effect for less than the full test period. We understand that the city does not intend to provide a debt service reserve fund for the series 2018A bonds.

Enterprise risk

Modesto is located about 93 miles east of San Francisco in California's Central Valley. The city encompasses about 36 square miles and serves as the county seat of Stanislaus County. The wastewater system's service area extends beyond the city's boundaries to include areas adjacent to the city including the community of Empire and a portion of the City of Ceres. The city's population has grown by about 4% since 2013 to an estimated 212,000 in 2017. The city forecasts the service area population growing by roughly 25% to about 271,000 by 2035. We consider the service area's income levels to be adequate based on the city's median household effective buying income (MHHEBI) at 89% of the national level. Reflecting the county's industry concentration in agriculture and related activities, the city experiences above-average unemployment rates that exhibit significant seasonality. During the past three years, the city's average annual unemployment rates ranged from 7% to 10%, and most recently stood at 7.3% in 2017 (not seasonally adjusted). On average, the city's unemployment rates track about 3% above the nation's and state's rates.

The wastewater system's customer base is primarily residential, but moderately concentrated. System accounts at the end of fiscal 2017 totaled 61,248, and the number of accounts has remained relatively unchanged during the past four fiscal years; however, we anticipate that system accounts will grow in line with changes in the service area population over the long term. We view the customer base to be primarily residential based on residential customers making up about 95% of total accounts and 50% of operating revenues. However, we also consider the customer base to be moderately concentrated given that the leading 10 customers paid roughly 20% of total operating revenues, and the leading customer, Stanislaus Food Products, paid 3.2% of total operating revenues in fiscal 2017. The city's industrial customer base includes a number of large food processing operations, which generates about 30% of operating revenues in fiscal 2017.

We view the wastewater system's market position as strong based on its moderately affordable service rates, although the county does have an elevated poverty rate. Service rates are relatively moderate and are anticipated to remain so following a series of approved rate increases. The residential wastewater rate structure is composed of two flat charges: a monthly account charge and a dwelling unit charge. Based on current rates, a typical residential customer pays $35.78 per month for wastewater service, which is equivalent to 1% of the city's MHHEBI when annualized. The county poverty rate as reported by the U.S. Department of Agriculture is 18.1%, which we view as moderately high and a potential source of resistance to revenue raising ability. On July 1, 2017, the city implemented the first rate increase of an approved five-year rate schedule based on a rate study completed in 2016. The approved rate plan reflects annual rate increases of approximately 6% through 2021 that will raise the monthly bill to $42.45 in fiscal 2021. Customers are billed on a monthly basis on a combined utility bill with water service, and water service may be discontinued for delinquent accounts. Management reports that there have not been any material payment delinquencies.

Based on our operational management assessment, we view the system to be a '2' on a six-point scale, with '1' being the strongest. The city has been making significant improvements to its wastewater treatment plants to comply with

the system's regulatory permit requirements. Due to more restrictive discharge requirements that were introduced in the system's 2008 regulatory permit, the city was required to develop an alternative to discharging secondary treated effluent to the San Joaquin River by May 2018. The city recently completed the final phase of a major capital investment in its treatment facilities to treat wastewater to a tertiary level, which can then be discharged to the San Joaquin River year-round. In addition, we understand that the discharge requirements will also be subject to another 2016 regulatory permit, which allows discharge into the Delta Mendota Canal. Phase 1 of the project was completed in 2010 and provides 2.3 million gallons per day (mgd) of tertiary treatment capacity. Phase 2 was completed in 2015 and expanded the total tertiary treatment capacity to 14.9 mgd. These projects were funded by a roughly $125 million state loan. Additionally, because tertiary water is also suitable for recycling, the city is currently completing the construction of a new recycled water pump station, and related infrastructure for the North Valley Regional Recycled Water Program, which will deliver the 14.9 mgd recycled water to the Del Puerto Water District. The $50 million recycled water project was funded by a 2016 state loan and a $15 million state grant. In addition, we understand that Del Puerto Water District will reimburse the city for the 2016 state loan payments, related operating expenses of the project, and $30 per acre-foot for the recycled water. Average daily flow is currently about 21 mgd, and includes a small portion of secondary treated effluent that is used for land irrigation. We understand that further tertiary treatment capacity expansions will be planned to increase treatment capacity to meet demand as the service area develops. We view the system's rate-setting practices as strong based on its historical adoption of multiyear rate schedules with rate adjustments implemented annually.

Consistent with our criteria, titled "Methodology: Industry Risk" (published Nov. 19, 2013, on RatingsDirect), we consider industry risk for the system to be very low, the most favorable assessment possible on a six-point scale, with '1' being the strongest.

Financial risk

The system's financial performance has been consistently strong, in our opinion, although we anticipate that debt service coverage (DSC) will decline sharply once the city begins paying debt service on the state revolving fund loan. Based on the city's audited financial statements, we calculate that all-in DSC was above 5x in the past four fiscal years through 2016. In fiscal 2017, all-in DSC declined to about 2.3x as annual debt service requirements rose by about 150% to $11.3 million in fiscal 2017 from $4.6 million in fiscal 2016. Operating revenues increased by an annual average rate of 3% during the past five fiscal years through 2017, while operating expenses increased by an annual average of 7% during the same period, primarily due to increased treatment costs related to the new phase 2 tertiary treatment plant that came online in 2015. Based on management's forecast, which we view as reasonable, we anticipate that all-in coverage will likely average about 1.7x for the next five fiscal years. Key assumptions in the forecast include the implementation of annual rate increases as approved, inclusion of revenues from recycled water sales, and an additional $40 million debt issuance in late 2018. We understand that the city council has a policy of maintaining DSC of at least 1.5x for the wastewater system.

The capital improvement plan (CIP) is moderately large, in our view, and is focused on improvements and rehabilitation of the collection system and realignment of a river trunk project. Total spending on the CIP is estimated to be approximately $163 million during the next five fiscal years. Of this amount, $76 million is related to the river trunk project and about $37 million is related to collection system improvements. We understand that the river trunk

realignment project will be funded by an additional $40 million bond issue in late 2018, while most of the collection system and other capital projects will be funded on a pay-as-you-go basis from surplus revenues and cash reserves. We view the system's pro forma leverage level as moderate based on a debt-to-capitalization ratio of 42% after including the potential additional debt. The agency participates in the California Public Employees' Retirement System and has been making its necessary annual employer contributions.

In our view, system liquidity has been strong during the past five years. Based on the city's audited financial statements, we calculate liquidity at no less than 800 days of operating expenses during the past five fiscal years. Management reports an unrestricted cash balance of $77 million at the end of fiscal year 2017, which we calculate as equivalent to about 1,100 days of operating expenses. Taking into consideration planned pay-as-you-go capital spending, we anticipate that liquidity will remain strong, but decline further to about 300 days of operating expenses during the forecast period. The city has a policy of maintaining at least 25% of annual operating expenses in reserves, and the state loan requires the city to keep at least one year of debt service due on the loan; the system has significantly exceeded this minimum requirement, and we anticipate that this practice will continue.

Based on our Financial Management Assessment, we view the system to be a '2' on a six-point scale, with '1' being the strongest. In our view, the city maintains satisfactory budget management policies to govern its wastewater operations. Revenue and expense assumptions are reasonable, and the city maintains a multi-year financial plan based on the most recent rate study. The city closely manages and revises its CIP on an annual basis. Management tracks its financials regularly, and provides financial updates to city council during midyear and year-end reviews. The city produces financial statements in accordance with generally accepted accounting principles and actively maintains its website, from which financial and operational information is easily accessible.

Outlook

The stable outlook reflects our anticipation that the wastewater system will at least maintain a strong financial position, which is characterized by strong all-in coverage and liquidity margins, as it progresses through its sizeable CIP. While we understand the system will likely use cash reserves during the two-year outlook horizon, we do not expect liquidity to dip below levels we view as strong.

Downside scenario

We could take a negative rating action if the system significantly underperforms the forecast or unexpectedly and materially spends down cash reserves. In the medium term, we also see potential downward pressure on the ratings if growing operating expense are not offset by rate adjustments, leading to thinner margins and lower DSC metrics.

Upside scenario

Given the moderately large capital needs, increasing annual debt service costs and additional debt plans, we do not anticipate raising the rating during the two-year period.

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the "Disclosure Agreement"), dated as of April 19, 2018, is executed and delivered by the City of Modesto, California (the "Issuer") and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the "Disclosure Dissemination Agent" or "DAC") for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to assist the Issuer in processing certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute "advice" within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer's behalf regarding the "issuance of municipal securities" or any "municipal financial product" as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a "Municipal Advisor" as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"Annual Filing Date" means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

"Annual Report" means an Annual Report containing Annual Financial Information described in and consistent with Section 3 of this Disclosure Agreement.

"Audited Financial Statements" means the annual financial statements of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

"Bonds" means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

"Certification" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"Disclosure Dissemination Agent" means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

"Disclosure Representative" means the Director of Finance of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"Failure to File Event" means the Issuer's failure to file an Annual Report on or before the Annual Filing Date.

"Force Majeure Event" means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent's reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

"Holder" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

"Information" means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"Notice Event" means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

"Obligated Person" means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

"Official Statement" means that Official Statement prepared by the Issuer in connection with the Bonds, as listed in Exhibit A.

"Trustee" means the institution, if any, identified as such in the document under which the Bonds were issued.

"Voluntary Event Disclosure" means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

"Voluntary Financial Disclosure" means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the 31st day of March following the end of each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2018. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents

comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 10:00 a.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, if any, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) hereof with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. "Principal and interest payment delinquencies;"

2. "Non-Payment related defaults, if material;"

3. "Unscheduled draws on debt service reserves reflecting financial difficulties;"

4. "Unscheduled draws on credit enhancements reflecting financial difficulties;"

5. "Substitution of credit or liquidity providers, or their failure to perform;"

6. "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"

7. "Modifications to rights of securities holders, if material;"

8. "Bond calls, if material;"

9. "Defeasances;"

10. "Release, substitution, or sale of property securing repayment of the securities, if material;"

11. "Rating changes;"

12. "Tender offers;"

13. "Bankruptcy, insolvency, receivership or similar event of the obligated person;"

14. "Merger, consolidation, or acquisition of the obligated person, if material;" and

15. "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as "Failure to provide annual financial information as required" when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. "amendment to continuing disclosure undertaking;"

2. "change in obligated person;"

3. "notice to investors pursuant to bond documents;"

4. "certain communications from the Internal Revenue Service;" other than those communications included in the Rule;

5. "secondary market purchases;"

6. "bid for auction rate or other securities;"

7. "capital or other financing plan;"

8. "litigation/enforcement action;"

9. "change of tender agent, remarketing agent, or other on-going party;"

10. "derivative or other similar transaction;" and

11. "other event-based disclosures;"

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. "quarterly/monthly financial information;"

2. "Timing of annual disclosure (120 days);"

3. "change in fiscal year/timing of annual disclosure;"

4. "change in accounting standard;"

5. "interim/additional financial information/operating data;"

6. "budget;"

7. "investment/debt/financial policy;"

8. "information provided to rating agency, credit/liquidity provider or other third party;"

9. "consultant reports;" and

10. "other financial/operating data."

(viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 3:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the information provided in the Official Statement with respect to the City in the most recent Fiscal Year in Tables 3-15 and Table 18; provided that, with respect to Tables 6 and 10, the City will provide such information on an "as available" basis.

(b) Audited Financial Statements as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. In such event, Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Issuer is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Issuer shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. The Issuer will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure

Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, if any, for the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Florida (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of page intentionally left blank.]

The Disclosure Dissemination Agent and the Issuer have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Disclosure Dissemination Agent

By: _____
Name: Diana O'Brien
Title: Senior Vice President

CITY OF MODESTO, CALIFORNIA
as Issuer

By: _____
Name: DeAnna Christensen
Title: Acting Director of Finance

The Disclosure Dissemination Agent and the Issuer have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Disclosure Dissemination Agent

By:_____
Name:_____
Title:_____

CITY OF MODESTO, CALIFORNIA
as Issuer

By:_____
Name: DeAnna Christensen
Title: Acting Director of Finance

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer	City of Modesto, California
Obligated Person(s)	City of Modesto, California
Name of Bond Issue:	Wastewater Revenue Refunding Bonds, Series 2018A
Date of Issuance:	April 19, 2018
Date of Official Statement	March 20, 2018

CUSIP Number:	607802BD6
CUSIP Number:	607802BE4
CUSIP Number:	607802BF1
CUSIP Number:	607802BG9
CUSIP Number:	607802BH7
CUSIP Number:	607802BJ3
CUSIP Number:	607802BK0
CUSIP Number:	607802BL8
CUSIP Number:	607802BM6
CUSIP Number:	607802BN4
CUSIP Number:	607802BP9
CUSIP Number:	607802BQ7

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Issuer:	City of Modesto, California
Obligated Person:	City of Modesto, California
Name(s) of Bond Issue(s):	Wastewater Revenue Refunding Bonds, Series 2018A
Date(s) of Issuance:	April 19, 2018
Date(s) of Disclosure Agreement:	April 19, 2018
CUSIP Number:	_____

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. [The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____].

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent, on behalf of the Issuer

_____

cc: Director Finance of the City of Modesto

EXHIBIT C-1
EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" may be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

_____

Number of pages attached: _____

____ Description of Notice Events (Check One):

1._____"Principal and interest payment delinquencies;"
2._____"Non-Payment related defaults, if material;"
3._____"Unscheduled draws on debt service reserves reflecting financial difficulties;"
4._____"Unscheduled draws on credit enhancements reflecting financial difficulties;"
5._____"Substitution of credit or liquidity providers, or their failure to perform;"
6._____"Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7._____"Modifications to rights of securities holders, if material;"
8._____"Bond calls, if material;"
9._____"Defeasances;"
10._____"Release, substitution, or sale of property securing repayment of the securities, if material;"
11._____"Rating changes;"
12._____"Tender offers;"
13._____"Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14._____"Merger, consolidation, or acquisition of the obligated person, if material;" and
15._____"Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

____ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of April 19, 2018 between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

_____

Number of pages attached: _____

____ Description of Voluntary Event Disclosure (Check One):

1._____"amendment to continuing disclosure undertaking;"
2._____"change in obligated person;"
3._____"notice to investors pursuant to bond documents;"
4._____"certain communications from the Internal Revenue Service;"
5._____"secondary market purchases;"
6._____"bid for auction rate or other securities;"
7._____"capital or other financing plan;"
8._____"litigation/enforcement action;"
9._____"change of tender agent, remarketing agent, or other on-going party;"
10._____"derivative or other similar transaction;" and
11._____"other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-3
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary financial disclosure" may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of April 19, 2018, between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

_____

_____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

_____

Number of pages attached: _____

____ Description of Voluntary Financial Disclosure (Check One):

1._____"quarterly/monthly financial information;"
2._____"change in fiscal year/timing of annual disclosure;"
3._____"change in accounting standard;"
4._____"interim/additional financial information/operating data;"
5._____"budget;"
6._____"investment/debt/financial policy;"
7._____"information provided to rating agency, credit/liquidity provider or other third party;"
8._____"consultant reports;" and
9._____"other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

_____

Name: _____Title: _____

Digital Assurance Certification, L.L.C.
315 E. Robinson Street
Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

RECEIPT FOR PURCHASE PRICE

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as successor trustee (the "Trustee"), under that certain Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented (as so supplemented, the "Indenture"), including as supplemented by the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, providing for the issuance of the City's Wastewater Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds"), each by and between the City and the Trustee, hereby certifies as follows:

(i) The Trustee on the date hereof, did receive $13,373,634.04 from Raymond James & Associates, Inc., as underwriter (the "Underwriter"), the net purchase price (the "Purchase Price") of the Series 2018A Bonds, dated the date hereof. The Purchase Price for the Series 2018A Bonds was represented by the City to be computed as follows:

Aggregate Principal Amount	$11,340,000.00
Plus Original Issue Premium	2,083,429.80
Less Underwriter's Discount	49,795.76
TOTAL PURCHASE PRICE	$13,373,634.04

(ii) The Trustee has transferred or deposited such amounts in accordance with the Written Request of the City delivered on the date hereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the undersigned has executed this Receipt of the Trustee as of the 19th of April, 2018.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

By: _____
Authorized Officer

Blanket Issuer Letter of Representations

[To be Completed by Issuer]

City of Modesto

[Name of Issuer]

March 14, 1996

[Date]

Attention: Underwriting Department — Eligibility
The Depository Trust Company
55 Water Street; 50th Floor
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

City of Modesto

(Issuer)

By: Kevin Riper

(Authorized Officer's Signature)

Kevin Riper
Finance Director

(Typewrite Name & Title)

1012 "I" Street, 4th Floor

(Street Address)

Modesto, CA 95350

(City) (State) (Zip)

(209) 577-5370

(Phone Number)

Received and Accepted:

THE DEPOSITORY TRUST COMPANY

By: James Ferrucci

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 1 $710,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2025	5.00%	April 19, 2018	607802BD6

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SEVEN HUNDRED TEN THOUSAND DOLLARS

SPECIMEN

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 2 $750,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2026	5.00%	April 19, 2018	607802BE4

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SEVEN HUNDRED FIFTY THOUSAND DOLLARS

SPECIMEN

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 3 $780,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

SPECIMEN

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2027	5.00%	April 19, 2018	607802BF1

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SEVEN HUNDRED EIGHTY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 4 $825,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

SPECIMEN

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2028	5.00%	April 19, 2018	607802BG9

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: EIGHT HUNDRED TWENTY-FIVE THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 5 $865,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2029	5.00%	April 19, 2018	607802BH7

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: EIGHT HUNDRED SIX-FIVE THOUSAND DOLLARS

SPECIMEN

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 6 $910,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

SPECIMEN

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2030	5.00%	April 19, 2018	607802BJ3

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: NINE HUNDRED TEN THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 7 $955,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

SPECIMEN

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2031	5.00%	April 19, 2018	607802BK0

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: NINE HUNDRED FIFTY-FIVE THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 8 $1,005,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2032	5.00%	April 19, 2018	607802BL8

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: ONE MILLION FIVE THOUSAND DOLLARS

SPECIMEN

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 9 $1,055,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2033	5.00%	April 19, 2018	607802BM6

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: ONE MILLION FIFTY-FIVE THOUSAND DOLLARS

SPECIMEN

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 10 $1,110,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2034	5.00%	April 19, 2018	607802BN4

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: ONE MILLION ONE HUNDRED TEN THOUSAND DOLLARS

SPECIMEN

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 11 $1,160,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2035	4.00%	April 19, 2018	607802BP9

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: ONE MILLION ONE HUNDRED SIXTY THOUSAND DOLLARS

SPECIMEN

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Bond is presented by an authorized representative of The Depository Trust Company, New York, New York ("DTC") to the Department or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

No. 12 $1,215,000

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2018A

Maturity Date	Interest Rate Per Annum	Dated Date	CUSIP
November 1, 2036	5.00%	April 19, 2018	607802BQ7

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: ONE MILLION TWO HUNDRED FIFTEEN THOUSAND DOLLARS

SPECIMEN

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2018A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SPECIMEN

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November l, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Acting Director of Finance

By: _____
Interim City Manager

(SEAL)

ATTEST:

By: _____
City Clerk

SPECIMEN

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

_____

NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

DIRECTION TO TRUSTEE REGARDING REDEMPTION OF:

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE BONDS
SERIES 2006A

To: The Bank of New York Mellon Trust Company, N.A., as successor Trustee
400 South Hope Street, 4th Floor
Los Angeles, California 90071

The City of Modesto (the "City") hereby directs you to call for redemption on April 20, 2018, all of the City of Modesto, California Wastewater Revenue Bonds Series 2006A (the "Series 2006A Bonds"), currently outstanding in the aggregate principal amount of $14,735,000, which Series 2006A Bonds were issued pursuant to the Wastewater Revenue bond Indenture, dated as of April 1, 2005 (the "Original Indenture"), by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"), as supplemented by the Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006 (the "Third Supplemental Indenture"), by and between the City and the Trustee. Pursuant to Section 4.01 of the Original Indenture and Section 14.05 of the Third Supplemental Indenture, notice of redemption of any Series 2006A Bonds shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date. Attached hereto as Exhibit A is a form of Conditional Notice of Optional Redemption for the Series 2006A Bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

All capitalized terms not defined herein shall have the meanings specified in the Indenture.

Dated: March 15, 2018

CITY OF MODESTO

By: _____

DeAnna Christensen
Acting Director of Finance

EXHIBIT A

CONDITIONAL NOTICE OF OPTIONAL REDEMPTION RELATING TO THE REDEMPTION OF

CITY OF MODESTO, CALIFORNIA WASTEWATER REVENUE BONDS SERIES 2006A

CONDITIONAL NOTICE IS HEREBY GIVEN to the Owners of the City of Modesto, California Wastewater Revenue Bonds, Series 2006A (the "Series 2006A Bonds"), issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City of Modesto (the "City") and The Bank of New York Mellon Trust Company, N.A., as successor Trustee (the "Trustee"), as amended and supplemented by a First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, a Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, and a Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006, by and between the City and the Trustee, that the City has directed the Trustee to call for redemption, on April 20, 2018 (the "Redemption Date"), all of the Series 2006A Bonds at a redemption price of 100% of the principal amount thereof (the "Redemption Price"), plus accrued interest to the Redemption Date, without premium.

On the Redemption Date, there will become due the Redemption Price of the Series 2006A Bonds, together with interest accrued thereon to the Redemption Date and from and after the Redemption Date, interest on the Series 2006A Bonds shall cease to accrue. Such redemption shall be conditional upon the receipt by the Trustee on or prior to the Redemption Date of moneys sufficient to pay the principal, premium, if any, and interest on such Series 2006A Bonds and that if such moneys shall not have been so received said notice shall be of no force and effect and the Trustee shall not be required to redeem such Series 2006A Bonds.

The Series 2006A Bonds were issued on December 14, 2006. The stated CUSIP numbers, interest rates, maturity dates and principal amounts of the Series 2006A Bonds to be redeemed on April 20, 2018, are as follows:

Maturity Date (November 1)	Interest Rate	Original CUSIP	Principal Amount of Series 2006A Bonds being Redeemed
2025	4.200%	607802AZ8	$ 960,000.00
2026	4.250%	607802BA2	1,005,000.00
2031	4.250%	607802BB0	5,710,000.00
2036	4.250%	607802BC8	7,060,000.00
			$14,735,000.00

The Series 2006A Bonds called for redemption shall be redeemed at the following principal payment office of The Bank of New York Mellon Trust Company, N.A., as Trustee, upon surrender of these Series 2006A Bonds:

Hand Delivery Only:	**Registered, Certified or First Class Mail:**	**Express Delivery Only:**
The Bank of New York Mellon Global Corporate Trust Corporate Trust Window 101 Barclay Street, 1st Floor East New York, New York 10286	The Bank of New York Mellon Global Corporate Trust P.O. Box 396 East Syracuse, NY 13057	The Bank of New York Mellon Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, NY 13057

Additional information regarding the foregoing actions may be obtained from The Bank of New York Mellon Trust Company, N.A., Bondholder Communications, telephone number (800) 254-2826.

Presentation of a Series 2006A Bond called for redemption may be by first class mail, registered mail, express mail, or delivered in person. The method of presentation and delivery of a Series 2006A Bond called for redemption is at the option and risk of the Owner thereof. If mail is used, insured registered mail, return receipt requested is suggested.

A form W-9 must be submitted with the Series 2006A Bonds. Failure to provide a completed IRS Form W-9 will result in 24% backup withholding on the amount received by an Owner pursuant to the redemption of such Owner's Series 2006A Bonds. An Owner who wishes to avoid the application of backup withholding should submit a completed IRS Form W-9 when presenting a Series 2006A Bond for redemption.

Neither the City nor the Trustee shall be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness indicated in the notice or as printed on any Series 2006A Bond. They are included solely for the convenience of the Owners.

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

Date: March 20, 2018

copy to: The Depository Trust Company, New York, New York

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

WAIVER OF TRUSTEE

The undersigned, a duly appointed, qualified and acting officer of The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee") under that certain Wastewater Revenue bond Indenture, dated as of April 1, 2005, by and between the City of Modesto (the "City") and the Trustee, as supplemented and amended (the "Indenture"), including as supplemented by the Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006 (the "Third Supplemental Indenture"), by and between the City and the Trustee, pursuant to which the City's Wastewater Revenue Bonds, Series 2006A (the "Series 2006A Bonds") were issued, DOES HEREBY CERTIFY as follows:

The Trustee hereby waives the requirement, set forth in Section 14.05 of the Indenture, that the City provide to the Trustee notice of its intent to redeem the Series 2006A Bonds at least 45 days prior to the date of redemption.

The Trustee, by executing this Waiver, is not waiving any other provisions of the Indenture, except as specifically provided herein.

Dated: March 14, 2018

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

CONDITIONAL NOTICE OF OPTIONAL REDEMPTION
RELATING TO THE REDEMPTION OF

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE BONDS
SERIES 2006A

CONDITIONAL NOTICE IS HEREBY GIVEN to the Owners of the City of Modesto, California Wastewater Revenue Bonds, Series 2006A (the "Series 2006A Bonds"), issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City of Modesto (the "City") and The Bank of New York Mellon Trust Company, N.A., as successor Trustee (the "Trustee"), as amended and supplemented by a First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, a Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, and a Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006, by and between the City and the Trustee, that the City has directed the Trustee to call for redemption, on April 20, 2018 (the "Redemption Date"), all of the Series 2006A Bonds at a redemption price of 100% of the principal amount thereof (the "Redemption Price"), plus accrued interest to the Redemption Date, without premium.

On the Redemption Date, there will become due the Redemption Price of the Series 2006A Bonds, together with interest accrued thereon to the Redemption Date and from and after the Redemption Date, interest on the Series 2006A Bonds shall cease to accrue. Such redemption shall be conditional upon the receipt by the Trustee on or prior to the Redemption Date of moneys sufficient to pay the principal, premium, if any, and interest on such Series 2006A Bonds and that if such moneys shall not have been so received said notice shall be of no force and effect and the Trustee shall not be required to redeem such Series 2006A Bonds.

The Series 2006A Bonds were issued on December 14, 2006. The stated CUSIP numbers, interest rates, maturity dates and principal amounts of the Series 2006A Bonds to be redeemed on April 20, 2018, are as follows:

Maturity Date (November 1)	Interest Rate	Original CUSIP	Principal Amount of Series 2006A Bonds being Redeemed
2025	4.200%	607802AZ8	$ 960,000.00
2026	4.250%	607802BA2	1,005,000.00
2031	4.250%	607802BB0	5,710,000.00
2036	4.250%	607802BC8	7,060,000.00
			$14,735,000.00

29690816

The Series 2006A Bonds called for redemption shall be redeemed at the following principal payment office of The Bank of New York Mellon Trust Company, N.A., as Trustee, upon surrender of these Series 2006A Bonds:

Hand Delivery Only:	**Registered, Certified or First Class Mail:**	**Express Delivery Only:**
The Bank of New York Mellon Global Corporate Trust Corporate Trust Window 101 Barclay Street, 1st Floor East New York, New York 10286	The Bank of New York Mellon Global Corporate Trust P.O. Box 396 East Syracuse, NY 13057	The Bank of New York Mellon Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, NY 13057

Additional information regarding the foregoing actions may be obtained from The Bank of New York Mellon Trust Company, N.A., Bondholder Communications, telephone number (800) 254-2826.

Presentation of a Series 2006A Bond called for redemption may be by first class mail, registered mail, express mail, or delivered in person. The method of presentation and delivery of a Series 2006A Bond called for redemption is at the option and risk of the Owner thereof. If mail is used, insured registered mail, return receipt requested is suggested.

A form W-9 must be submitted with the Series 2006A Bonds. Failure to provide a completed IRS Form W-9 will result in 24% backup withholding on the amount received by an Owner pursuant to the redemption of such Owner's Series 2006A Bonds. An Owner who wishes to avoid the application of backup withholding should submit a completed IRS Form W-9 when presenting a Series 2006A Bond for redemption.

Neither the City nor the Trustee shall be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness indicated in the notice or as printed on any Series 2006A Bond. They are included solely for the convenience of the Owners.

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

Date: March 20, 2018

copy to: The Depository Trust Company, New York, New York

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

WRITTEN REQUEST OF THE CITY TO THE TRUSTEE

To THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as successor trustee (the "Trustee"), under that certain Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented (as so supplemented, the "Indenture"), including as supplemented by the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplemental Indenture"), providing for the issuance of the City's Wastewater Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds"), by and between the City and the Trustee:

Pursuant to the Indenture, the City has executed and delivered to you, as Trustee, the Series 2018A Bonds in the aggregate principal amount of $11,340,000.00.

You, as Trustee, are hereby authorized and directed to authenticate $11,340,000.00 aggregate principal amount of the Series 2018A Bonds by signing the certificate of authentication appearing thereon, and on April 19, 2018, to deliver the Series 2018A Bonds in the F.A.S.T. delivery book-entry system of The Depository Trust Company, New York, New York ("DTC") for the account of Raymond James & Associates, Inc. (the "Underwriter"), as underwriter of the Series 2018A Bonds, upon payment to you, as Trustee, for the account of the City, of the purchase price of the Series 2018A Bonds, computed as follows:

Aggregate Principal Amount	$11,340,000.00
Plus Original Issue Premium	2,083,429.80
Less Underwriter's Discount	(49,795.76)
TOTAL PURCHASE PRICE	$13,373,634.04

In accordance with Sections 15.11 and 15.12 of the Fourth Supplemental Indenture, you are hereby directed to deposit in the Series 2006A Redemption Fund $13,182,803.88, which, together with $312,878.75 in the Interest Fund and $1,533,075.75 in the Parity Reserve Fund previously deposited with the Trustee, shall be used to refund all of the outstanding Series 2006A Bonds.

The Trustee shall deposit in the Series 2018A Costs of Issuance Fund $190,830.16, which will be applied, to pay costs of issuance with respect to the Series 2018A Bonds.

On the date hereof, the Trustee shall send to the Owners of the Series 2006A Bonds the Notice of Defeasance, attached hereto as Exhibit A.

Capitalized terms used and not defined herein have the meanings ascribed to them in the Indenture.

IN WITNESS WHEREOF, the undersigned has executed this Written Request of the City to the Trustee this 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____

DeAnna Christensen
Acting Director of Finance

CONDITIONAL NOTICE OF OPTIONAL REDEMPTION
RELATING TO THE REDEMPTION OF

CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE BONDS
SERIES 2006A

CONDITIONAL NOTICE IS HEREBY GIVEN to the Owners of the City of Modesto, California Wastewater Revenue Bonds, Series 2006A (the "Series 2006A Bonds"), issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City of Modesto (the "City") and The Bank of New York Mellon Trust Company, N.A., as successor Trustee (the "Trustee"), as amended and supplemented by a First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, a Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, and a Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006, by and between the City and the Trustee, that the City has directed the Trustee to call for redemption, on April 20, 2018 (the "Redemption Date"), all of the Series 2006A Bonds at a redemption price of 100% of the principal amount thereof (the "Redemption Price"), plus accrued interest to the Redemption Date, without premium.

On the Redemption Date, there will become due the Redemption Price of the Series 2006A Bonds, together with interest accrued thereon to the Redemption Date and from and after the Redemption Date, interest on the Series 2006A Bonds shall cease to accrue. Such redemption shall be conditional upon the receipt by the Trustee on or prior to the Redemption Date of moneys sufficient to pay the principal, premium, if any, and interest on such Series 2006A Bonds and that if such moneys shall not have been so received said notice shall be of no force and effect and the Trustee shall not be required to redeem such Series 2006A Bonds.

The Series 2006A Bonds were issued on December 14, 2006. The stated CUSIP numbers, interest rates, maturity dates and principal amounts of the Series 2006A Bonds to be redeemed on April 20, 2018, are as follows:

Maturity Date (November 1)	Interest Rate	Original CUSIP	Principal Amount of Series 2006A Bonds being Redeemed
2025	4.200%	607802AZ8	$ 960,000.00
2026	4.250%	607802BA2	1,005,000.00
2031	4.250%	607802BB0	5,710,000.00
2036	4.250%	607802BC8	7,060,000.00
			$14,735,000.00

29690816

The Series 2006A Bonds called for redemption shall be redeemed at the following principal payment office of The Bank of New York Mellon Trust Company, N.A., as Trustee, upon surrender of these Series 2006A Bonds:

Hand Delivery Only:	**Registered, Certified or First Class Mail:**	**Express Delivery Only:**
The Bank of New York Mellon Global Corporate Trust Corporate Trust Window 101 Barclay Street, 1st Floor East New York, New York 10286	The Bank of New York Mellon Global Corporate Trust P.O. Box 396 East Syracuse, NY 13057	The Bank of New York Mellon Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, NY 13057

Additional information regarding the foregoing actions may be obtained from The Bank of New York Mellon Trust Company, N.A., Bondholder Communications, telephone number (800) 254-2826.

Presentation of a Series 2006A Bond called for redemption may be by first class mail, registered mail, express mail, or delivered in person. The method of presentation and delivery of a Series 2006A Bond called for redemption is at the option and risk of the Owner thereof. If mail is used, insured registered mail, return receipt requested is suggested.

A form W-9 must be submitted with the Series 2006A Bonds. Failure to provide a completed IRS Form W-9 will result in 24% backup withholding on the amount received by an Owner pursuant to the redemption of such Owner's Series 2006A Bonds. An Owner who wishes to avoid the application of backup withholding should submit a completed IRS Form W-9 when presenting a Series 2006A Bond for redemption.

Neither the City nor the Trustee shall be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness indicated in the notice or as printed on any Series 2006A Bond. They are included solely for the convenience of the Owners.

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

Date: March 20, 2018

copy to: The Depository Trust Company, New York, New York

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

TRUSTEE RECEIPT OF FUNDS
AND SUFFICIENCY ACKNOWLEDGEMENT

On the date hereof, in accordance with the Written Request of the City to the Trustee, dated the date hereof (the "Written Request"), the Trustee (i) deposited in the Series 2006A Redemption Fund $13,182,803.88, which, together with $312,878.75 in the Interest Fund and $1,533,075.75 in the Parity Reserve Fund previously deposited with the Trustee, shall be used by the Trustee to refund all of the outstanding Series 2006A Bonds on April 20, 2018 (the "Redemption Date") at a price of par plus accrued interest to the Redemption Date (the "Redemption Price") and (ii) deposited in the Series 2018A Costs of Issuance Fund $190,830.16, which shall be applied, to pay costs of issuance with respect to the Series 2018A Bonds.

The Trustee hereby acknowledges the receipt of such funds, the delivery of the conditional optional redemption notice relating to the Series 2006A Bonds, attached hereto as Exhibit A, on March 20, 2018, and the directions contained in the Written Request. The Trustee hereby confirms that the amount of $15,028,758.38 on deposit with the Trustee (consisting of $13,182,803.88 in the Series 2006A Redemption Fund, $312,878.75 in the Interest Fund and $1,533,075.75 in the Parity Reserve Fund), is sufficient to pay the Redemption Price on the Redemption Date.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

Exhibit A

Redemption Notice for Series 2006A Bonds

EXHIBIT A

CONDITIONAL NOTICE OF OPTIONAL REDEMPTION RELATING TO THE REDEMPTION OF

CITY OF MODESTO, CALIFORNIA WASTEWATER REVENUE BONDS SERIES 2006A

CONDITIONAL NOTICE IS HEREBY GIVEN to the Owners of the City of Modesto, California Wastewater Revenue Bonds, Series 2006A (the "Series 2006A Bonds"), issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City of Modesto (the "City") and The Bank of New York Mellon Trust Company, N.A., as successor Trustee (the "Trustee"), as amended and supplemented by a First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, a Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, and a Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006, by and between the City and the Trustee, that the City has directed the Trustee to call for redemption, on April 20, 2018 (the "Redemption Date"), all of the Series 2006A Bonds at a redemption price of 100% of the principal amount thereof (the "Redemption Price"), plus accrued interest to the Redemption Date, without premium.

On the Redemption Date, there will become due the Redemption Price of the Series 2006A Bonds, together with interest accrued thereon to the Redemption Date and from and after the Redemption Date, interest on the Series 2006A Bonds shall cease to accrue. Such redemption shall be conditional upon the receipt by the Trustee on or prior to the Redemption Date of moneys sufficient to pay the principal, premium, if any, and interest on such Series 2006A Bonds and that if such moneys shall not have been so received said notice shall be of no force and effect and the Trustee shall not be required to redeem such Series 2006A Bonds.

The Series 2006A Bonds were issued on December 14, 2006. The stated CUSIP numbers, interest rates, maturity dates and principal amounts of the Series 2006A Bonds to be redeemed on April 20, 2018, are as follows:

Maturity Date (November 1)	Interest Rate	Original CUSIP	Principal Amount of Series 2006A Bonds being Redeemed
2025	4.200%	607802AZ8	$ 960,000.00
2026	4.250%	607802BA2	1,005,000.00
2031	4.250%	607802BB0	5,710,000.00
2036	4.250%	607802BC8	7,060,000.00
			$14,735,000.00

The Series 2006A Bonds called for redemption shall be redeemed at the following principal payment office of The Bank of New York Mellon Trust Company, N.A., as Trustee, upon surrender of these Series 2006A Bonds:

Hand Delivery Only:	**Registered, Certified or First Class Mail:**	**Express Delivery Only:**
The Bank of New York Mellon Global Corporate Trust Corporate Trust Window 101 Barclay Street, 1st Floor East New York, New York 10286	The Bank of New York Mellon Global Corporate Trust P.O. Box 396 East Syracuse, NY 13057	The Bank of New York Mellon Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, NY 13057

Additional information regarding the foregoing actions may be obtained from The Bank of New York Mellon Trust Company, N.A., Bondholder Communications, telephone number (800) 254-2826.

Presentation of a Series 2006A Bond called for redemption may be by first class mail, registered mail, express mail, or delivered in person. The method of presentation and delivery of a Series 2006A Bond called for redemption is at the option and risk of the Owner thereof. If mail is used, insured registered mail, return receipt requested is suggested.

A form W-9 must be submitted with the Series 2006A Bonds. Failure to provide a completed IRS Form W-9 will result in 24% backup withholding on the amount received by an Owner pursuant to the redemption of such Owner's Series 2006A Bonds. An Owner who wishes to avoid the application of backup withholding should submit a completed IRS Form W-9 when presenting a Series 2006A Bond for redemption.

Neither the City nor the Trustee shall be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness indicated in the notice or as printed on any Series 2006A Bond. They are included solely for the convenience of the Owners.

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

Date: March 20, 2018

copy to: The Depository Trust Company, New York, New York

TAX CERTIFICATE

In connection with the issuance by the City of Modesto, California (the "**Issuer**"), of its $11,340,000 Wastewater Revenue Refunding Bonds, Series 2018A (the "**Obligations**"), and in furtherance of the covenants of the Issuer contained in Section 6.12 of the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the Issuer and The Bank of New York Mellon Trust Company, N.A. (the "**Original Indenture**"), as amended and supplemented (the "**Indenture**"), including as supplemented by the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "**Fourth Supplemental Indenture**"), the Issuer hereby executes this Tax Certificate (the "**Tax Certificate**").

1. DEFINITIONS.

Capitalized terms used and not otherwise defined herein shall have the meanings set forth in Appendix I.

2. GENERAL REPRESENTATIONS.

(a) Purpose of Obligations. The Issuer is issuing the Obligations on the date hereof (the "**Delivery Date**") to refund, on a current refunding basis, the outstanding principal amount of its Wastewater Revenue Bonds, Series 2006A (the "**Refunded Bonds**"), which were issued to finance various capital costs of the Issuer. The facilities refinanced with the Obligations are referred to herein collectively as the "**Project**".

(b) Single Issue. The Issuer has not sold any other obligations: (1) less than 15 days before or after March 20, 2018, the first day on which there was a binding contract in writing for the sale or exchange of the Obligations; (2) pursuant to the same plan of financing with the Obligations; and (3) reasonably expected to be paid from substantially the same source of funds as will be used to pay the Obligations.

(c) No Replacement; Average Life of Assets. No portion of the amounts received from the sale of the Obligations will be used as a substitute for other funds that otherwise were to be used as a source for repaying the Refunded Bonds. The weighted average maturity of the Obligations will not exceed 120 percent of the average reasonably expected economic life of the Project.

(d) Responsible Person. The undersigned officer of the Issuer is responsible, with others, for the issuance of the Obligations, and has made due inquiry with respect to and is fully informed as to the matters set forth herein.

(e) Representations and Certifications. The representations and certifications set forth in this Tax Certificate are made to the best of the knowledge and belief of the undersigned officer of the Issuer, and the Issuer's expectations are reasonable.

3. REASONABLE EXPECTATIONS OF THE ISSUER AS TO AMOUNT, INVESTMENT AND EXPENDITURE OF GROSS PROCEEDS.

The Issuer represents and certifies as follows with respect to the amount, investment and expenditure of the Gross Proceeds of the Obligations:

(a) Application of Sale Proceeds and Investment Proceeds; No Overissuance. The amount of Sale Proceeds received by the Issuer from the sale of the Obligations (the "**Sale Proceeds**") is $13,423,429.80 (principal amount of $11,340,000.00, plus original issue premium of $2,083,429.80). The Sale Proceeds, together with the Investment Proceeds expected to be earned thereon, will not exceed the amount necessary for the purposes set forth in Section 2(a) hereof. The Sale Proceeds and Investment Proceeds will be applied as follows:

(1) Refunding of Refunded Bonds. Sale Proceeds in the amount of $13,182,803.88 will be held as uninvested cash prior to being used on April 20, 2018, to redeem a portion of the Refunded Bonds.

(2) Underwriter Fees. Sale Proceeds in the amount of $49,795.76 will be used on the date hereof to pay fees of Raymond James & Associates, Inc. (the "**Underwriter**"), the underwriter of the Obligations.

(3) Costs of Issuance. Sale Proceeds in the amount of $190,830.16 (including a rounding amount of $4,630.16) will be deposited, on the date hereof, into the 2018A Costs of Issuance Fund and used, together with any Investment Proceeds earned thereon, to pay costs of issuing the Obligations within one year or, to the extent not needed for such purpose, to pay interest on the Obligations within one year.

(b) Funds and Accounts. The following funds and accounts have been established in connection with the issuance of the Obligations:

(1) the **Interest Fund** and the **Principal Fund** established pursuant to Section 5.01(B) of the Original Indenture for the purpose of paying debt service on bonds issued under the Indenture, including the Obligations;

(2) the **Parity Reserve Fund** established by Section 5.05 of the Original Indenture for the purpose of securing certain bonds issued under the Indenture; the Obligations are not secured by the Parity Reserve Fund;

(3) the **Rebate Fund** established by Section 6.11 of the Original Indenture for the purpose of complying with the Rebate Requirement (defined below in Section 4) with respect to bonds issued under the Indenture, including the Obligations; and

(4) the **Series 2018A Costs of Issuance Fund** established pursuant to Section 15.12 of the Fourth Supplemental Indenture for the purpose of paying costs of issuing the Obligations.

(c) Funds on Hand Related to Refunded Bonds.

(1) Refunded Bonds Debt Service Fund. As of the date hereof, the Issuer has on hand in the Interest Fund and the Principal Fund a total of $312,878.75 of revenues for paying debt service on the Refunded Bonds, which amount will be used on April 20, 2018, to redeem a portion of the Refunded Bonds.

(2) Parity Reserve Fund. As of the date hereof, proceeds of the Refunded Bonds, in the amount of $1,533,075.75, are on deposit in the Parity Reserve Fund, which amount will be used on April 20, 2018, to redeem a portion of the Refunded Bonds.

(3) No Other Funds on Hand. Other than as described in this Section 3(c), there are no original, investment, or transferred proceeds of the prior issue of which the Refunded Bonds are a part that remain unspent on the Delivery Date or amounts that, absent the issuance of the Obligations, would have been used to pay debt service on the Refunded Bonds.

(d) No Hedge Bonds. Upon the issuance of the Refunded Bonds, the Issuer reasonably expected to spend at least 85 percent of the Net Sale Proceeds of such issue within three years of its date of issue, and not more than 50 percent of the proceeds of such issue was invested in investments having substantially guaranteed yields for four years or more.

(e) Debt Service Fund. The portion of the Interest Fund and the portion of the Principal Fund used to pay debt service on the Obligations are herein collectively referred to as the "**Debt Service Fund.**" Except for the Debt Service Fund, the Issuer has not created or established, and does not expect to create or establish, any fund or account that is reasonably expected to be used to pay debt service on the Obligations. The Debt Service Fund will be used primarily to achieve a proper matching of revenues with principal and interest payments on the Obligations within each Bond Year and will be depleted at least once each year except for a reasonable carryover amount not exceeding the greater of (1) the earnings on amounts in such funds for the immediately preceding Bond Year or (2) one-twelfth of the principal and interest payments on the Obligations for the immediately preceding Bond Year. Amounts deposited in the Debt Service Fund will be used to pay debt service on the Obligations within a thirteen month period beginning on the date of deposit therein.

(f) Rebate Fund. Moneys in the Rebate Fund are neither pledged to nor expected to be used to pay debt service on bonds issued under the Indenture, including the Obligations. Proceeds derived from the sale of bonds issued under the Indenture, including the Obligations, and investment earnings thereon are not expected to be held in the Rebate Fund.

(g) Expectations Regarding Hedging Transactions. The Issuer has not entered into, and does not plan to enter into, any hedging transaction (such as an interest rate swap, cap or collar) with respect to the Obligations.

(h) Yield.

(1) Bond Yield. The yield on the Obligations (the "**Bond Yield**") is the discount rate that, when used in computing the present value as of the Delivery Date of all

unconditionally payable payments of principal, interest and fees for qualified guarantees on the Obligations, if any, and amounts reasonably expected to be paid as fees for qualified guarantees on the Obligations, if any, produces an amount equal to the present value, using the same discount rate, of the aggregate issue price of the Obligations as of the Delivery Date. Based on representations of the Underwriter, in the certificate attached hereto as **Exhibit A**, the aggregate issue price of the Obligations is equal to $13,423,429.80 (principal amount of $11,340,000.00, plus original issue premium of $2,083,429.80). The issue price of the Obligations has been determined based on the "10% actual sales" rule in Section 1.148-1(f)(2)(i) of the Treasury Regulations. The Bond Yield computed in this manner, and based on calculations provided by the Underwriter, is not less than 2.799273%. In the computation of the Bond Yield, each of the Obligations scheduled to mature on or after November 1, 2029, has been treated as redeemed at its stated redemption price on the optional redemption date that produces the lowest yield on that Obligation.

(2) Yield Limitations. The Issuer will comply with the following yield limitations with respect to the investment of Proceeds of the Obligations:

Fund or Account	**Temporary Period of Unrestricted Investment**	**Restriction After Temporary Period**	**Excepted From Rebate (Yes)/(No)**
Proceeds Used to Refund Refunded Bonds	90 days	Bond Yield	No[1]
Debt Service Fund	13 months	Bond Yield	Yes
Rebate Fund	Unlimited	n/a	Yes
Series 2018A Costs of Issuance Fund	1 year	Bond Yield	No[1]

4. REBATE REQUIREMENT, CALCULATIONS AND PAYMENT.

The Issuer will comply with the rebate requirement of Section 148(f) of the Code (the "**Rebate Requirement**") with respect to the Obligations. Certain of the regulations promulgated under Section 148(f) are summarized in Appendix II. The Issuer will maintain until a date not earlier than three years following the final retirement of the Obligations (and any bonds that refund any portion of the Obligations) books and records setting forth: (a) the date of each expenditure of Gross Proceeds of the Obligations; and (b) with respect to each investment made with Gross Proceeds of the Obligations, (1) the purchase date, (2) the purchase price, (3) the face amount, (4) the coupon rate, (5) the periodicity of interest payments, (6) the date of sale or maturity, (7) the amount received at sale or maturity, and (8) the date and amount of any investment income realized. The Issuer will seek such additional guidance as it believes necessary to comply with its covenants contained in this Section 4.

[1] Except to the extent a spending exception applies, as described in Appendix II.

5. ALLOCATION AND ACCOUNTING.

The Issuer will account for the Gross Proceeds of the Obligations separately and apart from all other funds of the Issuer. The Issuer will account for the investment and expenditure of the Gross Proceeds of the Obligations using a reasonable, consistently applied accounting method.

6. PROHIBITED INVESTMENTS AND DISPOSITIONS.

The Issuer will not purchase an investment with Gross Proceeds of the Obligations for a price greater than, or sell an investment acquired with Gross Proceeds of the Obligations for an amount less than, its fair market value (determined in accordance with Section 1.148-5(d) of the Treasury Regulations).

7. NO FEDERAL GUARANTEE.

The Issuer will not permit the payment of any principal of or interest on the Obligations to be guaranteed, directly or indirectly, by the federal government.

8. USE OF PROCEEDS.

The Issuer makes the representations below with respect to the use of proceeds of the Obligations:

(a) In General. No more than the lesser of 10% of the proceeds of the Obligations or the Project (based on the cost of the components of the Project or, with respect to a unitary structure, based on the relative fair rental value of such components) or $15,000,000 has been, since the issue date of the Refunded Bonds, or will be used in the aggregate for any activities that constitute a "**Private Use**" (as such term is defined below in subsection (d)). No more than the lesser of 10% of the principal of or interest on the Obligations or $15,000,000, under the terms thereof or any underlying arrangement, will be secured by any interest in property (whether or not the Project) used or to be used for a Private Use or in payments in respect of property used or to be used for a Private Use, or will be derived from payments in respect of property used or to be used for a Private Use.

(b) No Private Loan Financing. No more than the lesser of 5% of the proceeds of the Obligations or $5,000,000 will be used to make or finance loans to any person other than to a state or local governmental unit (other than loans to finance any governmental tax or assessment of general application for a specific essential governmental function or loans that are used to acquire or carry Nonpurpose Investments).

(c) No Disproportionate or Unrelated Use. No more than the lesser of 5% of the proceeds of the Obligations or the Project (based on the cost of the components of the Project or, with respect to a unitary structure, based on the relative fair rental value of such components) or $15,000,000 has been, since the issue date of the Refunded Bonds, or will be used for a Private Use that is unrelated or disproportionate (within the meaning of Section 141(b)(3)(B) of the Code) to the governmental use of the proceeds of the Obligations (an "**Unrelated or Disproportionate Use**"). No more than the lesser of 5% of the principal of or interest on the Obligations or $15,000,000, under the terms thereof or any underlying arrangement, will be secured by any

interest in property (whether or not the Project) used or to be used for a Private Use that is an Unrelated or Disproportionate Use or in payments in respect of property used or to be used for a Private Use, or will be derived from payments in respect of property used or to be used for a Private Use that is an Unrelated or Disproportionate Use.

(d) Definition of Private Use. For purposes of this Tax Certificate, the term "**Private Use**" means any activity that constitutes a trade or business that is carried on by persons or entities other than governmental entities. The leasing of property financed with proceeds of the Obligations or the access of a person or entity other than a governmental unit to property or services on a basis other than as a member of the general public ("**General Public Use**") will constitute a Private Use unless the Issuer obtains an opinion of Bond Counsel to the contrary. Use of property financed with proceeds of the Obligations in a trade or business constitutes General Public Use only if the property is intended to be available and is in fact reasonably available for use on the same basis by natural persons not engaged in a trade or business.

(e) Management or Service Contracts. With respect to management and service contracts, the determination of whether a particular use constitutes a Private Use under this Tax Certificate will be determined on the basis of applying, at the option of the Issuer, (I) Revenue Procedure 2017-13, 2017-6 I.R.B 787, or (II) in the case of a contract that was entered into before August 18, 2017, and that has not been materially modified or extended on or after August 18, 2017 (other than pursuant to a provision under which either party had a legally enforceable right to renew the contract), Revenue Procedure 97-13, 1997-1 C.B. 632, as modified by Revenue Procedure 2001-39, 2001-2 C.B. 38, and Notice 2014-67, 2014-46 I.R.B. 822.

(f) Compliance Monitoring. The Issuer will monitor the use of the Project and will notify and seek guidance from Bond Counsel prior to permitting any portion of the proceeds of the Obligations or the Project to be used in a manner that is inconsistent with the expectations set forth in this Section 8.

9. INFORMATION REPORTING.

The Issuer has reviewed the Internal Revenue Service Form 8038-G to be filed in connection with the issuance of the Obligations, a copy of which is attached hereto as **Exhibit B**, and all of the information contained therein is, to the best of the Issuer's knowledge, true and complete.

10. RECORD RETENTION.

The Issuer will maintain until at least three years after the final retirement of the Obligations (and any bonds that refund any portion of the Obligations) books and records sufficient to substantiate compliance with the Issuer's representations, certifications and covenants contained in this Tax Certificate, including the following books and records:

(a) Bond Transcript. The transcript of proceedings for the Obligations;

(b) Expenditure of Proceeds. Documentation showing the expenditure of Proceeds of the Obligations;

(c) Use of Project. Documentation showing the use of the Project by the Issuer, the general public or any third parties (including, for example, any use under a management or output contract);

(d) Sources of Payment and Security. Documentation showing the sources of payment and security for the Obligations;

(e) Investments. Documentation relating to the investment of Gross Proceeds of the Obligations, including the purchase and sale of securities, SLGS subscriptions, guaranteed investment contracts, investment income received, yield calculations, and rebate calculations;

(f) Returns. All returns filed with the IRS for the Obligations (including IRS Form 8038-G), together with sufficient records to show that those returns are correct; and

(g) Other Relevant Documentation. Any other documentation that is material to the exclusion of interest on the Obligations from gross income for federal income tax purposes.

11. COVENANTS REGARDING TAX EXEMPTION; AMENDMENTS.

The Issuer hereby covenants with the owners of the Obligations that the Issuer will (1) take all actions on its part necessary to cause interest on the Obligations not to be includable in the gross income of the owners thereof for federal income tax purposes and (2) refrain from taking any action that would cause interest on the Obligations to be includable in the gross income of the owners thereof for federal income tax purposes. Notwithstanding any other provision of this Tax Certificate to the contrary, the covenants contained in this Section 11 shall survive the payment or defeasance of the Obligations and the interest thereon for as long as necessary to maintain the exclusion of interest on the Obligations from gross income for purposes of federal income taxation. This Tax Certificate sets forth the information, representations, and procedures necessary for Bond Counsel to render its opinion regarding such exclusion of interest and may be amended or supplemented from time to time to maintain such exclusion only with the approval of Bond Counsel.

Notwithstanding any other provision herein, the covenants and obligations contained herein may be and shall be deemed modified to the extent the Issuer secures an opinion of Bond Counsel that any action required hereunder is no longer required or that some further action is required in order to maintain the exclusion of interest on the Obligations from gross income for purposes of federal income taxation.

[Signature page follows]

12. SUPPLEMENTATION OF TAX CERTIFICATE. At any time that the Issuer believes it may be necessary or appropriate, the Issuer will supplement or amend this Tax Certificate in a manner such that Bond Counsel may continue to be of the opinion that interest on the Obligations is excluded from gross income for federal income tax purposes.

Dated: April 19, 2018

CITY OF MODESTO, CALIFORNIA

By

Name: DeAnna Christensen
Title: Acting Director of Finance

APPENDIX I

DEFINITIONS

A. **BOND COUNSEL** shall mean Norton Rose Fulbright US LLP, or any other law firm or law firms appointed by the Issuer, having a national reputation in the field of municipal finance whose opinions are generally accepted by purchasers of municipal bonds.

B. **BOND YEAR** shall mean each one year period that ends on the day selected by the issuer. If no day is selected by the issuer before the date that is five years after the Delivery Date, each Bond Year ends on the anniversary of the Delivery Date and on the final maturity date.

C. **CODE** shall mean the Internal Revenue Code of 1986.

D. **COMPUTATION DATE** shall mean each date on which the rebate amount for an issue is computed.

E. **COMPUTATION PERIOD** shall mean the period between Computation Dates. The first Computation Period begins on the date hereof and ends on the first Computation Date. Each succeeding Computation Period begins on the date immediately following the Computation Date and ends on the next Computation Date.

F. **GROSS PROCEEDS** shall mean any Proceeds or Replacement Proceeds of an issue.

G. **INVESTMENT PROCEEDS** shall mean any amounts actually or constructively received from investing Proceeds of an issue.

H. **INVESTMENT PROPERTY** shall mean any security or obligation within the meaning of section 148(b)(2) of the Code, any annuity contract, any interest in any residential rental property for family units that is not located within the jurisdiction of the issuer, any "specified private activity bond" within the meaning of section 57(a)(5)(C) of the Code, and any other Investment-Type Property.

I. **INVESTMENT-TYPE PROPERTY** includes any property that is held principally as a passive vehicle for the production of income. A prepayment for property or services by the issuer is Investment-Type Property if a principal purpose for prepaying is to receive an investment return from the time the prepayment is made until the time payment otherwise would be made. A prepayment is not Investment-Type Property if (i) prepayments on substantially the same terms are made by a substantial percentage of persons who are similarly situated to the issuer but who are not beneficiaries of tax-exempt financing; or (ii) the prepayment is made within 90 days of the reasonably expected date of delivery to the issuer of all of the property or services for which the prepayment is made.

J. **NET SALE PROCEEDS** shall mean Sale Proceeds, less the portion of those Sale Proceeds invested in a reasonably required reserve or replacement fund.

K. **NONPURPOSE INVESTMENT** shall mean any Investment Property that is not a Purpose Investment.

L. **PRE-ISSUANCE ACCRUED INTEREST** shall mean amounts representing interest that has accrued on an obligation for a period of not greater than one year before its issue date but only if those amounts are paid within one year after the Delivery Date.

M. **PROCEEDS** shall mean any Sale Proceeds, Investment Proceeds and Transferred Proceeds of an issue.

N. **PURPOSE INVESTMENT** shall mean an investment that is acquired to carry out the governmental purpose of an issue.

O. **REPLACEMENT PROCEEDS** shall mean amounts that have a sufficiently direct nexus to an issue to conclude that the amounts would have been used for that governmental purpose if the Proceeds of the issue were not used or to be used for that governmental purpose. For this purpose, governmental purposes include the expected use of amounts for the payment of debt service on a particular date. The mere availability or preliminary earmarking of amounts for a governmental purpose, however, does not in itself establish a sufficient nexus to cause those amounts to be Replacement Proceeds. Replacement Proceeds include, but are not limited to, amounts held in a sinking fund or a pledged fund. For these purposes, an amount is pledged to pay principal of or interest on an issue if there is reasonable assurance that the amount will be available for such purposes in the event that the issuer encounters financial difficulties. Replacement Proceeds also include, but are not limited to, amounts held in any fund or account with respect to which the issuer or any other person substantially interested in the issue has covenanted to maintain at least a minimum balance other than (i) a fund the balance in which need be evaluated no more frequently than twice each year, or (ii) a fund in respect of the monies in which the owner may grant a security interest senior to the direct and indirect interests of the bondholders.

P. **SALE PROCEEDS** shall mean any amounts actually or constructively received by the issuer from the sale of an issue, including amounts used to pay underwriters' discount or compensation and interest other than Pre-Issuance Accrued Interest.

Q. **TRANSFERRED PROCEEDS** shall have the same meaning as set forth in Section 1.148-1 of the Treasury Regulations.

R. **TREASURY REGULATIONS** shall mean the Treasury Regulations applicable under Sections 103 and 141-150 of the Code.

S. **VALUE (OF A BOND)** shall mean with respect to a bond issued with not more than two percent original issue discount or original issue premium, the outstanding principal amount, plus accrued unpaid interest; for any other bond, its present value.

APPENDIX II

REBATE REQUIREMENT

A. **GENERALLY.** Section 148(f) of the Code requires that certain earnings on Nonpurpose Investments allocable to the Gross Proceeds of an issue be paid to the United States to prevent the bonds of the issue from being arbitrage bonds. The arbitrage that must be rebated is based on the difference between the amount actually earned on Nonpurpose Investments and the amount that would have been earned if those investments had a yield equal to the yield on the issue. As of any date, the rebate amount for an issue is the excess of the future value, as of that date, of all receipts on Nonpurpose Investments over the future value, as of that date, of all payments on Nonpurpose Investments. The future value of a payment or receipt at the end of any period is determined using the economic accrual method and equals the value of that payment or receipt when it is paid or received (or treated as paid or received), plus interest assumed to be earned and compounded over the period at a rate equal to the yield on the issue, using the same compounding interval and financial conventions used to compute that yield.

B. **COMPUTATION DATES (OTHER THAN THE FINAL COMPUTATION DATE).** For a fixed yield issue, the issuer may treat any date as a Computation Date provided the first such date is within five years of the Delivery Date. For a variable yield issue, the issuer may treat the last day of any Bond Year that is not later than five years from the Delivery Date as a Computation Date and may not change that treatment after the first rebate payment, if any, is due. After the first rebate payment, if any, is due, the issuer must consistently treat either the end of each Bond Year or the end of each fifth Bond Year as Computation Dates and may not change these Computation Dates after the first rebate payment, if any, is due.

C. **FINAL COMPUTATION DATE.** The date that the final bond of an issue is actually retired (as distinguished from defeased) is the Final Computation Date. For an issue finally retired within three years of its Delivery Date, however, the Final Computation Date need not occur before the end of 8 months after the Delivery Date or during the period in which the issuer reasonably expects that any of the spending exceptions to the rebate requirement will apply to the issue.

D. **AMOUNT OF REQUIRED REBATE.** For Computation Dates other than the Final Computation Date, the issuer must rebate an amount that when added to the future value, as of that Computation Date, of previous rebate payments made for the issue, equals at least 90 percent of the rebate amount as of that date. For the Final Computation Date, a final rebate payment must be paid in an amount that, when added to the future value of previous rebate payments made for the issue, equals 100 percent of the rebate amount as of that date.

E. **TIME AND MANNER OF PAYMENT.** Each rebate payment must be paid no later than 60 days after the Computation Date to which the payment relates. Any rebate payment paid within this 60-day period may be treated as paid on the Computation Date to which it relates. Unless otherwise provided in subsequent guidance of the Internal Revenue Service,

rebate payments shall be filed with the Internal Revenue Service Center, Ogden, UT 84201, and shall be accompanied by a properly completed and executed Form 8038-T.

F. **SPENDING EXCEPTIONS FROM REBATE.** Notwithstanding the foregoing, the Code and Treasury Regulations provide certain exceptions that, if complied with, will result in the issuer being treated as having satisfied the obligation to pay rebate with respect to some or all of the Gross Proceeds of an issue. These exceptions are complex, and satisfaction of any of the exceptions must be confirmed by an independent accountant or other professional expert in the application of the arbitrage rebate provisions of section 148(f) of the Code. The following is a brief summary of each of these exceptions:

i) **SIX MONTH EXCEPTION.** If the gross proceeds of the bonds (other than gross proceeds held in a bona fide debt service fund, amounts in a reasonably required reserve or replacement fund, amounts that were not anticipated to be gross proceeds but that become so after the end of the 6-month spending period, sale or investment proceeds derived from repayments of purpose investments of the bonds, or repayments of grants financed by the bonds (the "*Excepted Gross Proceeds*")) are expended within the 6-month period commencing on the date of issuance of the bonds, and if the rebate requirement is satisfied with respect to all amounts described in the preceding parenthetical (other than with respect to earnings on the bona fide debt service fund), then the rebate requirement shall be treated as satisfied;

ii) **18-MONTH EXCEPTION.** If the gross proceeds of the issue (exclusive of the Excepted Gross Proceeds) are allocated to expenditures in accordance with the following schedule measured from the issue date, and the rebate requirements are satisfied with respect to all Excepted Gross Proceeds (other than with respect to earnings on the *bona fide* debt service fund), and all of the sale proceeds and investment proceeds of the bonds qualified for the 3-year temporary period for capital projects (established under section 1.148-3(e)(2) of the Treasury Regulations), then the rebate requirement shall be treated as satisfied:

(1) At least 15 percent within 6 months;

(2) At least 60 percent within 12 months; and

(3) 100 percent within 18 months (provided that reasonable retainage (described in section 1.148-7(h) of the Treasury Regulations) may be allocated to expenditures within 30-months of the date of issuance).

iii) **2-YEAR EXCEPTION.** If the bonds constitute a "construction issue" (within the meaning of section 1.148-7(f) of the Treasury Regulations, which requires, inter alia, that at least 75% of the "available construction proceeds" (as defined in section 148(f)(4)(C)(vi) of the Code) are to be allocated to construction expenditures for property to be owned by a state or local governmental unit or a 501(c)(3) organization), and the available construction proceeds of the bonds are allocated to expenditures in

accordance with the following schedule measured from the issue date, then the rebate requirements are satisfied with respect to all available construction proceeds:

(1) At least 10 percent within 6 months;

(2) At least 45 percent within 1 year;

(3) At least 75 percent within 18 months; and

(4) 100 percent within 24 months (provided that reasonable retainage (described in section 1.148-7(h) of the Treasury Regulations) may be allocated to expenditures within 36-months of the date of issuance).

Under the Code and Treasury Regulations, if an issue comprises a construction purpose and also another purpose or purposes (e.g., acquisition or refunding), the issuer under certain circumstances may bifurcate the issue for purposes of applying the rebate requirements, and may qualify the construction portion of the issue under the foregoing exception.

EXHIBIT A

CERTIFICATE OF THE UNDERWRITER

(See attached)

$11,340,000
CITY OF MODESTO, CALIFORNIA
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2018A

CERTIFICATE OF THE UNDERWRITER

This Certificate is furnished by Raymond James & Associates, Inc., as the underwriter ("**Raymond James**") in connection with the issuance on April 19, 2018 (the "**Issue Date**"), of the $11,340,000 Wastewater Revenue Refunding Bonds, Series 2018A (the "**Bonds**"), by the City of Modesto, California (the "**City**").

The undersigned, as authorized representative, based on available records and information which the undersigned believes to be correct, does hereby certify as follows:

A. Issue Price.

1. As of March 20, 2018 (the "**Sale Date**"), each Maturity of the Bonds has been the subject of a bona fide offering to the Public at the respective yields shown in the Official Statement for the Bonds (the "**Initial Offering Yields**").

2. The first yield at which at least 10% of each Maturity of the Bonds was sold by Raymond James to the Public was the respective Initial Offering Yield.

For purposes of this certificate the following definitions apply:

"**Maturity**" shall refer to Bonds with the same maturity date, interest rate and credit terms.

"**Public**" means any person (including an individual, trust, estate, partnership, association, company or corporation) other than an Underwriter or a Related Party, as defined below.

"**Underwriter**" means (i) Raymond James, (ii) any person that agrees pursuant to a written contract to participate in the initial sale of the Bonds to the Public, and (iii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (ii) of this definition to participate in the initial sale of the Bonds to the Public, including but not limited to a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public.

"**Related Party**" means any entity if an Underwriter and such entity are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profit interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a

corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

B. Bond Yield.

We have been asked to calculate the arbitrage yield on the Bonds, under Section 148 of the Internal Revenue Code of 1986, as amended (the "**Code**"). Bond Counsel has advised us that the yield on the Bonds is to be computed under the economic accrual method using an assumed 30-day month/360-day year and semiannual compounding. We have also been advised by the City that no other transaction (such as an interest rate swap or other hedge) has been entered into by the City in connection with the issuance of the Bonds or is otherwise to be taken into account in the computation of the yield on the Bonds. Based on this methodology, to the best of our understanding of the computational methodology imposed by the Code, the arbitrage yield on the Bonds is not less than 2.799273%. For purposes of calculating the yield of the Bonds, with respect to each Maturity of the Bonds due on or after November 1, 2029 (the "**Callable Premium Bonds**"), each separate Maturity of the Callable Premium Bonds was treated as redeemed at its stated redemption price on the optional redemption date that produces the lowest yield on that Maturity of the Callable Premium Bonds.

C. Weighted Average Maturity.

We have been asked to calculate the weighted average maturity in the following manner: divide (a) the sum of the products determined by taking the issue price of each Maturity of the Bonds multiplied by the number of years from the date hereof to the date of such Maturity (treating the dates on which there are mandatory sinking fund redemptions of Bonds as Maturities for this purpose), by (b) the aggregate issue price of the Bonds. Based on this calculation, the weighted average maturity of the Bonds is 13.5381 years.

The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Tax Certificate with respect to the Bonds and with respect to compliance with the federal income tax rules affecting the Bonds, and by Norton Rose Fulbright US LLP ("Bond Counsel") in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G executed by the City and filed with the Internal Revenue Service, and other federal income tax advice that Bond Counsel may give to the City from time to time relating to the Bonds. Except as expressly set forth above, the certifications set forth herein may not be relied upon or used by any third party or for any other purpose. All terms not defined herein have the meanings ascribed to those terms in the attached Tax Certificate.

Notwithstanding the foregoing, we remind you that we are not accountants or actuaries, nor are we engaged in the practice of law. Accordingly, while we believe the calculations described above to be correct, we do not warrant them to be so, and Raymond James makes no representations as to the legal sufficiency of the factual matters set forth herein.

The undersigned is authorized to execute this certificate on behalf of Raymond James and the certifications set forth above are not necessarily based on personal knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein.

Dated: April 19, 2018

RAYMOND JAMES & ASSOCIATES, INC.

By: _____
Name: Robert Larkins
Title: Managing Director

EXHIBIT B

FORM 8038-G

(See attached)

Form **8038-G**
(Rev. September 2011)
Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Obligations

▶ Under Internal Revenue Code section 149(e)
▶ See separate instructions.
Caution: *If the issue price is under $100,000, use Form 8038-GC.*

OMB No. 1545-0720

Part I Reporting Authority

If **Amended Return**, check here ▶ ☐

1 Issuer's name
City of Modesto

2 Issuer's employer identification number (EIN)
94-6000374

3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions)

3b Telephone number of other person shown on 3a

4 Number and street (or P.O. box if mail is not delivered to street address) — Room/suite
1010 Tenth Street, Suite 5200

5 Report number *(For IRS Use Only)*
3

6 City, town, or post office, state, and ZIP code
Modesto, California 95354

7 Date of issue
04/19/2018

8 Name of issue
Wastewater Revenue Refunding Bonds, Series 2018A

9 CUSIP number
607802BQ7

10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions)
DeAnna Christensen, Acting Director of Finance

10b Telephone number of officer or other employee shown on 10a
209-577-5387

Part II Type of Issue (enter the issue price). See the instructions and attach schedule.

11	Education	11		
12	Health and hospital	12		
13	Transportation	13		
14	Public safety	14		
15	Environment (including sewage bonds)	15	13,423,429	80
16	Housing	16		
17	Utilities	17		
18	Other. Describe ▶	18		
19	If obligations are TANs or RANs, check only box 19a ▶ ☐ If obligations are BANs, check only box 19b ▶ ☐			
20	If obligations are in the form of a lease or installment sale, check box ▶ ☐			

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	11/01/2036	$ 13,423,429.80	$ 11,340,000.00	13.5381 years	2.7993 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22	Proceeds used for accrued interest			22		
23	Issue price of entire issue (enter amount from line 21, column (b))			23	13,423,429	80
24	Proceeds used for bond issuance costs (including underwriters' discount)	24	240,625 92			
25	Proceeds used for credit enhancement	25				
26	Proceeds allocated to reasonably required reserve or replacement fund	26				
27	Proceeds used to currently refund prior issues	27	13,182,803 88			
28	Proceeds used to advance refund prior issues	28				
29	Total (add lines 24 through 28)			29	13,423,429	80
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)			30	0	00

Part V Description of Refunded Bonds. Complete this part only for refunding bonds.

31	Enter the remaining weighted average maturity of the bonds to be currently refunded ▶	13.5200 years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded ▶	years
33	Enter the last date on which the refunded bonds will be called (MM/DD/YYYY) ▶	04/20/2018
34	Enter the date(s) the refunded bonds were issued ▶ (MM/DD/YYYY)	12/14/2006

Part VI Miscellaneous

35	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35		
36a	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions)	36a		
b	Enter the final maturity date of the GIC ▶			
c	Enter the name of the GIC provider ▶			
37	Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units	37		

38a If this issue is a loan made from the proceeds of another tax-exempt issue, check box ▶ ☐ and enter the following information:

b Enter the date of the master pool obligation ▶

c Enter the EIN of the issuer of the master pool obligation ▶

d Enter the name of the issuer of the master pool obligation ▶

39 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box ▶ ☐

40 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box ▶ ☐

41a If the issuer has identified a hedge, check here ▶ ☐ and enter the following information:

b Name of hedge provider ▶

c Type of hedge ▶

d Term of hedge ▶

42 If the issuer has superintegrated the hedge, check box ▶ ☐

43 If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box ▶ ☑

44 If the issuer has established written procedures to monitor the requirements of section 148, check box ▶ ☑

45a If some portion of the proceeds was used to reimburse expenditures, check here ▶ ☐ and enter the amount of reimbursement ▶

b Enter the date the official intent was adopted ▶

Signature and Consent

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.

Signature of issuer's authorized representative	Date	Type or print name and title
	04/19/2018	DeAnna Christensen, Acting Director of Finance

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Clifford M. Gerber		4/18/18		P01074464

Firm's name ▶	Norton Rose Fulbright US LLP	Firm's EIN ▶	74-1201087
Firm's address ▶	555 California Street, Suite 3300, San Francisco, California 94104	Phone no.	(628) 231-6802

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

CITY INCUMBENCY AND SIGNATURE CERTIFICATE

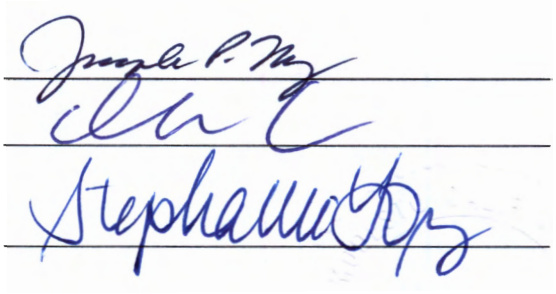
The undersigned hereby state and certify that:

(i) we are, respectively the Interim City Manager, Acting Director of Finance and the City Clerk of the City of Modesto, California (the "City"), a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California, and, as such, we are familiar with the facts herein certified and are authorized to certify the same;

(ii) the following persons are the current members of the City Council:

Office	Name
Mayor	Ted Brandvold
Councilmember	Mani Grewal
Councilmember	Tony Madrigal
Councilmember	Kristi Ah You
Councilmember	Bill Zoslocki
Councilmember	Jenny Kenoyer
Councilmember	Douglas Ridenour

(iii) each of the undersigned by his or her signature confirms that the other signatures (including the signature of the City Clerk) set forth below are true and correct specimens of their genuine signatures:

Name	Signature
Joseph Lopez, Interim City Manager	
DeAnna Christensen, Acting Director of Finance	
Stephanie Lopez, City Clerk	

(iv) the following documents and instruments relating to the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A bear the signatures of certain officers of the City named herein:

(a) the Series 2018A Bonds;

(b) the Fourth Supplemental Indenture, dated as of April 1, 2018 (the "Fourth Supplemental Indenture, by and between the City and the Trustee;

(c) the Bond Purchase Agreement, dated as of March 20, 2018 (the "Bond Purchase Agreement"), by and between the City and Raymond James & Associates, Inc., (the "Underwriter");

(d) the Official Statement relating to the Bonds, dated March 20, 2018 (the "Official Statement");

(e) the Disclosure Dissemination Agent Agreement, dated as of April 19, 2018 (the "Continuing Disclosure Agreement"), by and between the City and Digital Assurance Certification, L.L.C.;

(f) the Tax Certificate and Agreement, dated April 19, 2018 (the "Tax Certificate"); and

(g) certain other ancillary and closing documents in connection with the foregoing.

(v) The City Council has taken, by official action by Resolution No. 2018-102, adopted on March 20, 2018, all action necessary to be taken by the City Council for the execution and delivery of and due performance by the City of the obligations on its part contained in the Bond Purchase Agreement, the Continuing Disclosure Agreement, the Fourth Supplemental Indenture and the Official Statement and the taking of any and all such action as may be required on the part of the City to carry out, give effect to and consummate the transactions contemplated thereby;

(vi) Except as described in the Official Statement, no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the City that has not been obtained is or will be required for the issuance of the Series 2018A Bonds or the consummation by the City of the other transactions contemplated by the Continuing Disclosure Agreement, the Fourth Supplemental Indenture, the Bond Purchase Agreement and the Official Statement, except as such may be required for the state securities or blue sky laws;

(vii) The execution and delivery by the City of the Continuing Disclosure Agreement, the Indenture and the Bond Purchase Agreement, and compliance with the terms thereof, will not and do not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, lease, indenture, bond, note, resolution or instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery or compliance result in the creation or imposition of any lien,

charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, lease, indenture, bond, note, resolution, agreement or other instrument;

(viii) Except as described in the Official Statement, to the best of our knowledge, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body is pending or, to the best of our knowledge after reasonable investigation, threatened (a) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (b) seeking to restrain or enjoin the issuance, sale or delivery of any of the Series 2018A Bonds, or the collection of the revenues pledged or to be pledged to pay any of the Series 2018A Bonds; (c) in any way contesting or affecting the validity of the Indenture, the Continuing Disclosure Agreement, the Bond Purchase Agreement, the Series 2018A Bonds or the tax-exempt status of the Series 2018A Bonds or the collection of the revenues pledged to the payment of the Series 2018A Bonds or the pledge of said revenues, or contesting the powers of the City or any official of the City in connection with the adoption of the Resolution, the issuance, sale or the delivery of the Series 2018A Bonds or the execution and delivery of the Series 2018A Bonds, the Indenture, the Continuing Disclosure Agreement or the Bond Purchase Agreement and the performance of its obligations contained therein; (d) which reasonably may be expected to result in any material adverse change in the business, properties, assets or the financial condition of the City, the Wastewater System or which reasonably may be expected to have a material adverse effect on the ability of the City to meet its obligations under the Indenture, the Continuing Disclosure Agreement, the Series 2018A Bonds or the Bond Purchase Agreement; or (e) asserting that the Preliminary Official Statement, dated March 9, 2018, or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

All capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in the Official Statement and in the Bond Purchase Agreement.

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IN WITNESS WHEREOF, the undersigned have executed this City Incumbency and Signature Certificate as of this 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____
Joseph Lopez
Interim City Manager

By: _____
DeAnna Christensen
Acting Director of Finance

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

CLOSING CERTIFICATE OF THE CITY

I, DeAnna Christensen, hereby certify that I am the Acting Director of Finance of the City of Modesto, California, a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), and that, as such, I am familiar with the facts herein certified and am authorized to execute this document on behalf of the City.

Capitalized terms used and not defined herein shall have the meanings ascribed to them in the Bond Purchase Agreement, dated as of March 20, 2018 (the "Bond Purchase Agreement"), by and between the City and Raymond James & Associates, Inc., (the "Underwriter").

I hereby certify:

1. The representation and warranties of the City contained in the Bond Purchase Agreement are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date and the City has complied with all of the terms and conditions of the Bond Purchase Agreement required to be complied with by the City at or prior to the Closing Date; and

2. No event affecting the City has occurred since the date of the Official Statement relating to the Series 2018A Bonds, dated March 20, 2018 (the "Official Statement"), which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

3. As shown in Exhibit A hereto, Maximum Annual Debt Service (as defined in the Indenture) on the Series 2018A Bonds does not exceed 1.10 times the Maximum Annual Debt Service with respect to the Series 2006A Bonds being refunded with the proceeds of the Series 2018A Bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has executed this Closing Certificate of the City as of this 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____

DeAnna Christensen
Acting Director of Finance

EXHIBIT A
MAXIMUM ANNUAL DEBT SERVICE

SAVINGS

City of Modesto Wastewater
Refunding Revenue Bonds, Series 2018A
** FINAL **

Date	Prior Debt Service	Prior Receipts	Prior Net Cash Flow	Refunding Debt Service	Savings	Present Value to 04/19/2018 @ 2.7992739%
06/30/2018	312,878.75	312,878.75				
06/30/2019	625,757.50		625,757.50	573,913.33	51,844.17	50,602.77
06/30/2020	625,757.50		625,757.50	555,400.00	70,357.50	66,956.24
06/30/2021	625,757.50		625,757.50	555,400.00	70,357.50	65,120.58
06/30/2022	625,757.50		625,757.50	555,400.00	70,357.50	63,335.25
06/30/2023	625,757.50		625,757.50	555,400.00	70,357.50	61,598.86
06/30/2024	625,757.50		625,757.50	555,400.00	70,357.50	59,910.07
06/30/2025	625,757.50		625,757.50	555,400.00	70,357.50	58,267.59
06/30/2026	1,565,597.50		1,565,597.50	1,247,650.00	317,947.50	257,506.81
06/30/2027	1,569,081.25		1,569,081.25	1,251,150.00	317,931.25	250,462.61
06/30/2028	1,565,518.75		1,565,518.75	1,242,900.00	322,618.75	247,220.86
06/30/2029	1,570,043.75		1,570,043.75	1,247,775.00	322,268.75	240,209.16
06/30/2030	1,567,550.00		1,567,550.00	1,245,525.00	322,025.00	233,472.79
06/30/2031	1,568,037.50		1,568,037.50	1,246,150.00	321,887.50	226,999.61
06/30/2032	1,566,400.00		1,566,400.00	1,244,525.00	321,875.00	220,791.10
06/30/2033	1,567,531.25		1,567,531.25	1,245,525.00	322,006.25	214,847.62
06/30/2034	1,566,325.00		1,566,325.00	1,244,025.00	322,300.00	209,168.86
06/30/2035	1,567,675.00		1,567,675.00	1,244,900.00	322,775.00	203,753.59
06/30/2036	1,566,475.00		1,566,475.00	1,243,950.00	322,525.00	198,082.11
06/30/2037	1,567,618.75		1,567,618.75	1,245,375.00	322,243.75	192,502.01
	23,501,035.00	312,878.75	23,188,156.25	18,855,763.33	4,332,392.92	3,120,808.48

Savings Summary

PV of savings from cash flow	3,120,808.48
Less: Prior funds on hand	-1,533,075.75
Plus: Refunding funds on hand	4,630.16
Net PV Savings	1,592,362.89

NORTON ROSE FULBRIGHT

Norton Rose Fulbright US LLP
555 California Street, Suite 3300
San Francisco, California 94104-1609
United States

Direct line +1 628 231 6802
clifford.gerber@nortonrosefulbright.com

Tel +1 628 231 6800
Fax +1 628 231 6799
nortonrosefulbright.com

April 30, 2018

By Certified Mail
Return Receipt Requested

Article Number: 9414 7266 9904 2120 8960 94
Internal Revenue Service Center
Ogden, Utah 84201

$11,340,000
City of Modesto
Revenue Refunding Bonds
(Wastewater Series 2018A)

Ladies and Gentlemen:

Enclosed please find Internal Revenue Service Form 8038-G, "Information Return for Tax-Exempt Governmental Obligations," in connection with the issuance of the above-referenced wastewater revenue refunding bonds.

If you have any questions, please do not hesitate to call me.

Very truly yours,

Clifford M. Gerber

CMG:tw
Enclosure

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

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.

Form **8038-G**
(Rev. September 2011)
Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Obligations

▶ Under Internal Revenue Code section 149(e)
▶ See separate instructions.
Caution: *If the issue price is under $100,000, use Form 8038-GC.*

OMB No. 1545-0720

Part I Reporting Authority

If **Amended Return**, check here ▶ ☐

1 Issuer's name
City of Modesto

2 Issuer's employer identification number (EIN)
94-6000374

3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions)

3b Telephone number of other person shown on 3a

4 Number and street (or P.O. box if mail is not delivered to street address) — Room/suite
1010 Tenth Street, Suite 5200

5 Report number *(For IRS Use Only)*
3

6 City, town, or post office, state, and ZIP code
Modesto, California 95354

7 Date of issue
04/19/2018

8 Name of issue
Wastewater Revenue Refunding Bonds, Series 2018A

9 CUSIP number
607802BQ7

10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions)
DeAnna Christensen, Acting Director of Finance

10b Telephone number of officer or other employee shown on 10a
209-577-5387

Part II Type of Issue (enter the issue price). See the instructions and attach schedule.

11	Education	11		
12	Health and hospital	12		
13	Transportation	13		
14	Public safety	14		
15	Environment (including sewage bonds)	15	13,423,429	80
16	Housing	16		
17	Utilities	17		
18	Other. Describe ▶	18		
19	If obligations are TANs or RANs, check only box 19a ▶ ☐ If obligations are BANs, check only box 19b ▶ ☐			
20	If obligations are in the form of a lease or installment sale, check box ▶ ☐			

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	11/01/2036	$ 13,423,429.80	$ 11,340,000.00	13.5381 years	2.7993 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22	Proceeds used for accrued interest			22		
23	Issue price of entire issue (enter amount from line 21, column (b))			23	13,423,429	80
24	Proceeds used for bond issuance costs (including underwriters' discount)	24	240,625 92			
25	Proceeds used for credit enhancement	25				
26	Proceeds allocated to reasonably required reserve or replacement fund	26				
27	Proceeds used to currently refund prior issues	27	13,182,803 88			
28	Proceeds used to advance refund prior issues	28				
29	Total (add lines 24 through 28)			29	13,423,429	80
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)			30	0	00

Part V Description of Refunded Bonds. Complete this part only for refunding bonds.

31	Enter the remaining weighted average maturity of the bonds to be currently refunded ▶	13.5200 years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded ▶	years
33	Enter the last date on which the refunded bonds will be called (MM/DD/YYYY) ▶	04/20/2018
34	Enter the date(s) the refunded bonds were issued ▶ (MM/DD/YYYY)	12/14/2006

Part VI Miscellaneous

35	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35		
36a	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions)	36a		
b	Enter the final maturity date of the GIC ▶			
c	Enter the name of the GIC provider ▶			
37	Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units	37		

38a If this issue is a loan made from the proceeds of another tax-exempt issue, check box ▶ ☐ and enter the following information:

b Enter the date of the master pool obligation ▶

c Enter the EIN of the issuer of the master pool obligation ▶

d Enter the name of the issuer of the master pool obligation ▶

39 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box ▶ ☐

40 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box ▶ ☐

41a If the issuer has identified a hedge, check here ▶ ☐ and enter the following information:

b Name of hedge provider ▶

c Type of hedge ▶

d Term of hedge ▶

42 If the issuer has superintegrated the hedge, check box ▶ ☐

43 If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box ▶ ☑

44 If the issuer has established written procedures to monitor the requirements of section 148, check box ▶ ☑

45a If some portion of the proceeds was used to reimburse expenditures, check here ▶ ☐ and enter the amount of reimbursement ▶

b Enter the date the official intent was adopted ▶

Signature and Consent

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.

Signature of issuer's authorized representative	Date	Type or print name and title
	04/19/2018	DeAnna Christensen, Acting Director of Finance

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Clifford M. Gerber		4/18/18		P01074464

Firm's name ▶	Norton Rose Fulbright US LLP	Firm's EIN ▶	74-1201087
Firm's address ▶	555 California Street, Suite 3300, San Francisco, California 94104	Phone no.	(628) 231-6802

U.S. Postal Service®
CERTIFIED MAIL® RECEIPT
Domestic Mail Only

USPS® ARTICLE NUMBER

9414 7266 9904 2120 8960 94

Certified Mail Fee	$	3.45 2.75
Return Receipt (Hardcopy)	$	
Return Receipt (Electronic)	$	
Certified Mail Restricted Delivery	$	
Postage	$	1.21
Total Postage and Fees	$	7.41

USPS SAN FRANCISCO CA SUTTER STA 94104 APR 30 2021 Postmark Here

Sent to: Internal Revenue Service
IRS
Ogden, UT 84201
US

CG16436710019044545 Reference Information 8038-G 2018

PS Form 3800, Facsimile, July 2015

RAYMOND JAMES & ASSOCIATES, INC.

RECEIPT OF BONDS BY UNDERWRITER

Relating to

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

The undersigned, an authorized representative of Raymond James & Associates, Inc. (the "Underwriter"), hereby acknowledges receipt from the City of Modesto, California (the "City") of the above-captioned bonds in the aggregate principal amount of $11,340,000 (the "Bonds"), and the receipt of all documents and opinions required to be delivered to the Underwriter, and the satisfaction of all other conditions to the Underwriter of the Bonds pursuant to the Bond Purchase Agreement, dated as of March 20, 2018, by and between the City and the Underwriter.

The undersigned hereby further acknowledges the receipt of, or waives the requirement for, each opinion, document and certificate required by Section 7(d) of the Bond Purchase Agreement, dated March 20, 2018, between the City and the Underwriter, and agrees that the Underwriter has received each such opinion, document and certificate and that each is satisfactory to the Underwriter as to form and substance or have waived the requirements therefor.

Dated: April 19, 2018

RAYMOND JAMES & ASSOCIATES, INC.

By: _____
Authorized Representative

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

CERTIFICATE OF THE TRUSTEE

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as successor trustee (the "Trustee"), under that certain Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented (as so supplemented, the "Indenture"), including as supplemented by the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, providing for the issuance of the City's Wastewater Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds"), each by and between the City and the Trustee, hereby certifies as follows:

(iii) The Trustee is duly organized and existing as a national banking association in good standing under the laws of the United States of America, having the full power and authority to enter into and perform its duties under the Indenture;

(iv) The Trustee has duly and validly executed the Indenture, and the Indenture constitutes the legal, valid and binding agreement of the Trustee, enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases; and

(v) To the best knowledge of the Trustee after due inquiry, there is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body served on the Trustee or threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Indenture or contesting the powers of the Trustee or its authority to enter into, accept and perform its obligations under the Indenture.

(vi) The Series 2018A Bonds have been validly authenticated by the Trustee.

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IN WITNESS WHEREOF, the undersigned has executed this Certificate of the Trustee as of the 19th of April, 2018.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

By: _____
Authorized Officer

THE BANK OF NEW YORK MELLON TRUST COMPANY,

NATIONAL ASSOCIATION

I, the undersigned, Susan K. Maroni, Assistant Secretary of The Bank of New York Mellon Trust Company, National Association, a national banking association organized under the laws of the United States (the "Association") and located in the State of California, DO HEREBY CERTIFY that the following individuals are duly appointed and qualified Officers of the Association and that the signature appearing next to each officer listed is a true copy of the signature of such officer:

Officer Name and Title	Signing Authority	Signature
Los Angeles, California (400 South Hope Street)		
Fanny Chen **Vice President**	**A, J, N**	
Mark A. Golder **Vice President**	**A, J, N**	
Daniel Marroquin **Vice President**	**A, J, N**	
Gloria Ramirez **Vice President**	**A, J, N**	
Gonzalo Urey **Vice President**	**A, J, N**	
Deborah D. Young **Vice President**	**A, J, N**	
Tacoma, Washington (1313 Broadway)		
Carol Nelson **Vice President**	**A, J, N**	

I further certify that as of this date they have been authorized to sign on behalf of the Association in discharging or performing their duties in accordance with the senior and limited signing powers provided under Article V, Sections 5.2 and 5.3 of the By-laws of the Association and the paragraphs indicated above of the signing authority resolution of the Board of Directors of the Association.

Attached hereto are true and correct copies of excerpts of the By-laws of the Association, as amended through January 18, 2018, and the signing authority resolution, which has not been amended or revised since October 15, 2009, both of which are in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of The Bank of New York Mellon Trust Company, National Association this 30th day of January 2018.

Susan K. Maroni

Susan K. Maroni, Assistant Secretary

Extracts from By-Laws

of

The Bank of New York Mellon Trust Company, N.A.

As Amended through January 18, 2018

ARTICLE V
SIGNING AUTHORITIES

Section 5.1 Real Property. Real property owned by the Association in its own right shall not be deeded, conveyed, mortgaged, assigned or transferred except when duly authorized by a resolution of the Board. The Board may from time-to-time authorize officers to deed, convey, mortgage, assign or transfer real property owned by the Association in its own right with such maximum values as the Board may fix in its authorizing resolution.

Section 5.2. Senior Signing Powers. Subject to the exception provided in Section 5.1, the President and any Executive Vice President is authorized to accept, endorse, execute or sign any document, instrument or paper in the name of, or on behalf of, the Association in all transactions arising out of, or in connection with, the normal course of the Association's business or in any fiduciary, representative or agency capacity and, when required, to affix the seal of the Association thereto. In such instances as in the judgment of the President, or any Executive Vice President may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer to have the powers set forth in this section applicable only to the performance or discharge of the duties of such officer within his or her particular division or function. Any officer of the Association authorized in or pursuant to Section 5.3 to have any of the powers set forth therein, other than the officer signing pursuant to this Section 5.2, is authorized to attest to the seal of the Association on any documents requiring such seal.

Section 5.3. Limited Signing Powers. Subject to the exception provided in Section 5.1, in such instances as in the judgment of the President or any Executive Vice President, may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer, employee or individual to have the limited signing powers or limited power to affix the seal of the Association to specified classes of documents set forth in a resolution of the Board applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function.

Section 5.4. Powers of Attorney. All powers of attorney on behalf of the Association shall be executed by any officer of the Association jointly with the President, any Executive Vice President, or any Managing Director, provided that the execution by such Managing Director of said Power of Attorney shall be applicable only to the performance or discharge of the duties of said officer within his or her particular division or function. Any such power of attorney may, however, be executed by any officer or officers or person or persons who may be specifically authorized to execute the same by the Board of Directors.

Section 5.5. Auditor. The Auditor or any officer designated by the Auditor is authorized to certify in the name of, or on behalf of the Association, in its own right or in a fiduciary or representative capacity, as to the accuracy and completeness of any account, schedule of assets, or other document, instrument or paper requiring such certification.

SIGNING AUTHORITY RESOLUTION

Pursuant to Article V, Section 5.3 of the By-Laws
Adopted October 15, 2009

RESOLVED that, pursuant to Section 5.3 of the By-Laws of the Association, authority be, and hereby is, granted to the President or any Executive Vice President, in such instances as in the judgment of any one of said officers may be proper and desirable, to authorize in writing from time-to-time any other officer, employee or individual to have the limited signing authority set forth in any one or more of the following paragraphs applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function:

(A) All signing authority set forth in paragraphs (B) through (I) below except Level C which must be specifically designated.

(B1) Individuals authorized to accept, endorse, execute or sign any bill receivable; certification; contract, document or other instrument evidencing, embodying a commitment with respect to, or reflecting the terms or conditions of, a loan or an extension of credit by the Association; note; and document, instrument or paper of any type, including stock and bond powers, required for purchasing, selling, transferring, exchanging or otherwise disposing of or dealing in foreign currency, derivatives or any form of securities, including options and futures thereon; in each case in transactions arising out of, or in connection with, the normal course of the Association's business.

(B2) Individuals authorized to endorse, execute or sign any certification; disclosure notice required by law; document, instrument or paper of any type required for judicial, regulatory or administrative proceedings or filings; and legal opinions.

(C1) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of $500,000,000 with single authorization for all transactions.

(C2) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of $500,000,000*.

(C3) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $500,000,000.

(C4) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount in excess of $100,000,000 but not to exceed $500,000,000*.

(C5) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt;

certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $100,000,000.

(C6) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $10,000,000.

(C7) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $5,000,000.

(C8) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $1,000,000.

(C9) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $250,000.

(C10) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $50,000.

(C11) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $5,000.

*Dual authorization is required by any combination of senior officer and/or Sector Head approved designee for non-exempt transactions. Single authorization required for exempt transactions.

(D1) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $1,000,000.

(D2) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $250,000.

(D3) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $50,000.

(D4) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $5,000.

(E) Authority to accept, endorse, execute or sign any guarantee of signature to assignments of stocks, bonds or other instruments; certification required for transfers and deliveries of stocks, bonds or other instruments; and document, instrument or paper of any type required in connection with any Individual Retirement Account or Keogh Plan or similar plan.

(F) Authority to accept, endorse, execute or sign any certificate of authentication as bond, unit investment trust or debenture trustee and on behalf of the Association as registrar and transfer agent.

(G) Authority to accept, endorse, execute or sign any bankers acceptance; letter of credit; and bill of lading.

(H) Authority to accept, endorse, execute or sign any document, instrument or paper of any type required in connection with the ownership, management or transfer of real or personal property held by the Association in trust or in connection with any transaction with respect to which the Association is acting in any fiduciary, representative or agency capacity, including the acceptance of such fiduciary, representative or agency account.

(I1) Authority to effect the external movement of free delivery of securities and internal transfers resulting in changes of beneficial ownership.

(I2) Authority to effect the movement of securities versus payment at market or contract value.

(J) Authority to either sign on behalf of the Association or to affix the seal of the Association to any of the following classes of documents: Trust Indentures, Escrow Agreements, Pooling and Servicing Agreements, Collateral Agency Agreements, Custody Agreements, Trustee's Deeds, Executor's Deeds, Personal Representative's Deeds, Other Real Estate Deeds for property not owned by the Association in its own right, Corporate Resolutions, Mortgage Satisfactions, Mortgage Assignments, Trust Agreements, Loan Agreements, Trust and Estate Accountings, Probate Petitions, responsive pleadings in litigated matters and Petitions in Probate Court with respect to Accountings, Contracts for providing customers with Association products or services.

(N) Individuals authorized to accept, endorse, execute or sign internal transactions only, (i.e., general ledger tickets); does not include the authority to authorize external money movements, internal money movements or internal free deliveries that result in changes of beneficial ownership.

(P1) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in excess of $10,000,000.

(P2) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $10,000,000.

(P3) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $5,000,000.

(P4) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $1,000,000.

(P5) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $250,000.

(P6) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $100,000.

(P7) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $50,000.

(P8) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $25,000.

(P9) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $10,000.

(P10) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $5,000.

(P11) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to $3,000.

RESOLVED, that any signing authority granted pursuant to this resolution may be rescinded by the President or any Executive Vice President and such signing authority shall terminate without the necessity of any further action when the person having such authority leaves the employ of the Association.

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

April 19, 2018

CERTIFICATE OF THE MUNICIPAL ADVISOR

Resolution No. 2018-102, adopted by the City Council on March 6, 2018 (the "Resolution"), in connection with the above-captioned bonds (the "Series 2018A Bonds") requires that the net present value savings resulting from the issuance of the Series 2018A Bonds are no less than 3% of the principal amount of the Series 2006A Bonds being refunded. As shown in Exhibit A hereto, the Series 2018A Bonds satisfy the foregoing Resolution requirement.

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IN WITNESS WHEREOF, the undersigned has executed this Certificate of the Municipal Advisor as of this 19th day of April, 2018.

PFM FINANCIAL ADVISORS LLC

By: _____
Authorized Representative

EXHIBIT A
NET PRESENT VALUE SAVINGS

SUMMARY OF REFUNDING RESULTS

City of Modesto Wastewater
Refunding Revenue Bonds, Series 2018A
** FINAL **

Dated Date	04/19/2018
Delivery Date	04/19/2018
Arbitrage yield	2.799274%
Escrow yield	0.000000%
Value of Negative Arbitrage	
Bond Par Amount	11,340,000.00
True Interest Cost	3.218518%
Net Interest Cost	3.550993%
All-In TIC	3.356344%
Average Coupon	4.868258%
Average Life	13.614
Par amount of refunded bonds	14,735,000.00
Average coupon of refunded bonds	4.248187%
Average life of refunded bonds	13.537
PV of prior debt to 04/19/2018 @ 2.799274%	17,394,583.36
Net PV Savings	1,592,362.89
Percentage savings of refunded bonds	10.806670%
Percentage savings of refunding bonds	14.042001%

NORTON ROSE FULBRIGHT

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

April 19, 2018

City of Modesto
Modesto, California

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto, California, a charter city and municipal corporation existing under the laws of the State of California (the "City"), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2018A, in the aggregate principal amount of $11,340,000 (the "Series 2018A Bonds"). The Series 2018A Bonds are being issued under and pursuant to (i) Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law"), and (ii) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and The Bank of New York Mellon Trust Company, N.A., successor trustee (the "Trustee") to U.S. Bank National Association, as amended and supplemented (the "Indenture"), including as amended and supplemented by a Fourth Supplemental Indenture, dated as of April 1, 2018 (the "Fourth Supplemental Indenture"). The Series 2018A Bonds are being issued to provide funds to refund all of the City of Modesto, California, Wastewater Revenue Refunding Bonds, Series 2006A. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Indenture.

In our capacity as bond counsel, we have reviewed the Charter of the City, the Bond Law, the Indenture, certifications of the City, the Trustee and others, opinions of the City Attorney and counsel to the Trustee, the Tax Certificate executed and delivered by the City in connection with

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

29770378

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.

the issuance of the Series 2018A Bonds (the "Tax Certificate"), and such other documents, certificates, opinions and matters of law as we have deemed necessary to enable us to render the opinions expressed herein. We have assumed, but have not verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and have assumed the accuracy and completeness of, certificates and letters (including opinion letters), and on oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

Our services as bond counsel were limited to such examination and to rendering the opinions set forth below. Furthermore, we have assumed compliance with all covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Series 2018A Bonds to be included in gross income for federal tax purposes. With respect to the opinions expressed herein, we call attention to the fact that the enforceability of the rights and obligations under the Series 2018A Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against charter cities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Enterprise is subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion that, under existing law:

1. The Series 2018A Bonds constitute the valid and binding special limited obligations of the City.

2. The Series 2018A Bonds are payable exclusively from and are secured by a pledge of Net Revenues of the Enterprise and certain amounts pledged under the Indenture. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2018A Bonds.

3. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the City. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2018A Bonds, of the Net Revenues of the Enterprise, and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. Additional bonds and other Parity Debt of the City have been, and may from time to time hereafter be, issued under the Indenture which are payable from Net Revenues on a parity basis with the Series 2018A Bonds.

5. Assuming compliance by the City with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the Series 2018A Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Series 2018A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2018A Bonds is not includable in the gross income of the owners of the Series 2018A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2018A Bonds to be included in gross income retroactive to the date of issuance of the Series 2018A Bonds.

6. Interest on the Series 2018A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Series 2018A Bonds 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 Series 2018A Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt or accrual of interest on, the Series 2018A Bonds. Further, certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Series 2018A Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect of any change to any document pertaining to the Series 2018A Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Series 2018A Bonds for federal income tax purposes.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2018A Bonds.

This opinion is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

Norton Rose Fulbright US LLP

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April 19, 2018

Raymond James & Associates, Inc.
as Underwriter
San Francisco, California

Re: $11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds, Series 2018A

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto (the "City") in connection with the issuance, sale and delivery by the City of its Wastewater Revenue Bonds, Series 2018A in the aggregate principal amount of $11,340,000 (the "Series 2018A Bonds") issued pursuant to Section 200 of the City Charter and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law") and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "Master Indenture"), as previously supplemented and amended, and as supplemented and amended by the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, providing for the issuance of the Series 2018A Bonds, each by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"). The Master Indenture as so supplemented is hereinafter referred to as the "Indenture."

The Bonds are being sold on the date hereof by the City to Raymond James & Associates, Inc., as underwriter (the "Underwriter"), pursuant to a Bond Purchase Agreement dated March 20, 2018 (the "Bond Purchase Agreement"), between the City and the Underwriter. All capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Bond Purchase Agreement.

In our capacity as bond counsel, we have examined a certified copy of the record of proceedings relating to the execution and delivery of the Series 2018A Bonds and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set

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forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation, and we have assumed, but did not independently verify, that the signatures on all documents and certificates that we reviewed are genuine.

Based upon the foregoing, we are of the opinion that:

(1) The statements contained in the Official Statement, dated March 20, 2018 (the "Official Statement"), with respect to the Series 2018A Bonds under the captions "INTRODUCTION," "THE SERIES 2018A BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2018A BONDS," "TAX MATTERS," APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," APPENDIX D – "PROPOSED FORM OF OPINION OF BOND COUNSEL," and APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT" taken together, to the extent they expressly purport to summarize certain provisions of the Indenture, the Series 2018A Bonds, the Continuing Disclosure Agreement and our final approving opinion concerning certain tax matters relating to the Series 2018A Bonds, fairly and accurately summarize the information presented therein in all material respects; provided that we are not expressing any opinion with respect to any financial statistical or numerical information presented in the Official Statement.

(2) The Bond Purchase Agreement has been duly authorized, executed and delivered by the City, and assuming due authorization, execution and delivery by the Underwriter, constitutes the legal, valid and binding agreement of the City enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally and equitable remedies if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and limitations on legal remedies against public agencies in the State of California, and except as the enforceability of the indemnification or waiver provisions may be limited by applicable securities laws or public policy.

(3) The Series 2018A Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, the Series 2018A Bonds are municipal securities within the meaning of the Securities Exchange Act of 1934, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

We have this day released to the City our final approving opinion concerning certain tax matters relating to the Series 2018A Bonds. The foregoing opinion may be relied upon by you to the same extent as if such opinion were addressed to you.

This letter is delivered to you as Underwriter of the Series 2018A Bonds and is solely for your benefit and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Series 2018A Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

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April 19, 2018

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

Raymond James & Associates, Inc.
as Underwriter
San Francisco, California

The City of Modesto
Modesto, California

Re: $11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto, California, a charter city and municipal corporation existing under the laws of the State of California (the "City"), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2018A, in the aggregate principal amount of $11,340,000 (the "Series 2018A Bonds"). The Series 2018A Bonds are being issued under and pursuant to (i) Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law"), and (ii) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and The Bank of New York Mellon Trust Company, N.A., successor trustee (the "Trustee") to U.S. Bank National Association, as amended and supplemented (the "Indenture"), including as amended and supplemented by a Fourth Supplemental Indenture, dated as of April 1, 2018. The Series 2018A Bonds are being issued to provide funds to refund all of the outstanding City of Modesto, California, Wastewater Revenue Refunding Bonds, Series 2006A (the "Refunded Bonds"), issued pursuant to the Indenture as previously supplemented by the Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In our capacity as bond counsel, we have examined a certified copy of the proceedings relating to the issuance of the Refunded Bonds and the Series 20018A Bonds and such other

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documents and instruments as we deemed necessary to render the opinions set forth herein, including the Indenture, data and computations prepared by Raymond James & Associates, Inc. (the "Underwriter"), the closing certificates executed by the City and the Trustee, including the Trustee's acknowledgment of sufficiency of funds on hand delivered on the date hereof (the "Sufficiency Certificate") to redeem the Refund Bonds in full on April 20, 2018. We have not verified the accuracy of the data and computations prepared by the Underwriter.

This opinion is being rendered pursuant to Section 7(d)(3) of the Bond Purchase Agreement between the Underwriter and the City, dated March 20, 2018, and the requirements of the Indenture.

We have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents.

As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and assumed the accuracy and completeness of, certificates, letters (including opinion letters), and oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others.

Based on and subject to the foregoing, we are of the opinion that:

(1) The defeasance of the Refunded Bonds and the deposit of moneys with the Trustee to refund the Refunded Bonds are authorized by and comply with the conditions and terms of the Indenture; and

(2) The Refunded Bonds have been deemed to have been paid under the Indenture, shall no longer be secured by or entitled to the benefits of the Indenture, and all liability of the City in respect of the Refunded Bonds has ceased, terminated and completely discharged, except for the purpose of payment from moneys held by the Trustee in the Redemption Fund for such purpose.

We have assumed that all other sums payable by the City under the Indenture have been paid and that provision has been made by the City for the mailing of a notice to the respective owners of the Refunded Bonds that the moneys described in the two preceding paragraphs are so available for payment and will be paid in accordance with the terms of the Written Request.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or

supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

This letter is furnished by us as bond counsel to the City. No attorney-client relationship has existed or exists between our firm and you (other than the City) in connection with the Series 2018A Bonds or by virtue of this letter. This letter is being delivered to you solely for your benefit and may not be used, circulated, quoted, or otherwise referred to for any other purpose, or relied upon by anyone else without our prior written consent.

Respectfully submitted,

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April 19, 2018

City of Modesto,
Modesto, California

Raymond James & Associates, Inc.
as Underwriter
San Francisco, California

Re: $11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds, Series 2018A

Ladies and Gentlemen:

We have acted as disclosure counsel to the City of Modesto (the "City") in connection with the issuance, sale and delivery by the City of its Wastewater Revenue Bonds, Series 2018A in the aggregate principal amount of $11,340,000 (the "Series 2018A Bonds") issued pursuant to Section 200 of the City Charter and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law") and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as previously supplemented and amended, and as supplemented and amended by the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (such indenture, as so supplemented and amended, the "Indenture"), providing for the issuance of the Series 2018A Bonds, each by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee").

The Series 2018A Bonds are being sold on the date hereof by the City to Raymond James & Associates, Inc., as underwriter (the "Underwriter"), pursuant to a Bond Purchase Agreement dated March 20, 2018 (the "Bond Purchase Agreement"), between the City and the Underwriter. This opinion is being rendered pursuant to Section 7(d)(4) of the Bond Purchase Agreement. All capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Bond Purchase Agreement, or if not defined therein, in the Indenture.

We have reviewed, among other documents, the Preliminary Official Statement dated March 6, 2018 relating to the Series 2018A Bonds (the "Preliminary Official Statement"), the Official Statement dated March 20, 2018 relating to the Series 2018A Bonds (the "Official Statement"), certificates of the City, the Trustee and others, the opinions referred to in the Bond Purchase Agreement and such other records, opinions and documents, and we have made such investigations of law and fact, as we have deemed appropriate as a basis for the conclusions hereinafter expressed.

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In arriving at the conclusions hereinafter expressed, we are not expressing any opinion or view on, and with your permission are assuming and relying on, the validity, accuracy and sufficiency of the records, documents, certificates and opinions referenced above (including the accuracy of all factual matters represented and legal conclusions contained therein). We have assumed that all records, documents, certificates and opinions that we have reviewed, and the signatures thereto, are genuine.

The conclusions expressed herein are limited to matters governed by the federal securities law of the United States, and we assume no responsibility with respect to the applicability or effect of the laws of any other jurisdiction.

In our capacity as Disclosure Counsel, we have rendered certain legal advice and assistance to the City in connection with the preparation of the Preliminary Official Statement and the Official Statement. Rendering such legal advice and assistance involved, among other things, discussions and inquiries concerning various legal matters, review of certain records, documents and proceedings, and participation in meetings and telephonic conferences with, among others, representatives of the City, the City Attorney, PFM Financial Advisors LLC as municipal advisor, the Underwriter, and Jones Hall, A Professional Law Corporation, as counsel to the Underwriter, at which meetings and during which telephonic conferences the contents of the Preliminary Official Statement and the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement or the Official Statement), no facts have come to the attention of the personnel in our firm directly involved in rendering legal advice and assistance to the City in connection with the preparation of the Preliminary Official Statement and the Official Statement which cause us to believe that (a) the Preliminary Official Statement as of its date or as of March 20, 2018 (excluding therefrom financial, demographic and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to DTC, Cede & Co. and the operation of the book-entry system; and the statements contained in Appendices B and F to the Preliminary Official Statement; as to all of which we express no view) contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, except for such information as is permitted to be excluded from the Preliminary Official Statement pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, including but not limited to information as to pricing, yields, interest rates, maturities, amortization, redemption provisions, ratings, debt service requirements, Underwriter's discount and CUSIP numbers, or (b) the Official Statement as of its date or as of the date hereof (excluding therefrom financial, demographic and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to DTC, Cede & Co. and the operation of the book-entry system; and the statements contained in Appendices B and F to the Official Statement; as to all of which we express no view) contained or contains any untrue statement of a material fact or omitted or omits to state

a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

During the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Preliminary Official Statement and the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement or the Official Statement.

We are furnishing this letter to the City and the Underwriter as Disclosure Counsel to the City, and not as counsel to the Underwriter. The provision of this opinion to the Underwriter shall not create any attorney-client relationship between our firm and the Underwriter. This letter is delivered in connection with the transaction described herein and may not be relied upon by you for any other purpose. This letter shall not extend to, and may not be used, circulated, quoted or otherwise referred to or relied upon by, any other person, firm, corporation or other entity, or filed with any governmental or other administrative agency for any purpose, without our prior written consent. Our engagement with respect to this matter terminates upon the delivery of this letter to you at the time of the closing relating to the Series 2018A Bonds, and we have no obligation to update this letter.

Respectfully submitted,

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April 18, 2018

City Council of the City of Modesto
Modesto, California

Raymond James & Associates, Inc.
San Francisco, California

Norton Rose Fulbright US LLP
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San Francisco, CA 94104

Re: $11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds, Series 2018A

Ladies and Gentlemen:

I am the City Attorney for the City of Modesto, California (the "City"). This opinion is rendered relating to the sale of $11,340,000 aggregate principal amount of the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the "Series 2018A Bonds"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Official Statement, dated March 20, 2018 relating to the Series 2018A Bonds (the "Official Statement") or the Bond Purchase Agreement, dated March 20, 2018 (the "Bond Purchase Agreement"), by and between the City and Raymond James & Associates, Inc.

In rendering this opinion, I have examined the following documents: (i) Resolution No. 2018-102, adopted by the City Council of the City on March 6, 2018 (the "Resolution"); (ii) (a) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "Master Indenture"), as supplemented and amended by (b) the First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "First Supplement"), (c) the Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "Second Supplement") (d) the Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006 (the "Third Supplement") and (e) the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplement" and, together with the Master Indenture, the First Supplement, the Second Supplement and the Third Supplement, the "Indenture"), providing for the issuance of the Series 2018A Bonds, each by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor

trustee; (iii) the Disclosure Dissemination Agent Agreement, dated April 19, 2018 (the "Disclosure Agreement"), by and between the City and Digital Assurance Corporation, L.L.C., as dissemination agent; (iv) the Bond Purchase Agreement; (v) the Official Statement and (vi) such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein.

Based on the foregoing, I am of the opinion that:

(1) The City is a charter city, duly organized and validly existing under the Constitution and the laws of the State of California (the "State");

(2) The Resolution approving and authorizing the execution and delivery of the Series 2018A Bonds, the Bond Purchase Agreement and the Indenture (collectively, the "City Documents") and approving the Official Statement, was duly adopted at a meeting of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Resolution is in full force and effect and has not been modified, amended or rescinded;

(3) The City Documents have been duly authorized, executed and delivered by the City and, assuming the genuineness of all Bond documents and signatures and the due and legal execution and delivery thereof by, and validity against, any parties other than the City, constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(4) The rates, fees and charges for the services provided by the City with respect to the Enterprise have been established in a manner that complies in all material respects with the applicable requirements of Articles XIIIC and XIIID of the California Constitution and other applicable laws of the State;

(5) To the best of my knowledge, after reasonable investigation, the execution and delivery of the City Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not in any material respect conflict with, or constitute on the part of the City a material breach of or default under, any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject;

(6) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the Closing Date for the City to enter into the City Documents, or to perform its obligations thereunder; and

(7) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best of my knowledge after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the City's obligations under the City Documents or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or affects in any manner the right or ability of the City to pay debt service on the Series 2018A Bonds.

This opinion is furnished to you solely for your benefit and we are not assuming any professional responsibility to any other person whomsoever. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose.

Respectfully submitted,

Jose M. Sanchez
Attorney at Law

JMS:SD

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April 19, 2018

City of Modesto
Modesto, California

Raymond James & Associates, Inc.
San Francisco, California

Re: $11,340,000 City of Modesto, California Wastewater Revenue Refunding Bonds Series 2018A (the "Bonds")

Ladies and Gentlemen:

I have acted as special counsel to The Bank of New York Mellon Trust Company, N.A. ("BNY") acting as successor trustee under that certain a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City of Modesto (the "City") and BNY, as amended and supplemented from time to time, including as amended and supplemented by a Fourth Supplemental Wastewater Revenue Bond Indenture (the "Fourth Supplemental Indenture"), dated as of April 1, 2018, by and between the City and BNY (as so amended and supplemented, the "Indenture"). Except as set forth herein, capitalized terms used in this opinion letter are defined as set forth in the Indenture.

In my capacity as counsel to BNY, I have examined originals or copies identified to my satisfaction of: (i) the Articles of Association and By-Laws of BNY, (ii) the Indenture, and (iii) such other records, certificates and documents as I have considered necessary or appropriate for the purpose of the opinion hereinafter rendered.

In rendering this opinion, I have relied upon the facts and information obtained from the records of BNY, officers of BNY, and other sources believed by me to be reliable, and have not undertaken to independently verify the accuracy of the factual matters represented, warranted, or certified in such documents. I have assumed the genuineness of all signatures other than the BNY's, the authenticity of documents, certificates and records submitted to me as originals, the conformity to the originals of all documents, certificates and records submitted to me as copies, the legal capacity of all natural persons executing documents other than BNY, and the

completeness and accuracy as of the date of this opinion letter of the factual matters in such documents, certificates and records, which assumptions I have not independently verified. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions.

Based upon and subject to the foregoing and subject to the qualifications set forth below, I am of the opinion that:

(i) BNY is a national banking association, duly organized and validly existing under the laws of the United States of America, having full power to enter into, accept and administer the trusts created under the Indenture;

(ii) the Fourth Supplemental Indenture has been duly authorized, executed and delivered by BNY, and assuming due authorization, execution and delivery by the City, the Indenture constitutes the legal, valid and binding obligation of BNY, enforceable in accordance with its terms, except as such enforcement thereof may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance, and other similar laws affecting the rights and remedies of creditors generally, and by the effect of general principles of equity, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, whether considered in a proceeding at law or in equity;

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over BNY that has not been obtained is or will be required for the execution and delivery of the Fourth Supplemental Indenture, or the consummation of the transactions contemplated by the Indenture; and

(iv) the above-referenced Bonds have been duly authenticated by BNY and delivered in accordance with the Indenture and are entitled to the benefits of the Indenture.

I express no opinion as to any matter other than as expressly set forth above, and, in conjunction therewith, I specifically express no opinion as to the status of the Bonds or the interest thereon under any federal securities laws, including but not limited to the Securities Act of 1933, as amended, and the Trust Indenture Act of 1939, as amended, or any state securities or "Blue Sky" law, or any federal, state or local tax law.

This opinion is as of the date hereof, and I have undertaken no, and hereby disclaim any, obligation to advise you of any change in any matter set forth herein even though the changes

may affect a legal analysis or conclusion in this opinion letter. Further, this opinion neither implies, nor should it be viewed to imply, an approval or recommendation of any investment in any Bond.

I express no opinion as to the effect of any law other than the law of California and the federal laws of the United States of America on the matters referred to herein, in each case as they exist on the date hereof. I express no opinion with respect to the laws, regulations, or ordinances of any county, municipal or other local governmental agency.

This opinion is furnished by me solely for your benefit. This opinion letter may be relied upon by you only in connection with the transaction described in the initial paragraph of this opinion letter and may not be used or relied upon by you for any other purpose or by any other person for any purpose whatsoever without, in each instance, my prior written consent.

Very truly yours,

Samuel D. Waldman

Samuel D. Waldman

JONES HALL

475 Sansome Street
Suite 1700
San Francisco, CA 94111
t. 415.391.5780
f. 415.276.2088

April 19, 2018

Raymond James & Associates, Inc.
One Embarcadero Center, Suite 650
San Francisco, California 94111

Re: $11,340,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A

Ladies and Gentlemen:

We have acted as your counsel in connection with your purchase of the referenced bonds (the "Bonds") pursuant to that certain Bond Purchase Agreement, dated March 20, 2018 (the "Purchase Agreement"), between the City of Modesto (the "City") and Raymond James & Associates, Inc. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Purchase Agreement. The Bonds are being issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"), as amended and supplemented on or before the date hereof, including as supplemented and amended by that certain Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, by and between the City and the Trustee (as so amended and supplemented, the "Indenture").

We are of the opinion that the Bonds are exempt from registration under the Securities Act of 1933, as amended, and that the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements. However, to assist you in your investigation concerning the Official Statement, we have reviewed certain documents and have participated in conferences in which the contents of the Official Statement and related matters were discussed.

During the course of our work on this matter, no facts have come to our attention that have caused us to believe that the Official Statement as of its date and the date hereof (except for the following items, which we expressly exclude from the scope of this sentence: any financial and statistical data, forecasts, numbers, estimates, assumptions, expressions of opinion, and

information concerning The Depository Trust Company and the book-entry system for the Bonds, that are contained or incorporated by reference in the Official Statement, and the appendices to the Official Statement) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The preceding paragraph is not an opinion, but is in the nature of negative observations based on certain limited activities performed by specific lawyers in our firm in our role as special counsel to you. The scope of the activities we performed for purposes of delivering this letter was inherently limited and does not purport to encompass all activities necessary for compliance with applicable securities laws. In addition, in performing those activities, we relied on third party representations, warranties, certifications and opinions, including and primarily, representations, warranties and certifications made by the City. The preceding paragraph is otherwise subject to the conditions set forth herein.

This letter is furnished by us solely for your benefit and may not be relied upon by any other person or entity. We disclaim any obligation to supplement this letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in the law that may hereafter occur, and our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

Jones Hall

A Professional Law Corporation

REPORT OF PROPOSED DEBT ISSUANCE

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400, Sacramento, CA 95814
P.O. Box 942809, Sacramento, CA 94209-0001
Tel: (916) 653-3269 Fax: (916) 654-7440

Submitted: Wednesday, March 07, 2018
12:10:21PM

Your completion and submittal of this on-line form assures your compliance with existing California State law and will assist in the maintenance of a complete database of public debt in California. Thank you for your cooperation. [1]

ISSUER NAME: City of Modesto, California
ISSUE NAME: $12,650,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A
PROJECT NAME: Modesto Wastewater Series 2018A
PROPOSED SALE DATE: 3/20/2018 **PRINCIPAL TO BE SOLD:** $12,650,000.00

WILL A VALIDATION ACTION BE PURSUED: ☐ No ☐ Yes ☒ Unknown
IS DEBT REPAYABLE IN NON-US CURRENCY: ☒ No ☐ Yes ☐ Unknown
IF VOTER APPROVED GENERAL OBLIGATION, ELECTION DATE: MEASURE:
VOTER AUTHORIZED AMOUNT: VOTER AUTHORIZATION REDUCED BY THIS ISSUE:
STATUTORY CODE UNDER WHICH THIS DEBT WILL BE ISSUED (1):
Other City Charter
STATUTORY CODE UNDER WHICH THIS DEBT WILL BE ISSUED (2) (If necessary):

IS ANY PORTION OF THE DEBT TO REFUND? [2]
☐ No ☒ Yes --- Amount proposed for refunding $12,650,000.00
IS ANY PORTION OF THE DEBT TO REDEEM, PAYDOWN, OR REFINANCE OUTSTANDING DEBT?
☐ No ☒ Yes --- Amount proposed for redemption, paydown, or refinancing $12,650,000.00

Issuer Contact

Name: DeAnna Christensen E-Mail: dachristensen@modestogov.com
Title: Acting Director of Finance
Address: 1010 10th Street P.O. Box 642
City: Modesto, CA 95353
Phone: 209 5775369 ISSUER LOCATED IN Stanislaus COUNTY

Filing Contact

Name of Individual representing Bond Counsel who completed this form and maybe contacted for information:
Name: Preston Swapp E-Mail: preston.swapp@nortonrosefulbright.com
Firm/ Agency: Norton Rose Fulbright US LLP
Address: 555 California St., Suite 3300
City: San Francisco, CA 94104
Phone: 628 2316806
Send acknowledgement to: Lucy Vargas E-Mail: lucy.vargas@nortonrosefulbright.com

FINANCING PARTICIPANTS

BOND COUNSEL: Norton Rose Fulbright US LLP
BORROWER COUNSEL (LOAN) (Not Obligor Counsel):
FINANCIAL ADVISOR: PFM Financial Advisors LLC
UNDERWRITER: Raymond James & Associates, Inc.
DISCLOSURE COUNSEL:
PURCHASER:
LENDER:
LESSOR:

IS THE INTEREST ON THE DEBT TAXABLE?

Under State Law: ☐ YES (taxable) ☒ NO (tax-exempt)
Under Federal Law: ☐ YES (taxable) ☒ NO (tax-exempt)
If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax?
☐ YES, preference item ☒ NO, not a preference item

TYPE OF SALE ☐ **Competitive** ☒ **Negotiated**
IS THIS FINANCING A PRIVATE PLACEMENT? ☒ **No** ☐ **Yes**
ISSUER CERTIFIES THAT IT HAS COMPLIED WITH GC SECTION 8855 (I) WITH RESPECT TO LOCAL DEBT POLICIES: [3] ☐ **No** ☐ **Yes** ☒ **N/A**

TYPE OF DEBT INSTRUMENT

NOTE

- [ ] Bond anticipation (BAN)
- [ ] Grant anticipation (GAN)
- [ ] Loan from bank / other institution (LOAN)
- [ ] Other note (Please specify below.) (OTHN)
- [ ] Revenue anticipation (RAN)
- [ ] Tax allocation (TALN)
- [ ] Tax and revenue anticipation (TRAN)
- [ ] Tax anticipation (TAN)
- [ ] Marks-Roos Authority Loan (MKRL)
- [ ] Commercial paper (CP)
- [ ] Conduit Revenue Note (Private Obligor) (CRN)
- [ ] Certificates of Participation (COPL)
- [ ] Capital Lease (CL)
- [ ] State Agency Loan (STAL)
- [ ] Other (Please specify below.) (OTH)

Bond

- [ ] Conduit revenue (CRB)
- [ ] General obligation (GOB)
- [ ] Limited tax obligation (LTOB)
- [ ] Other bond (Please specify below.) (OTHB)
- [ ] Pension Obligation (POB)
- [ ] Public lease revenue (PLRB)
- [ ] Rate Reduction (GC 6588.7) (RRB)
- [ ] Revenue (RB)
- [X] Revenue (Public enterprise) (PERB)
- [ ] Sales tax revenue (STRB)
- [ ] Special assessment (SAB)
- [ ] Tax allocation (TAB)

Please specify if "Other Note/ Other Bond/ Other" was checked.

SOURCE(S) OF REPAYMENT

- [ ] Bond proceeds (BDPR)
- [ ] General fund of issuing jurisdiction (GNFD)
- [ ] Grants (GRNT)
- [ ] Intergovernmental transfers other than grants (ITGV)
- [ ] Local obligor (LOB)
- [ ] Private obligor payments (POP)
- [ ] Other (OTHS)
- [ ] Property tax revenues (PRTX)
- [X] Public enterprise revenues (PER)
- [ ] Sales tax revenues (SATR)
- [ ] Special assessments (SA)
- [ ] Special tax revenues (SPTR)
- [ ] Tax-increment (TI)
- [ ] Utility Project Charges (UPC)

Please specify if "Other" was checked.

PURPOSE(S) OF FINANCING Showing 1st 5:	**Percent**
WSTW	100

Please specify type/name of project if different from above.

1 Section 8855(i) of the California Government Code requires the issuer of any proposed new public debt issue to give written notice of the proposed sale to CDIAC no later than 30 days prior to the sale. Under California Government Code Section 8855(j), the issuer of any debt issue shall, not later than 21 days after the sale of the debt, submit a report of final sale and the official statement (or alternate financing documents) to the Commission. The Commission may require information to be submitted in the report that it considers appropriate.

2 Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to CDIAC explaining the reasons why the local agency determined to sell the bonds at private sale or on a negotiated basis instead of at public sale.

3 In accordance with 8855(i) of the California Government code.

REPORT OF FINAL SALE

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400, Sacramento, CA 95814
P.O. Box 942809, Sacramento, CA 94209-0001
Tel: (916) 653-3269 Fax: (916) 654-7440

Submitted: Thursday, April 19, 2018 10:12:56AM

CDIAC # 2018-0485

Under California Government Code Section 8855(j), the issuer of any debt issue shall, not later than 21 days after the sale of the debt, submit a report of final sale and the official statement (or alternate financing documents) to the Commission. The Commission may require information to be submitted in the report that it considers appropriate.

ISSUER NAME City of Modesto
(if pool bond, list participants)

ISSUE NAME $11,340,000 City of Modesto, California Wastewater Revenue Refunding Bonds Series 2018A

PROJECT NAME Modesto Wastewater Series 2018A

WILL A VALIDATION ACTION BE PURSUED [X] No [ ] Yes [ ] Unknown

IS DEBT REPAYABLE IN NON-US CURRENCY [X] No [ ] Yes [ ] Unknown

IF VOTER APPROVED GENERAL OBLIGATION, ELECTION DATE **MEASURE**

VOTER AUTHORIZED AMOUNT $0.00 **VOTER AUTHORIZATION REDUCED BY THIS ISSUE** $0.00

STATUTORY CODE UNDER WHICH THIS DEBT WILL BE ISSUED (1)
Other (5) City Charter

STATUTORY CODE UNDER WHICH THIS DEBT WILL BE ISSUED (2) (If necessary)

ACTUAL SALE DATE (Date Debt Contract Signed): 3/20/2018 **PRINCIPAL SOLD:** $11,340,000.00

Dated Date (Date Interest Begins to Accrue): 4/19/2018

Settlement Date (Date assets or rights to use are transferred) 4/19/2018

IS ANY PORTION OF THE DEBT FOR REFUNDING?[1]
[ ] No [X] Yes, refunding amount (including costs) $11,340,000.00

IS ANY PORTION OF THE DEBT TO REFUND, REDEEM, PAYDOWN, or REFINANCE OUTSTANDING DEBT?
[ ] No [X] Yes, amount proposed for refunding, redemption, paydown, or refinancing of outstanding debt[1] $11,340,000.00

Issuer Contact :

Name : DeAnna Christensen
Title : Acting Director of Finance
Address : 1010 10th St PO Box 642
City/ State/ Zip Modesto, CA 95353
Phone: (209) 577-5387 **ISSUER LOCATED IN** **Stanislaus** **COUNTY**
E-Mail : dachristensen@modestogov.com

Filing Contact: Name of Individual representing Bond Counsel who completed this form and may be contacted for information.

Name : Eric Tashman
Firm/ Agency : Norton Rose Fulbright US LLP
Address : 555 California Street, Suite 3300
City/ State/ Zip San Francisco, CA 94104
Phone: (628) 231-6803
E-Mail : eric.tashman@nortonrosefulbright.com
Send acknowledgement/ copies to : Lucy Vargas
E-Mail : lucy.vargas@nortonrosefulbright.com

TYPE OF SALE : [X] Negotiated [ ] Competitive **IS THIS FINANCING A PRIVATE PLACEMENT?**[2] [X] No [ ] Yes

TYPE OF DEBT INSTRUMENT: Public enterprise revenue bond

Please specify if "Other" was checked.

SOURCE(S) OF REPAYMENT

- [ ] Bond proceeds (BDPR)
- [ ] General fund of issuing jurisdiction (GNFD)
- [ ] Grants (GRNT)
- [ ] Intergovernmental transfers other than grants (ITGV)
- [ ] Local obligor (LOB)
- [ ] Private obligor payments (POP)
- [ ] Other (OTHS)
- [ ] Property tax revenues (PRTX)
- [X] Public enterprise revenues (PER)
- [ ] Sales tax revenues (SATR)
- [ ] Special assessments (SA)
- [ ] Special tax revenues (SPTR)
- [ ] Tax-increment (TI)
- [ ] Utility Project Charges (UPC)

Please specify if "Other" was checked.

PURPOSE(S) OF FINANCING (show the first 5) **Percent**

Please specify type/name of project if different from above.

Name of individual to whom an invoice for the CDIAC issue fee should be sent :

Name : Robert Larkins
Firm/ Agency Raymond James & Associates Inc.
Address : One Embarcadero Center, Suite 650
City/ State/ Zip San Francisco, CA 94111
Phone: (415) 616-8025
E-Mail : robert.larkins@raymondjames.com

FINANCING PARTICIPANTS (Firm Name)		**Office Location** (City/ State) :
Financial Advisor :	PFM Financial Advisors LLC	Los Angeles, CA
Lead Underwriter:	Raymond James & Associates Inc	St Petersburg, FL
Borrower Counsel (Loan) (Not obligor Counsel):		,
Bond Counsel :	Norton Rose Fulbright US LLP	San Francisco, CA
Co-Bond Counsel :		,
Trustee/ Paying Agent :	Bank of New York Mellon Trust Company, N.A.	Los Angeles, CA
Placement Agent :		,
Disclosure Counsel:	Norton Rose Fulbright US LLP	San Francisco, CA
Purchaser:		,
Lender:		,
Lessor:		,

MATURITY SCHEDULE

- [ ] Attached
- [X] Included in Official Statement

MATURITY STRUCTURE

- [X] Serial (S)
- [ ] Term (T)
- [ ] Serial and term bonds (B)

FINAL MATURITY DATE: 11/1/2036

FIRST OPTIONAL CALL DATE: 11/1/2025

SENIOR STRUCTURE: [ ] Yes [X] No

SUBORDINATE STRUCTURE: [ ] Yes [X] No

OFFICIAL STATEMENT/ OFFERING MEMORANDUM :

- [X] Enclosed
- [ ] None prepared

IS THE INTEREST ON THE DEBT TAXABLE?

Under State Law: [ ] Yes (taxable) [X] No (tax-exempt)

Under Federal Law: [ ] Yes (taxable) [X] No (tax-exempt)

If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax? [ ] Yes [X] No

INTEREST TYPE (Please provide both NIC & TIC if available) :

- [ ] NIC Int. Cost 0.000%
- [X] TIC Int. Cost 0.032%
- [ ] Variable
- [ ] Other (Index/Rate)

CAPITAL APPRECIATION DEBT: [ ] Yes [X] No

RATE REDUCTION SAVINGS: $0.00

(In accordance with Government Code Section 6588.7)

WAS THE ISSUE INSURED OR GUARANTEED?

- [X] No
- [ ] Bond Insurance (I)
- [ ] Letter of Credit (L)
- [ ] State Intercept Program (T)
- [ ] Other

GUARANTOR :

ENHANCEMENT EXPIRATION DATE:

INDICATE CREDIT RATING: (For example, "AAA" or "Aaa")

- [ ] Not Rated
- [X] Rated

Standard & Poor's AA

Fitch

Moody's

Other

REASON FOR NEGOTIATED REFUNDINGS

If the issue is a negotiated refunding, indicate the reason(s) why the bonds were issued at a private or negotiated versus a

- [ ] (1) Timing of the sale provided more flexibility than a public sale.
- [ ] (2) More cost savings were expected to be realized than a public sale
- [ ] (3) More flexibility in debt structure was available than a public sale.
- [ ] (4) Issuer able to work with participants familiar with issue(r) than a public sale.
- [X] (5) All of the above.
- [ ] (6) Other (please specify)

ISSUANCE COSTS AND FEES :

A. Management Fee	$0.00
B. Total Takedown	$0.00
C. Underwriter Expenses	$49,795.76
Underwriter Spread or Discount	$49,795.76
D. Bond Counsel	$70,000.00
E. Borrower Counsel (Loan)	$0.00
F. Co-Bond Counsel	$0.00
G. Disclosure Counsel	$25,000.00
H. Financial Advisor	$52,000.00
I. Rating Agency	$21,500.00
J. Credit Enhancement	$0.00
K. Trustee Fee	$2,500.00
L. Placement Agent	$0.00
M. Other Expenses	$5,200.00
N. Purchaser Fee	$0.00
O. Lender Fee	$0.00
Total Issuance Costs	$225,995.76
Original Issue Premium	$2,083,429.80
Original Issue Discount	$0.00
Net Original Premium/ Discount	$2,083,429.80
Net Original Premium used to Refund, Redeem, Pay-Down, or Refinance	$2,083,429.80

REASON FOR NEGOTIATED REVENUE BONDS[3]

If the issue is a negotiated revenue bonds, indicate the reason(s) why the bonds were issued at a private or negotiated versus a competitive

- [ ] (1) Timing of the sale provided more flexibility than a public sale.
- [ ] (2) More cost savings were expected to be realized than a public sale
- [ ] (3) More flexibility in debt structure was available than a public sale.
- [ ] (4) Issuer able to work with participants familiar with issue(r) than a public sale.
- [ ] (5) All of the above.
- [ ] (6) Other (please specify)

1 *Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to CDIAC explaining the reasons why the local agency determined to sell the bonds at a private sale or on a negotiated basis instead of at public sale.*

2 *This fee is authorized by Section 8856 of the California Government Code and is charged to the lead underwriter, the purchaser or the lender in an amount equal to one-fortieth of 1 percent of the principal amount of the issue, but not to exceed five thousand dollars ($5000) for any one issue.*

3 *Section 54418 of the California Government Code requires that any local agency selling revenue bonds at a private sale rather than a public sale shall*

S.E.C. RULE 15c2-12
NOTICE OF LISTED EVENT

$16,535,000
City of Modesto, California
Wastewater Revenue Bonds
Series 2006A

Listed Event:

The City of Modesto hereby provides notice that the above captioned bonds (the "Bonds") have been defeased as of April 19, 2018, in accordance with the terms of the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented by the First Supplemental Indenture, dated as of April 1, 2005, the Second Supplemental Indenture, dated as of April 1, 2005, and the Third Supplemental Indenture, dated as of December 1, 2006, each between the City of Modesto, California and the Trustee. The Bonds will be redeemed on April 20, 2018. A separate Notice of Defeasance and Conditional Notice of Redemption have been filed on the Electronic Municipal Market Access website of the Municipal Securities Rulemaking Board.

Other Matters:

The filing of this notice does not constitute or imply any representation: (i) that the foregoing Listed Event is material to investors; (ii) regarding any other financial, operating or other information about the Bonds or the City; or (iii) that no other circumstances or events have occurred or that no other information exists concerning the Bonds, the City or any of the Listed Events, which may have a bearing on the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds.

This information is subject to change. This notice speaks only of its date and does not imply that there has been no change in any other information relating to the Bonds. The City has not undertaken to provide any further notices or other information regarding this matter.

Dated: April 19, 2018

CITY OF MODESTO

By: _____
DeAnna Christensen
Acting Director of Finance

29690286

$11,340,000
City of Modesto, California
Wastewater Revenue Refunding Bonds
Series 2018A

REQUISITION NO. 1

TO: The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee")

RE: Disbursement from Series 2018A Costs of Issuance Fund pursuant to the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the "Fourth Supplemental Indenture"), by and between the City of Modesto (the "City") and the Trustee.

You are hereby instructed to pay as Costs of Issuance of the City's Wastewater Revenue Bonds, Series 2018A in the aggregate principal amount of $11,340,000 (the "Series 2018A Bonds") from the Series 2018A Costs of Issuance Fund as provided in Section 15.12 of the Fourth Supplemental Indenture the amounts set forth on Exhibit A hereto, to the persons or entities designated therein as Payee. These Costs of Issuance of the Series 2018A Bonds have been properly incurred, are a proper charge against the Series 2018A Costs of Issuance Fund and have not been the basis of any previous disbursements.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the undersigned has executed this Requisition No. 1 as of the 19th of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: _____

DeAnna Christensen
Acting Director of Finance

Exhibit A
Costs of Issuance

Payee	Amount
S&P Global Ratings	$21,500.00
Norton Rose Fulbright US LLP	95,000.00
PFM Financial Advisors LLC	52,000.00
Imagemaster, LLC	3,000.00
The Bank of New York Mellon Trust Company, N.A.	2,500.00
Law Offices of Samuel D. Waldman	2,200.00

RAYMOND JAMES®

To: **City of Modesto Financing Team**

From: **Raymond James**

Date: **April 16, 2018**

Re: **Closing Instructions for:**
$11,340,000
City of Modesto
Wastewater Revenue Refunding Bonds
Series 2018A

The Bonds:

Delivery Date: April 19, 2018

Dated Date: April 19, 2018

Bond Type: DTC – Full Book Entry

Series 2018A - $11,340,000							
Maturity (November 1)	**CUSIP:**	**Par Amount**	**Coupon**	**Maturity (November 1)**	**CUSIP:**	**Par Amount**	**Coupon**
2025	607802BD6	710,000	5.00%	2031	607802BK0	955,000	5.00%
2026	607802BE4	750,000	5.00%	2032	607802BL8	1,005,000	5.00%
2027	607802BF1	780,000	5.00%	2033	607802BM6	1,055,000	5.00%
2028	607802BG9	825,000	5.00%	2034	607802BN4	1,110,000	5.00%
2029	607802BH7	865,000	5.00%	2035	607802BP9	1,160,000	4.00%
2030	607802BJ3	910,000	5.00%	2036	607802BQ7	1,215,000	5.00%

Closing Information:

Closing Date and Time: April 19, 2018 @ 8:30 AM PT

Location: Via Teleconference: Dial-in: 1-844-267-3708
Passcode: 438200

Closing Procedure: On April 18, 2018, the City of Modesto (Issuer) will wire a cash contribution equal to the Refunded Bonds' May 1, 2018 Interest payment to the Bank of New York Mellon Trust Company, N.A (Trustee). The City will send the Fed reference number to the BNY Mellon. BNY Mellon will send confirmation of receipt of the wire to: (1) the City, (2) Raymond James (Underwriter), (3) Norton Rose Fulbright US LLP (Bond Counsel) and to (4) PFM Financial Advisors LLC (Municipal Advisor).

On April 19, 2018 Raymond James will send the Fed reference numbers to the financing team. After confirmation from BNY Mellon that the funds have been received, BNY Mellon, Raymond James, and Norton Rose Fulbright US LLP will contact DTC to release the Bonds.

Bond Delivery Location: Depository Trust Company
55 Water Street
New York, NY 10041

DTC Phone Number: (212) 855-3752

RJ DTC Participant Number: 0390

RAYMOND JAMES®

Proceeds Information:

Sources	Total
Par Amount of Bonds	$11,340,000.00
Net Original Issue Premium	2,083,429.80
Prior DSRF	1,533,075.75
5/1/2018 Payment on Hand	312,878.75
Less Underwriter's Discount	-49,795.76
Total	**$15,219,588.54**

Uses	Total
Deposit to Redemption Fund	$15,028,758.38
Deposit to Costs of Issuance Fund	190,830.16
Total	**$15,219,588.54**

Wire # 1: The City will wire funds in the total amount of **$312,878.75** to BNY Mellon.

5/1/2018 Payment on Hand	$312,878.75
Total Wire Amount	$312,878.75

Wire Deposit to:
Bank: The Bank of New York Mellon Trust Company N.A.
ABA: 021000018
Account Name: Modesto WW Interest 2006A
Account Number: 8072568400
Ref: Attn Frank Strunk tel (213) 553-4381

Wire # 2: Raymond James will wire funds in the total amount of **$13,373,634.04** to BNY Mellon.

Par Amount of Bonds	$11,340,000.00
Net Original Issue Premium	2,083,429.80
Less: Underwriter's Discount	-49,795.76
Total Wire Amount	$13,373,634.04

Wire Deposit to:
Bank: The Bank of New York Mellon Trust Company N.A.
ABA: 021000018
Account Name: Modesto WW Ref Bd Proceeds 2018A
Account Number: 2726348400
Ref: Attn Frank Strunk tel (213) 553-4381

Application of Funds:

BNY Mellon will deposit funds as follows:

Deposit to Redemption Fund	$13,182,803.88
Costs of Issuance Fund	190,830.16
Total	$13,373,634.04

Other Transfers: At closing, BNY Mellon will transfer certain existing funds on hand to the Redemption Fund.

Sources of Redemption Fund	Total
Prior DSRF	$1,533,075.75
5/1/2018 Payment on Hand (from City)	312,878.75
Bond Proceeds	13,182,803.88
Total	**$15,028,758.38**

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City of Modesto
2018A Wastewater Refunding Bonds
Distribution List as of April 17, 2018

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