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UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

SACRAMENTO DIVISION

In re: CITY OF STOCKTON, CALIFORNIA, Debtor.	Case No. 2012-32118 D.C. No. OHS-15 Chapter 9
WELLS FARGO BANK, NATIONAL ASSOCIATION, FRANKLIN HIGH YIELD TAX-FREE INCOME FUND, AND FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND, Plaintiffs, v. CITY OF STOCKTON, CALIFORNIA, Defendant.	**EXHIBIT D-4 TO THE DIRECT TESTIMONY DECLARATION OF KENNETH DIEKER IN SUPPORT OF CONFIRMATION OF FIRST AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA (NOVEMBER 15, 2013)**[1] Adv. No. 2013-02315 Date: May 12, 2014 Time: 9:30 a.m. Dept: Courtroom 35 Judge: Hon. Christopher M. Klein

[1] While this declaration is made in support of confirmation of the Plan, out of an abundance of caution, and because the evidentiary hearing on Plan confirmation and the trial in the adversary proceeding share common issues, it is being filed in both in the main case and the adversary proceeding.

Exhibit D-4

CITY OF STOCKTON

TABLE 4 (Continued)
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year										
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Other financing sources (uses):											
Transfers in	$ 59,991	$ 78,825	$ 45,192	$ 46,449	$ 64,132	$ 71,393	$ 38,960	$ 28,561	$ 20,609	$ 18,449
Transfers out	(59,839)	(80,506)	(38,821)	(39,845)	(59,459)	(65,969)	(35,648)	(27,643)	(20,609)	(18,332)
Operating transfers out to a component unit	-	-	-	-	-	-	-	-	(98)	(98)
Issuance of long-term debt	53,436	110,509	14,608	592	79,713	38,110	32,946	6,275	16,945	3,100
Proceeds of current refunding bonds	-	-	-	-	-	-	-	2,744	11,610	8,775
Payment to refunding bond escrow agent - current refunding	-	-	-	-	-	-	-	(1,879)	(10,320)	(9,408)
Sales of capital assets	44	5	2	2	5	719	-	171	104	35
Advances from other funds	-	-	-	-	-	-	-	-	-	5,733
Current refunding	-	-	-	-	-	-	-	(680)	(3,000)	-
Payment to refunded bond escrow agent	-	-	(14,604)	-	-	(17,205)	-	-	-	-
Repayment of advances from other funds	-	-	-	-	-	-	-	(867)	(374)	(570)
Premiums on debt issuances		2,377	-	-	1,637	-	-	-	-	-
Discounts on debt issuances	(24)	-	(86)	-	(219)	(554)	(604)	-	-	-
Total other financing sources (uses)	$ 53,608	$ 111,210	$ 6,291	$ 7,198	$ 85,809	$ 26,494	$ 35,654	$ 6,882	$ 14,867	$ 7,684
Net change in fund balances	8,513	120,658	(3,162)	(35,100)	56,751	16,986	29,808	12,697	16,324	17,897
Fund balances, beginning of year	303,721	183,063	184,816	219,916	241,188	224,202	194,394	201,332	185,383	167,983
Residual equity transfers in	-	-	-	-	-	-	-	15,951	-	-
Residual equity transfers out	-	-	-	-	-	-	-	(1,234)	(375)	(497)
Fund balances, end of year	$ 312,234	$ 303,721	$ 181,654	$ 184,816	$ 297,939	$ 241,188	$ 224,202	$ 228,746	$ 201,332	$ 185,383
Debt service as a percentage of noncapital expenditures	4.2%	3.7%	2.1%	2.2%	10.9%	12.1%	11.8%	12.5%	11.3%	13.2%

(1) Measure W, Public Safety Tax, approved an additional .25% sales tax which was effective April 1, 2005 to hire 40 additional police officers and 40 additional firefighters. Fiscal 2006 included two additional months of revenue to align revenues to the month they were earned.

Beginning with fiscal year 2006, land secured financings were removed from capital projects funds and debt service funds and are reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Department of Financial Management

CITY OF STOCKTON

TABLE 5
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year											
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	% Change 1999 to 2008
Property (1)	$ 63,998	$ 60,015	$ 47,495	$ 33,723	$ 28,365	$ 23,449	$ 20,742	$ 19,035	$ 17,584	$ 16,747	282%
In lieu of sales tax (2)	10,164	11,070	9,274	8,750	-	-	-	-	-	-	-
Utility user (3)	30,861	30,101	34,313	34,908	33,322	32,157	31,462	31,188	25,468	24,160	28%
Sales (levied by city) (4)	9,409	9,249	9,941	1,047	-	-	-	-	-	-	-
Franchise fees (5)	11,537	10,817	10,333	9,812	5,725	5,623	5,364	5,255	4,222	4,630	149%
Business licenses (6)	10,772	10,285	11,222	8,960	8,014	8,065	6,897	6,643	6,133	5,714	89%
Hotel/motel room	2,287	2,180	2,171	2,160	2,030	2,048	2,005	1,994	1,559	1,385	65%
Document transfer (7)	686	1,187	2,010	2,036	1,525	1,043	777	692	478	1,095	-37%
Special assessments (8)	-	-	-	-	18,211	18,591	18,135	15,877	15,680	16,591	-100%
Other	246	257	218	193	187	174	254	174	154	132	86%
Totals	$ 139,960	$ 135,161	$ 126,977	$ 101,569	$ 97,379	$ 91,150	$ 85,636	$ 80,858	$ 71,278	$ 70,454	99%

(1) Property taxes continue to increase due to the addition of the North Stockton Redevelopment Project Area and the growth in new homes and commercial development.

(2) Effective with fiscal year 2005, the City began receiving property tax in-lieu of sales tax under provisions of Proposition 1A approved by the voters of the State of California. Fluctuations are due to the value of property when sold.

(3) The City Council approved a resolution in fiscal year 2005 to reduce the utility user tax rate from 8% to 6%, with the final reduction from 7% to 6% effective July 1, 2006. A mild winter combined with lower prices for natural gas and a rebate given to PG & E customers added to the overall reduction in revenue in 2007.

(4) Measure W, Public Safety Tax, approved an additional .25% sales tax which was effective April 1, 2005 to hire 40 additional police officers and 40 additional firefighters. Fiscal 2006 included two additional months of revenue to align revenues to the month they were earned.

(5) Contracts effective June 1, 2004 increased garbage haulers franchise fees.

(6) Business license revenue increased in 2006 based on the revenue generated through the Voluntary Compliance (amnesty) Program.

(7) These fees are charged when property changes ownership. Home and other property sales have slowed considerably in 2007.

(8) Beginning with fiscal year 2006, land secured financings were removed from the debt service funds and reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Department of Financial Management

CITY OF STOCKTON

TABLE 6
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Secured roll	$ 21,520,451	$ 19,823,995	$ 16,860,177	$ 14,398,725	$ 12,567,832	$ 11,300,938	$ 10,201,671	$ 8,719,177	$ 8,347,987	$ 8,165,852
Utility roll	5,652	14,092	15,883	16,316	15,054	12,683	13,536	15,364	17,038	14,893
Unsecured roll	1,234,912	1,195,948	1,127,627	1,015,499	951,164	904,354	834,424	799,923	775,627	786,120
Gross assessed value	$ 22,761,015	$ 21,034,035	$ 18,003,687	$ 15,430,540	$ 13,534,050	$ 12,217,975	$ 11,049,631	$ 9,534,464	$ 9,140,652	$ 8,966,865
Less exemptions (1)	1,302,249	1,238,271	1,185,310	1,111,509	1,061,968	1,003,662	952,815	902,578	780,309	755,604
Net assessed value	$ 21,458,766	$ 19,795,764	$ 16,818,377	$ 14,319,031	$ 12,472,082	$ 11,214,313	$ 10,096,816	$ 8,631,886	$ 8,360,343	$ 8,211,261
Land	$ 6,661,962	$ 5,992,555	$ 4,811,339	$ 4,104,660	$ 3,532,906	$ 3,132,565	$ 2,756,278	$ 2,439,069	$ 2,373,758	$ 2,329,276
Improvements	15,092,621	14,034,608	12,251,910	10,509,572	9,220,951	8,350,637	7,579,417	6,381,458	6,089,228	5,984,645
Personal property	1,006,432	1,006,872	940,438	816,308	780,193	734,773	713,936	713,937	677,666	652,944
Gross assessed value	$ 22,761,015	$ 21,034,035	$ 18,003,687	$ 15,430,540	$ 13,534,050	$ 12,217,975	$ 11,049,631	$ 9,534,464	$ 9,140,652	$ 8,966,865
Less exemptions (1)	1,302,249	1,238,271	1,185,310	1,111,509	1,061,968	1,003,662	952,815	902,578	780,309	755,604
Net assessed value	$ 21,458,766	$ 19,795,764	$ 16,818,377	$ 14,319,031	$ 12,472,082	$ 11,214,313	$ 10,096,816	$ 8,631,886	$ 8,360,343	$ 8,211,261
Total Direct Tax Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

(1) For FY 2008, all exemptions (secured, utility, and unsecured rolls) are: homeowners - $269,233 and other - $1,033,016 = $1,302,249

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the property being sold is reassessed at the purchase price. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Joaquin County Auditor-Controller's Office

CITY OF STOCKTON

TABLE 7
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Rate per $100 of assessed value)

Fiscal Year	Basic Countywide Levy	City	Total Direct	Stockton Unified School District (1)	Groundwater Investigation (2)	San Joaquin Delta College District	Total
2008	1.0000	-	1.0000	0.1514	-	0.0015	1.1529
2007	1.0000	-	1.0000	0.0929	-	0.0183	1.1112
2006	1.0000	-	1.0000	0.0545	-	0.0134	1.0679
2005	1.0000	-	1.0000	0.0545	-	0.0134	1.0679
2004	1.0000	-	1.0000	0.0571	-	-	1.0571
2003	1.0000	-	1.0000	0.0206	-	-	1.0206
2002	1.0000	-	1.0000	0.0277	-	-	1.0277
2001	1.0000	-	1.0000	-	-	-	1.0000
2000	1.0000	-	1.0000	0.0003	0.0034	-	1.0037
1999	1.0000	-	1.0000	0.0206	0.0034	-	1.0240

(1) Stockton Unified School District Building Loan Repayment.

(2) Approved by the San Joaquin County Board of Supervisors for testing groundwater quality and investigating causes of contamination. Effective July 1, 2000 groundwater investigation is being charged as a benefit assessment.

Note: On June 6, 1978, California voters approved an amendment to the Article XIIIA of the California Constitution. The amendment, commonly known as Proposition 13, limits the taxing power of California public agencies. The California Legislature enacted legislation to implement Article XIIIA (Statues of 1978, Chapter 292, as amended) providing that local agencies may not levy any property tax except to pay debt service on indebtedness approved by voters prior to July 1, 1978, and that each county will levy the maximum tax permitted of $1.00 per $100.00 of full assessed value.

Source: San Joaquin County Tax Rate Book

CITY OF STOCKTON

TABLE 8
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO
(Dollar amounts in thousands)

	Fiscal Year 2008			Fiscal Year 1999		
Taxpayer	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value (1)	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Levine Investments Ltd PTP - Park West Place	$ 80,623	1	0.398 %	-		-
Corn Products International Inc	64,845	2	0.320	$ 98,258	1	1.324 %
Simpson Manufacturing Co Inc	59,834	3	0.295	-		-
Diamond Walnut Growers Inc	59,244	4	0.292	49,007	3	0.660
FR Net Lease Co-Invest Prog 10 LLC	43,000	5	0.212	-		-
Sherwood Mall LLC	42,088	6	0.208	-		-
WTM Glimcher LLC - Weberstown Mall	41,524	7	0.205	-		-
Pavilions Apartments LP	39,229	8	0.194	-		-
Inland WesternSlkn Airport Way LLC - Cost Plus Inc	37,776	9	0.186	-		-
Toys R US Inc-TRU Properties Inc	37,691	10	0.186	23,232	7	0.313
Kaiser Foundation	-		-	89,370	2	1.204
Newark Group Inc	-		-	31,940	4	0.430
Washington Mutual Inc	-		-	26,954	5	0.363
Cargill Incorporated	-		-	23,376	6	0.315
Del Monte Corp.	-		-	18,824	8	0.254
American Honda Motor Company	-		-	18,660	9	0.251
Jennaro Properties	-		-	16,736	10	0.225
Principal Secured Property Valuation	$ 505,854		2.497 %	$ 396,355		5.339 %
Other Secured Taxpayers	21,014,597		103.718	7,769,497		104.667
Total Secured Property Valuation Before Exemptions	$ 21,520,451		106.215 %	$ 8,165,852		110.006 %
Less Exemptions relative to secured tax roll (1)	1,259,157		6.215	742,758		10.006
Total Secured Property Valuation	$ 20,261,294		100.000 %	$ 7,423,094		100.000 %

(1) Exemptions relative to secured tax roll are: FY 2008 - homeowners - $269,059 and other - $990,099 = $1,259,157
FY 1999 - homeowners - $229,618 and other - $513,140 = $742,758

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Joaquin County Assessor's Office
San Joaquin County Auditor-Controller's Office

CITY OF STOCKTON

TABLE 9
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

Fiscal Year	Secured Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy			Total Collections to Date	
		Amount	Percent of Levy (1)	Collections in Subsequent Years	Amount	Percent of Levy
2008	$ 33,633	$ 33,633	100 %	-	$ 33,633	100 %
2007	33,891	33,891	100	-	33,891	100
2006	30,661	30,661	100	-	30,661	100
2005	26,685	26,685	100	-	26,685	100
2004	23,498	23,498	100	-	23,498	100
2003	20,176	20,176	100	-	20,176	100
2002	18,056	18,056	100	-	18,056	100
2001	16,132	16,132	100	-	16,132	100
2000	15,164	15,164	100	-	15,164	100
1999	14,518	14,518	100	-	14,518	100

(1) Per agreement with San Joaquin County; the County provides the City of Stockton with 100% of the amount owed to the City of Stockton for secured properties, regardless of collection status. In exchange, the County is entitled to 100% of revenues collected.

Source: San Joaquin County Auditor-Controller's Office

CITY OF STOCKTON

TABLE 10
WATER SOLD BY TYPE OF CUSTOMER
LAST THREE FISCAL YEARS

	Fiscal Year		
	2008	2007	2006 (1)
Type of Customer			
Residential	10,771,115 cf	11,995,309 cf	10,774,487 cf
Institutional	788,914	914,345	786,155
Commercial/Industrial	1,624,218	1,704,698	1,727,550
Irrigation	1,832,861	1,786,611	1,379,830
Total	15,017,108 cf	16,400,963 cf	14,668,022 cf

cf = 100 cubic feet (748 gallons)

(1) Figures for 2006 have been restated.

Note: The City of Stockton implemented GASB 44 for the fiscal year ended June 30, 2006. Information prior to the implementation of GASB 44 is not available.

Source: City of Stockton Department of Financial Management

CITY OF STOCKTON

TABLE 11
WATER AND WASTEWATER RATES
LAST TEN FISCAL YEARS

	Water		Wastewater
Fiscal Year	Monthly Base Rate	Per 100 cf	Monthly Base Rate
2008	$ 15.90	$ 0.78	$ 21.10
2007	15.60	0.77	20.70
2006	15.10	0.74	20.00
2005	14.55	0.71	19.30
2004	14.20	0.69	18.80
2003	13.79	0.67	18.33
2002	13.79	0.67	18.33
2001	13.79	0.67	18.33
2000	13.79	0.67	18.33
1999	13.79	0.67	18.33

cf = 100 cubic feet (748 gallons)

Rates are based on 3/4" meter, which is the standard household meter size.

The utility charges an excess use rate above normal demand.

Source: City of Stockton Department of Financial Management

CITY OF STOCKTON

TABLE 12
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Dollar amounts in thousands, except per capita)

	Governmental Activities							Business-type Activities									
Fiscal Year	Revenue Bonds (1)	Certificates of Participation	Redevelopment Agency Revenue Bonds	Notes Payable	Special Assessment/Mello-Roos Bonds (1)	Pension Bonds	Total Governmental Activities	Revenue Bonds	Certificates of Participation	Notes Payable	Mello-Roos Bonds	Special Assessment Bonds	Total Business-type Activities	Total	Percent of Personal Income (2)	Per Capita (2)
2008	$ 54,305	$ 13,300	$ 157,010	$ 25,011	$ -	$ 125,060	$ 374,686	$ 68,650	$ 98,710	$ 672	$ -	$ -	$ 168,032	$ 542,718	2.81 %	$ 1,872
2007	13,860	13,300	157,185	12,862	-	125,310	322,517	69,315	101,220	731	-	-	171,266	493,783	2.56	1,704
2006	13,965	13,300	47,000	13,024	-	-	87,289	69,910	103,635	787	-	-	174,332	261,621	1.43	915
2005	-	27,330	47,000	12,835	-	-	87,165	46,166	105,965	1,007	-	-	153,138	240,303	1.38	880
2004	98,060	27,550	47,000	12,692	106,927	-	292,229	46,625	108,215	1,219	-	-	156,059	448,288	2.70	1,666
2003	102,720	27,760	-	8,270	82,122	-	220,872	14,280	109,855	1,421	6,180	-	131,736	352,608	2.27	1,349
2002	109,415	14,865	-	8,680	76,661	-	209,621	14,280	111,690	1,634	6,180	210	133,994	343,615	2.33	1,354
2001	111,005	14,860	-	-	51,486	-	177,351	-	129,235	1,823	-	7,005	138,063	315,414	2.21	1,256
2000	115,145	14,860	-	-	47,822	-	177,827	-	131,370	2,009	-	7,970	141,349	319,176	2.32	1,291
1999	106,941	-	-	-	59,995	-	166,936	-	133,415	2,190	-	9,040	144,645	311,581	2.47	1,279

Details regarding the City's outstanding debt can be found in the Note 7 on pages 58-67 of these financial statements.

(1) Beginning with fiscal year 2006, land-secured financings were removed from the City's government-wide financial statements and are no longer reported as governmental activities debt. For comparative purposes, 2005 balances were restated to reflect this change. For fiscal years 2004 and prior, the balances of land-secured financings are reflected in the balances reported above as revenue bonds, special assessment bonds, and Mello-Roos bonds of the governmental activities.

(2) See Table 17 for personal income and population data. These ratios are calculated using the latest available data, personal income for fiscal year 2007 and population for fiscal year 2008.

Sources: City of Stockton Department of Financial Management & Community Development Department
US Dept of Commerce, Bureau of Economic Analysis

CITY OF STOCKTON

TABLE 13
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Dollar amounts in thousands, except per capita)

	General Bonded Debt Outstanding						
Fiscal Year	Lease Revenue Bonds	Certificates of Participation	Pension Obligation Bonds	Redevelopment Agency Bonds	Total	Percent of Assessed Value (1) of Property	Per Capita
2008	$ 54,305	$ 13,300	$ 125,060	$ 157,010	$349,675	0.016 %	$1.206
2007	13,860	13,300	125,310	157,185	309,655	0.016	1.069
2006	13,965	13,300	-	47,000	74,265	0.004	0.260
2005	-	27,330	-	47,000	74,330	0.005	0.286
2004	-	27,550	-	47,000	74,550	0.006	0.277
2003	-	27,760	-	-	27,760	0.002	0.106
2002	-	14,665	-	-	14,665	0.001	0.058
2001	-	14,860	-	-	14,860	0.002	0.059
2000	-	14,860	-	-	14,860	0.002	0.060
1999	-	-	-	-	-	0.000	-

General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (of which, the City has none).

(1) Assessed value figures from S.J. County Auditor Controller have been used because the actual value of taxable property is not readily available in the State of California.

Source: City of Stockton Department of Financial Management
San Joaquin County Auditor-Controller's Office

CITY OF STOCKTON

TABLE 14
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

	Total Debt 6/30/2008	Percentage Applicable (1)	City's share of Debt 6/30/2008
OVERLAPPING TAX AND ASSESSMENT DEBT:			
San Joaquin Delta Community College District	$ 80,176,115	30.332 %	$ 24,319,019
Stockton Unified School District	256,960,000	80.440	206,698,624
Lodi Unified School District	104,520,000	38.018	39,738,414
Lodi Unified School District School Facilities Improvement District No. 1	50,000,000	86.256	43,128,000
Lincoln Unified School District	49,061,417	87.094	42,729,551
Lincoln Unified School District Community Facilities District No. 1	34,611,417	84.461	29,233,149
Manteca Unified School District	65,042,004	19.830	12,897,029
Manteca Unified School District Community Facilities District No. 1989-1	36,866,013	100.000	36,866,013
Tracy Joint Unified School District	33,020,000	0.005	1,651
City of Stockton Community Facilities District No. 1	26,185,000	100.000	26,185,000
City of Stockton Community Facilities District No. 90-1	5,565,000	100.000	5,565,000
City of Stockton Community Facilities District No. 90-2	23,405,000	100.000	23,405,000
City of Stockton Community Facilities District No. 90-4	9,988,256	100.000	9,988,256
City of Stockton Community Facilities District No. 96-1	3,260,000	100.000	3,260,000
City of Stockton Community Facilities District No. 99-02	19,065,000	100.000	19,065,000
City of Stockton Community Facilities District No. 2001-1 (Spanos Park West)	20,800,000	100.000	20,800,000
City of Stockton Community Facilities District No. 2003-1	3,075,000	100.000	3,075,000
City of Stockton Community Facilities District No. 2005-1	3,955,000	100.000	3,955,000
City of Stockton Community Facilities District No. 2006-3	6,100,000	100.000	6,100,000
City of Stockton 1915 Act Bonds	64,511,744	100.000	64,511,744
Reclamation District No. 2042 Community Facilities District No. 2001-1	7,315,000	18.211	1,332,135
San Joaquin Area Flood Control Assessment District	10,680,000	81.537	8,708,152
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			681,500,537
OVERLAPPING GENERAL FUND DEBT:			
San Joaquin County Certificates of Participation	$ 207,485,000	33.343 %	69,185,058
Lincoln Unified School District Certificates of Participation	3,260,000	87.094	2,839,284
Lodi Unified School District Certificates of Participation	49,000,000	38.018	18,628,820
Stockton Unified School District Certificates of Participation	50,305,000	80.440	40,465,342
South San Joaquin Irrigation District Certificates of Participation	4,500,000	1.209	54,405
TOTAL OVERLAPPING GENERAL FUND DEBT			131,172,889
TOTAL OVERLAPPING DEBT			762,733,426
DIRECT GENERAL FUND DEBT:			
City of Stockton General Fund Obligations	147,005,000	100.000	147,005,000
City of Stockton Pension Obligations	125,060,000	100.000	125,060,000
			272,065,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			403,237,889
Less: South San Joaquin Irrigation District (100% self-supporting)			54,405
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			403,183,484
GROSS COMBINED TOTAL DEBT (2)			1,034,798,426 (2)
NET COMBINED TOTAL DEBT			$ 1,034,744,021
2007-08 Assessed Valuation: $19,261,142,316			
(after deducting 2,446,856,018 Redevelopment Incremental Valuation)			
2007-08 Population 289,927			
Debt Ratios		Per Capita	Value
Total Gross Debt	$ 1,034,798,426	$ 3,569	5.367 %
Total Net Debt	1,034,744,021	3,569	5.367
Ratios to 2007-08 Assessed Valuation: Total Overlapping Tax and Assessment Debt			2.910
Ratios to Adjusted Assessed Valuation: Combined Direct Debt	272,065,000		1.410
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: $1,683			

(1) Percent of overlapping agency's assessed valuation located within boundaries of the city.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Sources: California Municipal Statistics, Inc., San Francisco, CA
San Joaquin County Auditor-Controller's Office
State of California, Department of Finance, Demographic Research Unit
City of Stockton-Community Development Department

CITY OF STOCKTON

TABLE 15
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Assessed valuation (1)	$19,281,142	$ 18,043,181	$ 15,761,940	$ 14,037,055	$ 12,313,597	$ 11,246,185	$ 10,192,890	$ 8,699,045	$ 8,449,173	$ 8,318,150
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	$ 4,820,286	$ 4,510,795	$ 3,940,485	$ 3,509,264	$ 3,078,399	$ 2,811,546	$ 2,548,223	$ 2,174,761	$ 2,112,293	$ 2,079,538
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt Limit	$ 723,043	$ 676,619	$ 591,073	$ 526,390	$ 461,760	$ 421,732	$ 382,233	$ 326,214	$ 316,844	$ 311,931
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	$ 723,043	$ 676,619	$ 591,073	$ 526,390	$ 461,760	$ 421,732	$ 382,233	$ 326,214	$ 316,844	$ 311,931

(1) Reflects City assessed valuation with Redevelopment tax increments of $2,446,856 and other exemptions of $1,033,017 deducted.

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1982 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Sources: City of Stockton Department of Financial Management
California Municipal Statistics, Inc., San Francisco, CA

CITY OF STOCKTON

TABLE 16
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Dollars amounts in thousands)

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
Water Revenue Bonds							
2008	$ 25,135	$ 18,010	$ 7,125	$ 540	$ 1,722	$ 2,262	$ 3.16
2007	25,327	17,687	7,640	510	1,749	2,259	3.38
2006	21,130	15,631	5,499	486	1,050	1,536	3.58
2005	20,690	12,158	8,532	460	647	1,107	7.71
2004	18,391	13,324	5,067	440	671	1,111	4.56
2003	16,332	12,320	4,012	-	614	614	6.53
2002	16,943	11,295	5,648	-	887	887	6.37
2001	16,161	11,305	4,856	355	906	1,261	3.85
2000	14,616	9,873	4,743	335	922	1,257	3.77
1999	13,814	10,294	3,520	320	938	1,258	2.80
Wastewater Certificates of Participation							
2008	$ 36,852	$ 25,633	$ 11,219	$ 2,510	$ 4,867	$ 7,377	$ 1.53
2007	36,413	27,791	8,622	2,415	4,959	7,374	1.17
2006	34,877	22,357	12,520	2,330	5,044	7,374	1.70
2005	34,603	17,526	17,077	2,250	5,126	7,376	2.32
2004	31,222	22,418	8,804	1,640	5,079	6,719	1.31
2003	32,413	22,949	9,464	1,935	5,583	7,518	1.26
2002	31,313	20,859	10,454	1,855	5,661	7,516	1.39
2001	33,206	18,430	14,776	1,780	5,736	7,516	1.97
2000	32,973	20,504	12,469	1,710	5,807	7,517	1.66
1999	34,255	20,090	14,165	300	5,931	6,231	2.27

(Continued)

CITY OF STOCKTON

TABLE 16 (Continued)
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Dollars amounts in thousands)

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
Central Parking District Lease Revenue Bonds							
2008	$ 5,141	$ 2,562	$ 2,579	$ 125	$ 1,647	$ 1,772	$ 1.46
2007	4,708	2,205	2,503	85	1,652	1,737	1.44
2006	4,527	2,021	2,506	-	1,653	1,653	1.52
2005	3,873	1,957	1,916	-	1,130	1,130	1.70
2004	3,337	1,861	1,476	6,180	385	6,565	0.22
2003	3,283	1,359	1,924	210	301	511	3.77
2002	2,949	1,245	1,704	6,799	245	7,044	0.24
2001	2,453	1,192	1,261	555	553	1,108	1.14
2000	2,353	1,082	1,271	515	573	1,088	1.17
1999	2,230	1,087	1,143	490	606	1,096	1.04

Includes all nongeneral obligation long term debt backed by pledged revenues.

Details regarding the City's outstanding debt can be found in the Note 7 on pages 58-67 of these financial statements.

(1) Total revenues (including investment earnings) exclusive of capital contributions.

(2) Total operating expenses exclusive of depreciation and amortization.

Source: City of Stockton Department of Financial Management

CITY OF STOCKTON

TABLE 17
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year	Population	Personal Income (millions of dollars)	Per Capita Personal Income	Unemployment Rate	Labor Force	Total Housing Units	Household Average Size	Median Family Income	School Enrollment
2008	289,927	n/a	n/a	10.0 %	127,200	96,553	3.09	$ 61,300	91,744
2007	289,789	$ 19,286	$ 26,743	9.3	120,800	95,864	3.11	60,300	83,440
2006	286,041	18,125	27,272	7.2	120,000	94,409	3.05	57,100	77,962
2005	279,513	17,257	26,239	9.4	119,214	91,725	3.13	55,300	72,097
2004	269,100	16,573	25,527	9.6	118,127	88,826	3.11	55,100	67,674
2003	261,300	15,543	24,620	11.0	121,133	85,988	3.12	50,600	61,853
2002	253,800	14,747	24,150	10.2	116,126	84,303	3.08	47,500	61,006
2001	251,100	14,281	24,086	8.2	111,767	82,798	3.06	46,900	57,970
2000	247,300	13,757	24,209	8.3	109,226	82,042	3.04	45,400	59,451
1999	243,700	12,632	22,867	10.2	106,349	80,465	3.03	44,300	64,059

Personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and personal current transfer receipts.

Per capita personal income is calculated as the personal income of residents of a given area divided by the resident population of the area. In computing per capita personal income, Bureau of Economic Analysis uses the Census Bureau's annual midyear population estimates.

Sources: City of Stockton Department of Financial Management & Community Development Department
CA Dept of Finance and Employment Development Department
US Dept of Commerce, Bureau of Economic Analysis
US Dept of HUD

CITY OF STOCKTON

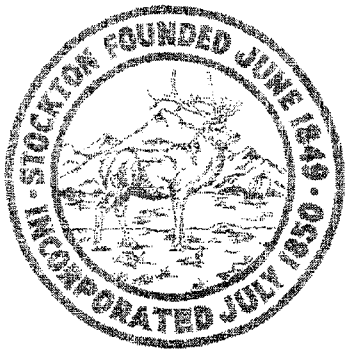
TABLE 18
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	Fiscal Year					
	Current			Nine Years Ago		
Employer	Employees	Rank	Percent of Total City Employment	Employees	Rank	Percent of Total City Employment
San Joaquin County (1)	6,700	1	5.27 %	3,430	2	3.23 %
Stockton Unified School District	4,100	2	3.22	5,800	1	5.45
St. Joseph's Medical Center	2,650	3	2.08	2,000	4	1.88
City of Stockton	1,754	4	1.38	1,600	5	1.50
Dameron Hospital	1,200	5	0.94	1,036	9	0.97
Kaiser Permanente	1,060	6	0.83	-	-	-
University of the Pacific	1,000	7	0.79	-	-	-
Diamond Walnut	1,000	8	0.79	-	-	-
California Department of Transportation	750	9	0.59	-	-	-
Washington Mutual	650	10	0.51	-	-	-
San Joaquin General Hospital (1)	-	-	-	3,000	3	2.82
Del Monte Foods USA	-	-	-	1,200	6	1.13
Lipton	-	-	-	1,200	7	1.13
Pacific Gas and Electric	-	-	-	1,100	8	1.03
San Joaquin Delta College	-	-	-	1,035	10	0.97
Total	20,864		16.40 %	21,401		20.12 %

(1) San Joaquin General Hospital is now included in San Joaquin County totals.

Note: Principal employers are based on best available information.

Sources: City of Stockton Economic Development and Human Resources Departments



CITY OF STOCKTON

TABLE 19
FULL-TIME CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM/DEPARTMENT
LAST THREE FISCAL YEARS

	Fiscal Year		
	2008	2007	2006
Function/Program/Department:			
Financial Management (1)	58	57	86
City Attorney	16	17	18
City Auditor	7	6	5
City Clerk	8	8	8
City Council	2	2	3
City Manager	28	26	27
Community Development	51	53	46
Housing (2)	12	10	Inc. in Econ. Dev.
Human Resources	26	24	24
Information Technology (1)	42	35	Inc. in Fin.Mgmt.
Economic Development (2)	3	4	24
Police:			
Sworn	410	408	408
Non-sworn	215	201	205
Animal control	16	15	18
Total Police	641	624	631
Fire:			
Firefighters-sworn	257	266	275
Firefighters-auxiliary	45	35	25
Non-sworn personnel	28	28	32
Paramedic teams (2 per team)	-	-	13
Total Fire	330	329	345
Public Works	176	170	168
Library	91	92	86
Parks and Recreation	95	98	99
Redevelopment (2)	18	16	Inc. in Econ. Dev.
Water Utility (3)	33	5	3
Wastewater Utility (3)	107	17	12
Stormwater Utility (3)	7	-	2
Central Parking District	3	2	2
Total	1,754	1,595	1,589

(1) Information Technology was reported in the Financial Management total for 2006.

(2) Both Housing and Redevelopment were reported in the Economic Development total for 2006.

(3) Municipal Utility functions were returned to the City March 1, 2008.

Note: The City of Stockton Implemented GASB 44 for the fiscal year ended June 30, 2006. Information prior to the implementation of GASB 44 is not available.

Source: City of Stockton Human Resources Department

CITY OF STOCKTON

TABLE 20
OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT
LAST THREE FISCAL YEARS

	Fiscal Year		
	2008	2007	2006
General government:			
Building permits issued	4,726	6,564	7,579
Business tax certificates:			
Retail sales and service	7,822	9,567	9,263
Rental Properties - Commercial and Residential	4,713	Included in retail sales and service	
Wholesale	295	Included in retail sales and service	
Manufacturers and processors	183	179	206
Professions	2,127	2,087	2,286
Miscellaneous contractors, peddlers, delivery vehicles, etc.	3,794	3,491	5,640
Improvement district and hotel/motel room tax	282	267	257
Utility billing/customer service:			
Utility bills issued	617,847	620,373	431,056
Utility accounts opened and closed	22,737	19,227	20,284
New service locations (water) added	443	798	1,778
Delinquency Notices Sent - Active Accounts	60,872	n/a	n/a
Water Service Terminated for Non-Payment	5,618	n/a	n/a
Utility customer service calls received	141,732	186,450	125,179
Utility customers using automated voice response	69,866	68,688	32,985
Utility Customers Using OnLine Pmt/Acct Access	5,214	n/a	n/a
Miscellaneous accounts receivable bills issued	22,084	19,693	18,788
Public safety:			
Police:			
Major reported crimes	23,182	23,193	23,123
Total arrests	22,595	23,778	24,412
Dispatched calls for service	155,372	165,896	169,605
Fire:			
Interior structure fire calls	383	413	481
Non-structural fire calls	1,374	1,493	1,795
Hazardous materials calls	720	699	673
Emergency medical calls	23,904	23,314	24,218
Total emergency calls	36,559	35,487	36,321
Total number of units dispatched	48,360	47,447	56,655
Public works:			
Miles of streets resurfaced	44	45.9	33
Fleet job orders completed	13,443	13,379	14,363

(Continued)

CITY OF STOCKTON

TABLE 20 (Continued)
OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT
LAST THREE FISCAL YEARS

	Fiscal Year		
	2008	2007	2006
Library:			
Registered borrowers	307,991	280,028	246,983
Circulation of library materials	2,110,819	2,003,983	2,073,852
Reference, research and informational questions answered	415,195	461,328	336,650
Annual attendance at libraries	1,524,719	1,946,347	1,587,653
Number of programs offered	2,930	2,140	2,003
Annual attendance at programs	90,216	51,184	53,222
Parks and recreation:			
Boat launches	n/a	4,527	n/a
Golf rounds:			
Lyons golf course (1)	-	-	23,513
Swenson Park golf course	57,731	57,976	59,670
Van Buskirk golf course	24,655	27,371	24,180
Trees planted	660	1,133	882
Heritage tree removal-permits issued	19	10	16
After school program registration (number of participants) (2)	90,074	2,700	2,000 @ 54 sites
Day camps in winter (number of participants)	177	187	114
Day camps in summer (number of participants)	1,434	1,467	2,359
Day camps at Children's Museum (number of participants)	1,010	2,084	2,131
Day camps in spring (number of participants)	217	283	n/a
Day camps in fall (number of participants)	453	243	n/a
Mobile recreation programs (number of participants) (2)	304	765	800
Instructional classes	4,064	3,142	132
Softball/baseball diamonds bookings	2,794	2,909	2,773
Showmobile bookings	23	33	31
Community center bookings	59	222	12
Picnic facility bookings	668	669	583
Adult sports (number of teams):			
Softball	573	701	610
Basketball	110	139	52
Volleyball	0	8	10
Youth sports (basketball, track, soccer, baseball, volleyball, flag football) (number of participants) (2)	6,652	2,889	12,499

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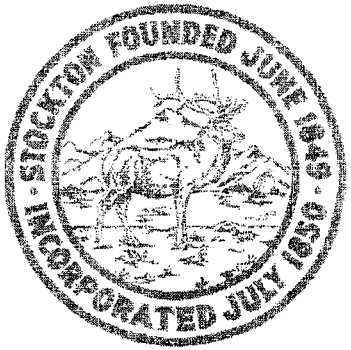

CITY OF STOCKTON

TABLE 20 (Continued)
OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT
LAST THREE FISCAL YEARS

	Fiscal Year		
	2008	2007	2006
Admissions to:			
Pixie Woods	32,614	34,037	42,320
Swimming pools	19,816	9,697	12,720
Teen Center	15,661	15,141	15,000
Silver Lake	1,652	1,832	1,798
Children's Museum	54,388	58,432	55,969
Oak Park Tennis	18,098	19,395	n/a
Senior Center memberships	1,779	790	469
Civic Auditorium bookings	231	164	309
Parks and Recreation sponsored events	28	31	9
Philomathean Club bookings	0	-	6
Weber Point Events Center bookings	25	23	27
Housing:			
Rental Housing Units	91	42	22
Owner Housing (Emergency Repair or Rehabilitation)	11	25	27
Down Payment Assistance	21	20	20
Special Needs (Homes Repaired or Rehabilitated)	9	18	45
Public Facilities (Rehabilitated or Constructed)	1	3	-
Façade Program (Commercial Façade Repair/Rehabilitated)	9	10	9
Public Services Provided	18,060	22,865	22,456
Homeless Services Provided	10,658	4,744	4,657
Meals Provided to Homeless	388,061	330,814	335,923
Water utility:			
New connections	450	798	2,563
Water main breaks	22	17	20
Wastewater utility:			
Average daily treatment (million gal/day)	35 mgd	35 mgd	35 mgd

(1) Lyons golf course was turned over to the Port of Stockton effective July 1, 2006

(2) Parks & Recreation figures for 2006 were based on units of service while 2007 figures are based on number of participants or registrants.

Note: The City of Stockton implemented GASB 44 for the fiscal year ended June 30, 2006. Information prior to the implementation of GASB 44 is not available.

Source: City of Stockton Departments

CITY OF STOCKTON

TABLE 21
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT
LAST FOUR FISCAL YEARS

	Fiscal Year			
	2008	2007	2006	2005
General government:				
Land use-square miles:				
Residential	33.04	33.31	33.29	32.93
Mixed use	1.61	1.62	1.62	1.62
Commercial	5.46	6.05	5.92	4.99
Industrial	10.56	11.01	10.99	10.97
Institutional	5.29	4.86	4.86	4.86
All other uses	3.22	3.63	3.71	3.26
Total square miles	59.18	60.48	60.39	58.63
Public safety:				
Police:				
Facilities:				
Stations and substations	5	5	5	4
Animal control facility	1	1	1	1
Police training facility (pistol range)	1	1	1	1
Vehicles:				
Marked patrol cars	175	140	119	127
Motorcycles and scooters	42	42	30	27
Animal control vehicles	9	9	9	9
VIPS vehicles	7	5	5	5
Other automobiles	131	131	125	122
Other mobile units (all others)	40	37	37	37
Public area security cameras	76	34	32	23
Fire:				
Fire stations	13	13	13	13
Training facilities	1	1	1	1
Fire hydrants	8,508	8,503	8,338	7,087
Public works:				
Miles of streets	754	750	734	706
Traffic signals	291	290	284	278
Street lights	21,000	19,682	19,164	n/a

(Continued)

CITY OF STOCKTON

TABLE 21 (Continued)
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT
LAST FOUR FISCAL YEARS

	Fiscal Year			
	2008	2007	2006	2005
Parks and recreation:				
Parks and squares	66	62	62	62
Park acreage	639	619	619	614
Boating facilities - launch lanes	10	10	10	10
Municipal golf courses	3	3	4	4
Golf course acreage	371	371	408	408
Family camps	1	1	1	1
Senior center	1	1	1	1
Ice rink	1	1	1	1
Community centers	6	6	6	5
Swimming pools	4	4	5	4
Baseball/softball diamonds	54	49	43	42
Tennis courts	67	67	67	65
Skateboard park	1	1	1	1
Bike/jogging paths (miles)	20	20	20	19
Group picnic areas	30	26	26	24
Teen Center	1	1	1	1
Civic Auditorium (2,800 capacity)	1	1	1	1
Dog Areas	1	1	n/a	n/a
Showmobile	1	1	2	2
Playgrounds	71	66	66	n/a
Children's Museum	1	1	1	1
Weber Point Events Center	1	1	1	1
Philomathean Club	1	1	1	1
Gymnasium	1	1	1	-
Arena	1	1	1	n/a
Ballpark	1	1	1	1
Theater (Bob Hope)	1	1	1	1
Consolidated landscape maintenance districts:				
Streetscaping (square feet)	2.2 million	2.2 million	1.9 million	n/a
Public open spaces (acreage)	68	68	63	n/a

(Continued)

CITY OF STOCKTON

TABLE 21 (Continued)
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT
LAST FOUR FISCAL YEARS

	Fiscal Year			
	2008	2007	2006	2005
Library:				
Central library	1	1	1	1
City branches	4	4	3	3
Library mobile units	2	2	2	2
San Joaquin County branches	8	8	7	7
Total items in collection	1,109,819	1,097,783	1,055,726	1,152,475
Cargo delivery van	2	2	1	1
Cargo van	1	1	1	1
Undeveloped land for branch library	2	5	2	2
Integrated library system	1	1	1	1
Microform readers	5	5	5	5
Microform readers/printers	3	3	3	3
Self check out machines	14	14	13	13
Water utility:				
Water main lines	641	586	520	480
Storage capacity (thousand gallons)	18,800	15,800	15,800	15,800
Water wells	40	40	39	37
Water reservoirs	6	5	5	5
Wastewater utility:				
Wastewater main lines (miles)	1,033	987	875	820
Treatment capacity (million gals/day)	48	48	42	42
Wastewater pump stations	26	24	24	24
Stormwater utility:				
Stormwater main drain lines (miles)	802	650	584	550
Stormwater pump stations	73	73	72	72
Central parking district:				
Parking spaces	5,262	4,745	4,745	n/a
Parking lots	20	19	19	n/a

Note: The City of Stockton implemented GASB 44 for the fiscal year ended June 30, 2006. Information for 2005 was presented where available.

Source: City of Stockton Departments

CITY OF STOCKTON

SINGLE AUDIT SECTION

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City Council
City of Stockton
Stockton, California

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Stockton, California (City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 08-4 and 08-5.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 08-4 and 08-5 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. The significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 08-4 and 08-5, we consider to be material weaknesses.

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CTY206623

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. Our report contained an explanatory paragraph discussing the City's implementation of the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions* and Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and 27)* during the year ended June 30, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management, and officials of applicable federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 10, 2008

MACIAS GINI & O'CONNELL LLP
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City Council
City of Stockton
Stockton, California

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, California (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 10, 2008. Our report contained an explanatory paragraph discussing the City's implementation of the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions* and Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and 27)* during the year ended June 30, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 08-1, 08-2, 08-3, 08-4, and 08-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Stockton, in a separate letter dated November 10, 2008.

This report is intended solely for the information and use of the City Council, management, and officials of applicable federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 10, 2008

CITY OF STOCKTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008
(Dollar Amounts in Thousands)

Federal Department / Federal Agency / Pass-Through Agency (if not direct) / Program Title	CFDA No.	Grant Period	Grant Number	Receipts Federal	Receipts Local	Expenditures Federal	Expenditures Local
Department of Housing and Urban Development							
Direct							
Community Development Block Grants/ Entitlement Grants	14.218	07/01/07-06/30/08	B-07-MC-060026	$ 5,081	$ -	$ 4,302	$ -
Community Development Block Grants/ Entitlement Grants (2007 loan balance)	14.218		loans with continuing compliance requirements	-	-	9,249	-
Community Development Block Grants/ Entitlement Grants	14.218		program income	458	-	918	-
Total Community Development Block Grants Entitlement Grants				5,539	-	14,469	-
Emergency Shelter Grants Program	14.231	07/01/07-06/30/08	S-07-MC-060026	225	-	217	-
HOME Investment Partnerships Program	14.239	07/01/07-06/30/08	M-07-MC-060021	1,813	-	2,412	-
HOME Investment Partnerships Program (2007 loan balance)	14.239		loans with continuing compliance requirements	-	-	12,875	-
HOME Investment Partnerships Program	14.239		program income	467	-	467	-
Total HOME Investment Partnerships Program				2,280	-	15,754	-
Community Development Block Grants/ Brownfields Economic Development Initiative	14.246	07/01/07-06/30/08	B-05-SP-CA-0718	-	-	3	-
Community Devlopment Block Grants - Section 108 Loan Guarantees	14.248	07/01/07-06/30/08	B-03-MC-060026	12,300	-	245	-
HUD Cameras	14.unknown			101	-	87	-
Housing Authority of the County of San Joaquin							
Public Housing Drug Elimination Program P.D.	14.854	01/01/08-12/31/09	CA-024	296	-	301	-
Total Department of Housing and Urban Development				20,741	-	31,076	-
Department of Interior							
Direct							
U.S. Geological Survey - Research and Data Collection	15.808	10/1/06-1/31/08	06WRAG0035	17	-	17	-
Total Department of Interior				17	-	17	-
Department of Justice							
Direct							
Local Law Enforcement Block Grant Program	16.592	07/01/07-06/30/11	2007 F3402	99	-	50	-
Public Safety Partnership and Community Policing Grants	16.710	11/22/05-11/21/08	2006CKWX0195	41	-	5	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	07/01/06-06/30/11	2007F3402-CA-DJ	-	-	55	-
State of California Corrections Standards Authority							
Juvenile Accountablity Block Grants	16.523	07/01/06-06/30/07	CSA 182-07	-	2	14	2

(Continued)

See notes to the schedule of expenditures of federal awards.

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CTY206625

CITY OF STOCKTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(Dollar Amounts in Thousands)

Federal Department / Federal Agency / Pass-Through Agency (if not direct) / Program Title	CFDA No.	Grant Period	Grant Number	Receipts Federal	Receipts Local	Expenditures Federal	Expenditures Local
Department of Justice (Continued)							
State of California Office of Emergency Services							
Violence Against Women Formula Grants	16.588	01/01/08-12/31/08	LE07 05 8019	-	17	40	17
Violence Against Women Formula Grants	16.588	07/01/06-12/31/07	LE06 04 8019	69	16	48	16
Total Violence Against Women Formula Grants				69	33	88	33
Anti-Gang Initiative	16.744	07/01/07-09/30/08	AG07 01 8019	-	-	35	-
San Joaquin County District Attorney's Office							
Edward Byrne Memorial Formula Grant Program	16.579	07/01/07-08/30/08	DG06 17 0890	$ 170	$ -	$ 184	$ -
Edward Byrne Memorial Formula Grant Program	16.579		asset seizures	208	-	55	-
Edward Byrne Memorial Formula Grant Program	16.579		asset seizures	40	-	106	-
Total Edward Byrne Memorial Formula Grant Program				418	-	345	-
State of California Peace Officer's Association							
Community Prosecution and Project Safe Neighborhoods	16.609	01/01/05-06/30/06	2004-PSN-1010	11	-	(14)	-
Community Prosecution and Project Safe Neighborhoods	16.609	07/01/05-06/30/06	2004-PSN-1010	73	7	-	7
Community Prosecution and Project Safe Neighborhoods	16.609	07/01/06-12/31/06	2004-PSN-1010	22	75	22	75
Total Community Prosecution and Project Safe Neighborhoods				106	82	8	82
Total Department of Justice				733	117	600	117
Department of Transportation							
State of California Department of Transportation							
Highway Planning and Construction	20.205	03/27/03-06/30/12	BRLS-5008(055)	42	43	154	43
Highway Planning and Construction	20.205	01/08/03-06/30/12	STPLH-5008(061)	15	-	-	-
Highway Planning and Construction	20.205	09/01/07-08/31/09	STPLR-7500(069)	-	-	6	-
Highway Planning and Construction	20.205	08/19/03-06/30/09	STPLH-5008(069)	-	-	7	-
Highway Planning and Construction	20.205	03/30/04-06/30/12	BHLO-5008(070)	70	-	-	-
Highway Planning and Construction	20.205	08/02/04-06/30/14	STPLN-5008(072)	7,016	7,833	3,375	7,833
Highway Planning and Construction	20.205	08/23/05-06/30/12	CML-5008(074)	158	21	46	21
Highway Planning and Construction	20.205	12/15/06-06/30/12	BPMP-5008(076)	12	2	15	2
Highway Planning and Construction	20.205	08/19/03-06/30/12	RPSTPLE-5008(077)	-	-	41	-
Highway Planning and Construction	20.205	10/11/07-06/30/13	RPSTPLE-5008(077)	-	1,234	224	1,234
Highway Planning and Construction	20.205	06/27/07-06/30/17	HPLULN-5008(079)	-	1,546	934	1,546
Highway Planning and Construction	20.205	10/01/04-9/30/06	RS0522		-		-
Total Highway Planning and Construction				7,313	10,679	4,802	10,679
State of California Office of Traffic Safety							
State and Community Highway Safety	20.600	10/01/07-01/31/11	AL0837	11	-	18	-
State and Community Highway Safety	20.600	05/01/05-05/31/07	PT0563	30	-	-	-
State and Community Highway Safety	20.600	10/01/06-09/30/08	PT0746	369	-	301	-
State and Community Highway Safety	20.600	03/01/07-09/30/07	CT073901	69	-	-	-
State and Community Highway Safety	20.600	10/01/07-07/31/08	CT08420	-	-	15	-
State and Community Highway Safety	20.600	10/01/06-09/30/07	EM0708	281	-	19	-
Total State and Community Highway Safety				760	-	353	-
Total Department of Transportation				8,073	10,679	5,155	10,679

(Continued)

See notes to the schedule of expenditures of federal awards.

CITY OF STOCKTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(Dollar Amounts in Thousands)

Federal Department / Federal Agency / Pass-Through Agency (if not direct) / Program Title	CFDA No.	Grant Period	Grant Number	Receipts Federal	Receipts Local	Expenditures Federal	Expenditures Local
National Endowment of the Arts							
Direct							
Promotion of the Arts - Grants to Organizations and Individuals	45.024	01/01/08-06/30/08	27702	8	-	10	-
Total National Endowment of the Arts				8	-	10	-
Department of Health and Human Services							
National Association of City and County Health Officials							
Medical Reserve Corps Small Grant Program	93.008	05/07/07-07/31/07	1MRCSG061001-01	$ 5	$ -	$ 3	$ -
Total Department of Health and Human Services				5	-	3	-
Department of Homeland Security							
Direct							
Assistance to Firefighters Grant	97.044	05/25/07-05/24/08	EMW-2006-FP-02395	49	-	49	-
Metropolitan Medical Response System	97.071	10/01/04-03/31/07	EMW-2004-GR0712	-	-	36	-
Buffer Zone Protection Program (BZPP)	97.078	07/01/06-09/30/08	2006-BZ-T6-0045	-	-	180	-
Total Department of Homeland Security				49	-	265	-
TOTAL FEDERAL ASSISTANCE				$ 29,826	$ 10,796	$ 37,126	$ 10,796

See notes to the schedule of expenditures of federal awards.

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – **REPORTING ENTITY**

The accompanying schedule of expenditures of federal awards (SEFA) presents the expenditures of all the federal award programs of the City of Stockton, California (City) for the year ended June 30, 2008. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the SEFA. The City's reporting entity is defined in Note 1 to the City's financial statements.

The City administers certain federal awards through subrecipients. Those subrecipients are not considered part of the City's reporting entity.

NOTE B – **BASIS OF ACCOUNTING**

Expenditures as presented in the SEFA are reported on the modified accrual basis of accounting. That is, expenditures are recognized when they become a demand on current available financial resources. Receipts as presented in the SEFA are reported on the cash basis of accounting. That is, receipts are recognized when received. Federal receipts are reconciled to revenues as presented in the City's Comprehensive Annual Financial Report at the end of the SEFA.

NOTE C – **LOAN GUARANTEES**

The City entered into three loan guarantee agreements with the U.S. Department of Housing and Urban Development (CFDA No. 14.248) to complete redevelopment projects. The loan amounts are for a maximum of $3,000,000, $10,000,000, and $12,500,000 each. The City drew down an additional $12,300,000 on the third loan during the year, however only $245,000 was expended during the year. The balance of $12,055,000 was being held in a fiscal agent account at June 30, 2008 and is expected to be expended during the year ending June 30, 2009. Principal of $490,000 was paid on these loans during fiscal year 2008; $110,000, $380,000, and $0, respectively; leaving outstanding balances of $2,360,000, $8,055,000, and $12,500,000, respectively, as of June 30, 2008. Final payment on the first two loans is due in August 2020; the third is due in August 2025. Interest is calculated at a variable rate based on the London Interbank Offered Rate (LIBOR) plus 20 basis points per annum. Accumulated interest will be recognized as expenditures when paid. Repayment of the loans will be financed from Community Development Block Grant entitlement funds.

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2008

NOTE D – **SUBRECIPIENTS**

Federal assistance provided to subrecipients is summarized as follows:

Federal Agency Program Title	Federal CFDA #	Subrecipient	Expended
Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants	14.218	San Joaquin Fair Housing	$ 139,301
		Alcohol/Drug Awareness	106,965
		Boys and Girls Club	20,461
		Second Harvest Food Bank	8,316
		San Joaquin County Hispanic	17,955
		Disability Recource Center	3,685
		San Joaquin Delta College	52,414
		St. Mary's Day Worker Program	4,654
Emergency Shelter Grants Program	14.231	San Joaquin County Neighborhood Preservation	216,474
			$ 570,225

NOTE E – **HOUSING AND REHABILITATION PROGRAM LOANS**

The City participates in federal housing and rehabilitation programs whereby funds have been received in the current year and prior years for housing and rehabilitation loans. Total loans outstanding for these programs are $42,667,000 at June 30, 2008. Of this amount, loans totaling $22,736,000 had continuing compliance requirements. The balance of these loans as of June 30, 2007 amounted to $22,124,000. This amount has been included in the schedule of expenditures of federal awards under the Community Development Block Grants/Entitlement Grants program (CFDA No. 14.218) in the amount of $9,249,000 and the HOME Investment Partnership Program (CFDA No. 14.239) in the amount of $12,875,000. Interest earned and repayment of the loans are not refunded to the federal government, but are used to make additional loans.

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

NOTE F – OFFICE OF EMERGENCY SERVICES AND CORRECTIONS STANDARDS AUTHORITY

The following schedules present only the amounts related to the federal grants passed through the California Office of Emergency Services (OES) and Corrections Standards Authority (CSA) and does not include all grants passed through these agencies. These schedules reconcile the expenditures for state grant reporting purposes to the amounts presented in the SEFA.

Grant No. LE06048019 – The City reported total cumulative expenditures for the period July 1, 2007 through December 31, 2007 on Form 201 as follows:

	Budget	Actual Prior	Actual Current	Actual Total	Variance
Personal Services	$ 97,103	$ 65,101	$ 31,999	$ 97,100	$ 3
Operating Expenses	94,299	60,671	32,721	93,392	907
Total Expenditures per Form 201	$ 191,402	$ 125,772	$ 64,720	$ 190,492	$ 910

	Federal	Local	Total
Passed through California:			
Office of Emergency Services	$ 48,463	$ 16,257	$ 64,720
Total Expenditures per SEFA as CFDA No. 16.588	$ 48,463	$ 16,257	$ 64,720

Grant No. LE07058019 – The City reported total cumulative expenditures for the period January 1, 2008 through June 30, 2008 on Form 201 as follows:

	Budget	Actual	Variance
Personal Services	$ 65,993	$ 38,930	$ 27,063
Operating Expenses	61,608	18,138	43,470
Total Expenditures per Form 201	$ 127,601	$ 57,068	$ 70,533

	Federal	Local	Total
Passed through California:			
Office of Emergency Services	$ 39,527	$ 17,541	$ 57,068
Total Expenditures per SEFA as CFDA No. 16.588	$ 39,527	$ 17,541	$ 57,068

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

NOTE F – OFFICE OF EMERGENCY SERVICES AND CORRECTIONS STANDARDS AUTHORITY (Continued)

Grant No. AG07018019 – The City reported total cumulative expenditures for the period January 1, 2008 through June 30, 2008 on Form 201 as follows:

	Budget	Current	Variance
Personal Services	$ 65,993	$ 19,777	$ 46,216
Operating Expenses	61,608	15,000	46,608
Total Expenditures per Form 201	$ 127,601	$ 34,777	$ 92,824

	Federal	Local	Total
Passed through California:			
Office of Emergency Services	$ 34,777	$ -	$ 34,777
Total Expenditures per SEFA as CFDA No. 16.744	$ 34,777	$ -	$ 34,777

Grant No. CSA 182-07 – The City reported total cumulative expenditures for the period July 1, 2007 through June 30, 2008 on Form 201 as follows:

	Budget	Actual	Variance
Personal Services	$ 15,819	$ 15,819	$ -

	Federal	Local	Total
Passed through California:			
Corrections Standards Authority	$ 14,237	$ 1,582	$ 15,819
Total Expenditures per SEFA as CFDA No. 16.523	$ 14,237	$ 1,582	$ 15,819

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with § 510(a) of Circular A-133?	Yes
Identification of major programs:	

CFDA #14.239 HOME Investment Partnerships Program
CFDA #20.205 Highway Planning and Construction
CFDA #20.600 State and Community Highway Safety

Dollar threshold used to distinguish between Type A and Type B programs:	$450,000
Auditee qualified as low-risk auditee?	Yes

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

Section II – Financial Statement Findings

Finding 08-1 – Construction in Progress

In previous years, the City had capitalized as construction in progress non-capital public works expenditures that were primarily for street repair and overlay projects. As a result, the City made a significant prior period adjustment in the attached financial statements (see Note 14 of the attached notes to the financial statements) to correct this overstatement of capital assets.

It is recommended that the City develop better procedures to separately identify and track projects that are non-capital in nature from projects that are capital in nature, and then only capitalize those projects that are capital in nature.

Management Response:
The City will document procedures to identify and track projects that are non-capital in nature to ensure that these non-capital projects are not capitalized in the future.

Finding 08-2 – Internal Loans

In previous years, the City neglected to report an internal loan between its General and Development Services funds. As a result, the City made a prior period adjustment in the attached financial statements (see Note 14 of the attached notes to the financial statements) to correct this omission.

It is recommended that the City develop better procedures for notifying its Administrative Services Department of all financial transactions for recording in the City's accounting system and reporting in its financial statements.

Management Response:
The City's Department of Financial Management is working on communicating with other departments the importance of ensuring that all financial transactions are recorded in the City's accounting system and reported in the financial statements.

Section II – Financial Statement Findings (Continued)

Finding 08-3 – Termination Pay Benefits

In previous years, the City accumulated funds to be used to pay termination pay benefits in an internal service fund. However, the City neglected to record any of its termination pay liability (included in its compensated absences liability) in that internal services fund. As a result, the City made a prior period adjustment in the attached financial statements (see Note 14 of the attached notes to the financial statements) to correct this omission.

It is recommended that the City allocate to its Termination Pay Benefits Internal Service Fund (included in the Other Insurance Internal Service Fund in the attached financial statements) at least a portion of its termination pay liability equal to the funds accumulated in the fund to payable the liability.

Management Response:
The City agrees and will allocate to its Termination Pay Benefits Internal Service Fund that portion of its termination pay liability which is equal to the funds accumulated in the fund to pay the liability.

Finding 08-4 – Community Development Block Grant Expenditures

See detailed description of finding in Section III starting below.

Finding 08-5 – HOME Program Advances to Property Owners

See detailed description of finding in Section III starting below.

Section III – Federal Award Findings and Questioned Costs

Finding 08-4 **Community Development Block Grant Expenditures**
CFDA Title: **Community Development Block Grants/Entitlement Grants**
CFDA Number: **14.218**
Award Number: **B-06-MC-060026**
Award Year: **2006**
Federal Agency: **U.S. Department of Housing and Urban Development**

Criteria:
Federal expenditures reported on the City's schedule of expenditures of federal awards and federal revenues and receivables reported in the City's financial statements should only include expenditures eligible for federal reimbursement.

Condition:
At June 30, 2007, the City accrued ineligible federal expenditures for reimbursement of Community Development Block Grant funds.

Effect:
The City overstated due from other governments as of June 30, 2007 and federal grants revenue for the year then ended in its Community Development Block Grant Fund. As a result, the City made a prior period adjustment in the attached 2008 financial statements (see Note 14 of the attached notes to the financial statements) to correct this error. In addition, the City overstated in its schedule of expenditures of federal awards for the year ended June 30, 2007 federal expenditures of the Community Development Block Grants/Entitlement Grants program.

Questioned Costs:
There are no questioned costs as it was noted that the City's program reporting such as the Federal Cash Transaction Reports and CDBG Financial Summary were not overstated.

Cause:
The City included non-eligible costs in its federal expenditures, which primarily consisted of transfers that were the result of a move of loan receivables among funds that were made in an effort to consolidate balances.

Recommendation:
It is recommended that the City develop better procedures for accruing grant revenues by reconciling grant revenues to grant expenditures/expenses that exclude non-eligible transfers.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

Management Response and Corrective Action Plan:
Staff from the Housing Department and the Accounting Unit will work together to develop and implement a process which will properly identify and match grant revenues to eligible expenditures. This process will ensure that grant revenues are not accrued for ineligible expenditures.

Finding 08-5	**HOME Program Advances to Property Owners**
CFDA Title:	**HOME Investment Partnerships Program**
CFDA Number:	**14.239**
Award Number:	**M-05-MC-060021**
Award Year:	**2006**
Federal Agency:	**U.S. Department of Housing and Urban Development**

Criteria:
Advances to property owners reported in the City's financial statements should accurately reflect loans made and expected to be repaid. And as the City's policy is to reserve fund balance for the balances outstanding, no deferred revenue should be booked.

Condition:
In previous years, the City was inaccurately accounting for transactions related to its advances to property owners of the Home Program Fund.

Effect:
The City understated advances to property owners and overstated deferred revenue as of June 30, 2007 and understated federal grants revenue and overstated expenditures for the year then ended in its Home Program Fund. As a result, the City made a prior period adjustment in the attached 2008 financial statements (see Note 14 of the attached notes to the financial statements) to correct this error. In addition, the City understated in its schedule of expenditures of federal awards for the year ended June 30, 2007 federal expenditures of the HOME Investment Partnerships Program.

Questioned Costs:
There are no questioned costs as no exceptions were noted in the reporting.

Cause:
The City staff responsible for the accounting of the advances to property owners was following a flawed process without understanding the transactions.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

Recommendation:
It is recommended that the City develop better procedures for accurately accounting for transactions related its advances to property owners.

Management Response and Corrective Action Plan:
The City's Housing and Accounting staff will develop and implement procedures for the Home Program Fund to accurately account for and report the balances due to the City for advances to property owners. The procedures will be designed to ensure that project costs are properly identified and added to loan balances and that loan repayments are properly applied to loan balances. Procedures will also be implemented to ensure the accurate reporting in each fiscal year of eligible expenditures, program income, and federal grant revenues, both from the perspective of the CAFR as well as the SEFA. The City agrees that deferred revenue should not be reported in the Home Program Fund.

In addition, a procedure will be implemented to reconcile the general ledger balances for advances to property owners with the third party subsidiary ledger of outstanding loan balances.

Procedures and processes will be reviewed periodically and updated, as needed.

CITY OF STOCKTON

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

No findings were reported in the prior year.

The City of Stockton accounting section is pictured outside the Stockton Memorial Civic Auditorium.
Front row (left to right): Teri Chapa, Maryann Garcia, and Susan Jamison
Back row (left to right): Katharine Moon, Armando Castillo, Lynne Farrar, Kevin Beltz, Cathy Lucas and Mike Gunn.

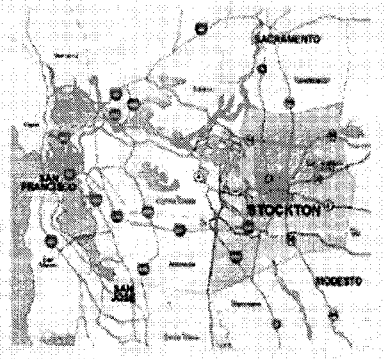
In October, 1920, a bond election was held in order to raise funds to purchase a site and construct a Memorial Auditorium in Stockton. The City had been considering the necessity for a large facility to house community events for many years. Following World War I, when plans were being made to commemorate the Stockton men who had lost their lives in the war, it was proposed that an auditorium be built.

When the building was dedicated, it included two bronze tablets in the lobby, with the inscriptions: *"To the men of Stockton, California who gave their lives in the World War"* from the Women of Stockton; and *"To the men of San Joaquin County who gave their lives in the World War"* from the Board of Supervisors.

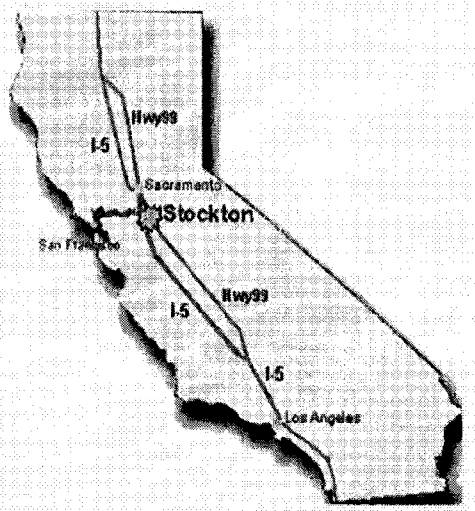
The inscription on the building was written by City Clerk Albertis L. Banks. It says: *"Tomorrow and forever, the people of Stockton will hold in memory the valor of their sons who, on land and sea, at home and abroad, served their country in defense of liberty."*

The completed building was accepted by the City on November 4, 1925, and dedicated on Veteran's Day that same year.

The Auditorium has served the community of Stockton as a site for all sorts of patriotic, civic and social events. In 1990, the building was designated a Stockton Historic Landmark by the City Council.



Situated 345 miles north of Los Angeles and 78 miles east of San Francisco, Stockton is nestled between the Sierra Nevada Mountains and the Pacific Ocean. It is the seat of San Joaquin County, which is the heart of San Joaquin Valley—one of the world's most productive agricultural regions.



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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Indenture, the Site and Facility Lease and the Lease Agreement prepared for Bonds. The following also includes definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. Copies of said documents are available from the City and from the Trustee.

DEFINITIONS

"*Authority*" means the Stockton Public Financing Authority, a joint exercise of powers authority organized and existing under and by virtue of the laws of the State, and any successor thereto.

"*Authorized Representative*" means: (a) with respect to the Authority, its Executive Director, Treasurer or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Executive Director, and filed with the City, and the Trustee; and (b) with respect to the City, its City Manager, Director of Financial Management, City Treasurer, or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its City Manager and filed with the Authority and the Trustee.

"*Bond Counsel*" means (a) Quint & Thimmig LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"*Bond Year*" means each twelve-month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, both dates inclusive; *provided* that the first Bond Year with respect to the Bonds shall commence on the Closing Date and end on September 1, 2009.

"*Bonds*" means the Stockton Public Financing Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects), authorized by and at any time Outstanding pursuant to the Indenture.

"*Business Day*" means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the city in which the Office of the Trustee is located.

"*City*" means the City of Stockton, a chartered city and municipal corporation organized and existing under and by virtue of its charter and the laws of the State.

"*Closing Date*" means the date of delivery of the Bonds to the Original Purchaser.

"*Code*" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under such Code.

"*Continuing Disclosure Certificate*" means that certain Continuing Disclosure Certificate executed by the City and the Authority and dated the date of execution and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"*Costs of Issuance*" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority or the City, initial fees and expenses of the Trustee (including but not limited to fees and expenses for legal counsel), compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording

costs, rating agency fees, costs of preparation and reproduction of documents, out-of-pocket expenses of the Authority or the City, Authority and City staff costs and costs of printing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Debt Service" means, during any period of computation, the amount obtained for such period by totaling the following amounts: (a) the principal amount of all Outstanding Bonds coming due and payable by their terms in such period; and (b) the interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

"Defeasance Obligations" means: (a) cash, (b) U.S. Treasury certificates, notes and bonds (including State and Local Government Series), (c) direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities, (d) the interest component of Resolution Funding Corp. ("REFCORP") strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form; (e) obligations listed in (b)(i), (ii), (iii), (v), (vii) and (viii) of the definition of Permitted Investments; or (f) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively; if, however, the issue is only rated by S&P, then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S.-guaranteed obligations, or AAA rated pre-refunded municipals).

"Event of Default," with respect to the Indenture, means any of the events specified therein and, with respect to the Lease Agreement, means any of the events specified therein.

"Facility" means the improvements more particularly described in the Lease Agreement.

"Federal Securities" means direct and general obligations of the United States of America, or those which are unconditionally guaranteed as to principal and interest by the same.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority or the City, as applicable, as its official fiscal year period.

"Fitch" means Fitch, Inc., New York, New York, or its successors.

"Indenture" means the Indenture of Trust, dated as of September 1, 2009, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions thereof.

"Independent Accountant" means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

"Information Services" means Financial Information, Inc.'s *"Daily Called Bond Service,"* 30 Montgomery Street, 10th Floor, Jersey City, NJ 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150 Charlotte, NC 28217, Attention: Called Bond Dept.; Kenny S&P, 55 Water Street, New York, NY 10041, Attention: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Commission; or to such other addresses and/or such other national information services providing information with respect to the redemption of bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"*Interest Account*" means the account by that name established in the Revenue Fund pursuant to the Indenture.

"*Interest Payment Date*" means each March 1 and September 1, commencing March 1, 2010.

"*Lease Agreement*" means that certain Lease Agreement, dated as of September 1, 2009, by and between the Authority and the City, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

"*Lease Payment Date*" means, with respect to any Interest Payment Date, commencing with the March 1, 2010, Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date.

"*Lease Payments*" means the aggregate amount of all the payments required to be paid by the City pursuant to the Lease Agreement.

"*Moody's*" means Moody's Investors Service, New York, New York, or its successors.

"*Net Proceeds*" means amounts derived by the City from any policy of casualty insurance with respect to any portion of the Property, or the proceeds of any taking of the Property or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

"*Office*" means, with respect to the Trustee, the corporate trust office of the Trustee located in San Francisco, California, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate agency business shall be conducted.

"*Original Purchaser*" means the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

"*Outstanding*," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions thereof) described in the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"*Owner*," whenever used with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

"*Participating Underwriter*" shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

"*Permitted Encumbrances*" means, as of any particular time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid; (b) the Site and Facility Lease; (c) the Lease Agreement; (d) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (e) easements, rights-of-way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the City certifies in writing will not materially impair the use of the Property; and (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease Agreement and to which the Authority and the City agree in writing do not reduce the value of the Property.

"*Permitted Investments*" means the following, but only to the extent that the same are acquired at Fair Market Value:

(a) Federal Securities;

(b) debentures of the Federal Housing Administration to the extent such obligations are guaranteed by the full faith and credit of the United States of America;

(c) obligations of the following agencies which are not guaranteed by the United States of America: (i) participation certificates or debt obligations of the Federal Home Loan Mortgage Corporation; (ii) consolidated system-wide bonds and notes of the Farm Credit Banks (consisting of Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives); (iii) consolidated debt obligations or letter of credit-backed issues of the Federal Home Loan Banks; (iv) mortgage-backed securities (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal) or debt obligations of the Federal National Mortgage Association; or (v) letter of credit-backed issues or debt obligations of the Student Loan Marketing Association; provided, however, that not more than ten percent (10%) of the proceeds of the Bonds may, in the aggregate, be invested in any such obligations at one time;

(d) Federal funds, negotiable certificates of deposit, time deposits and bankers acceptances (having maturities of not more than 180 days) of banks (including the Trustee and its affiliates) the short-term obligations of which are rated in one of the two highest Rating Categories by Moody's and S&P;

(e) deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation ("FDIC");

(f) debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date) rated in one of the two highest Rating Categories by Moody's and S&P;

(g) commercial paper (having original maturities of not more than 270 days) rated in one of the two highest Rating Categories by Moody's and S&P;

(h) money market funds rated "Aam" or higher by S&P and, if rated by Moody's, rated "Aa2" or higher, including funds for which the Trustee, its parent, affiliates or subsidiaries provide investment advisory or other management services, in which case it is agreed that the Trustee, its parent, affiliates or subsidiaries shall have the right to be paid its customary management fees in addition to its fees as Trustee under the Indenture;

(i) investment contracts or agreements issued or guaranteed by entities whose long-term debt or claims paying ability of which are rated in one of the two highest long-term rating categories of Moody's and S&P;

(j) repurchase agreements or investment agreements issued by banks, broker/dealers or other financial institutions fully secured by obligations listed in paragraphs (a), (b) or (c) of this definition having a market value at least equal to 105% of face amount of the agreement and possession of which obligations is held or controlled by the Trustee, the Authority or by a third party satisfactory to the Authority under arrangements satisfactory to the Trustee or the Authority, as the case may be; and

(k) the Local Agency Investment Fund of the State, created pursuant to section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

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

"Project" means various capital improvements throughout the geographic boundaries of the City, including but not limit to, (a) the costs of constructing and installing fire station facilities improvements, including modernizing and expanding Fire Station No 7, located in northern Stockton, from 3,800 square feet to 5,600 square feet, constructing and equipping an approximately 7,250 square foot Fire Station No. 13 in northeast Stockton, and developing a master plan study for fire station facilities within the City; (b)

the costs of relocating and constructing an approximately 24,000 square foot Police Communications Center, to be located at 22 East Weber Street in the central area of the City; (c) the costs of acquiring land and constructing seven parks located throughout the City; and (d) the costs of acquiring, constructing and installing various paving, bridge, widening, lighting, landscaping and other street improvements within the City.

"*Project Fund*" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"*Property*" means, collectively, the Site and the Facility.

"*Rating Category*" means, with respect to any Permitted Investment, one of the generic categories of rating by Fitch, Moody's and S&P applicable to such Permitted Investment, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

"*Record Date*" means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

"*Redemption Fund*" means the fund by that name established pursuant to the Indenture.

"*Registration Books*" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

"*Regulations*" means the regulations of the United States Department of Treasury issued under the Code.

"*Reserve Account*" means the account by that name in the Revenue Fund established pursuant to the Indenture.

"*Reserve Requirement*" means a fixed amount equal to the least of (a) maximum annual debt service on the Bonds, (b) 125% of average annual debt service on the Bonds, and (c) 10% of the par amount of the Bonds.

"*Revenue Fund*" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"*Revenues*" means (a) all Lease Payments, prepayments, insurance proceeds, condemnation proceeds, and (b) subject to the provisions of the Indenture, all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

"*S&P*" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., New York, New York, or its successors.

"*Securities Depositories*" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"*Site*" means that certain real property more particularly described in the Site and Facility Lease and in the Lease Agreement.

"*Site and Facility Lease*" means the Site and Facility Lease, dated as of September 1, 2009, by and between the City, as lessor, and the Authority, as lessee, together with any duly authorized and executed amendments thereto.

"*State*" means the State of California.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, 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 certificate of the Authority dated the Closing Date, with respect to tax matters.

"Trustee" means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under and as provided in the Indenture.

"Written Certificate," "Written Request" and *"Written Requisition"* of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. 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.

INDENTURE OF TRUST

Establishment and Application of Costs of Issuance Fund

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Each such Written Requisition 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 February 20, 2010, or upon the earlier Written Request of the Authority, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Project Fund.

Establishment and Application of Project Fund

Amounts on deposit in the Project Fund shall be used and withdrawn by the Trustee to pay the costs of the Project, upon the receipt from time to time of Written Requisitions of the City seeking payment of costs of the Project. Each such Written Requisition shall state (a) the person to whom payment is to be made, (b) the amount to be paid, and (c) the purpose for which the obligation was incurred. At the Written Request of the City filed at any time with the Trustee, the Trustee shall close the Project Fund and shall transfer all amounts therein to the Revenue Fund to be used for the payment of interest on the Bonds.

Pledge and Assignment; Revenue Fund

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a first lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the rights of the Authority in the Lease Agreement (except for certain rights to indemnification set forth therein), and in the Site and Facility Lease, (except for certain rights to indemnification set forth therein). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce,

either jointly with the Authority or separately, all of the rights of the Authority, all of the obligations of the City under the Lease Agreement.

The assignment of the Lease Agreement and the Site and Facility Lease to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting thereunder shall be subject to the provisions of the Indenture. The Trustee shall not be responsible for any representations, warranties, covenants or obligations of the Authority.

The Trustee agrees to provide written notice to the City at least five Business Days prior to each Lease Payment Date of the amount, if any, on deposit in the Revenue Fund which shall serve as a credit against, and shall relieve the City of making, the Lease Payments due from the City on such Lease Payment Date. All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease Agreement to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited in such Funds. Within the Revenue Fund there shall be established an Interest Account, a Principal Account and a Reserve Account. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Allocation of Revenues

Not later than the Business Day preceding each Interest Payment Date, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account an amount, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due at maturity or upon sinking fund redemption and payable on such Interest Payment Date.

(c) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

(d) If the then applicable Interest Payment Date is March 1, all remaining moneys shall be held by the Trustee in the Revenue Fund and applied for the next succeeding September 1 Interest Payment Date deposits. If the then applicable Interest Payment Date is September 1, all remaining moneys shall be transferred to the City for deposit to the General Fund of the City.

Application of Interest Account

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

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Application of Reserve Account

Amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account in such order of priority,

in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Authority is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Requirement (as determined by the Trustee based upon a valuation of investments held in such account) shall be withdrawn from the Reserve Account semiannually on or before the Business Day preceding each February 1 and August 1 by the Trustee and deposited in the Interest Account. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or, (ii) if the Authority shall have caused to be transferred to the Trustee an amount sufficient to make the deposits required by the Indenture, then, at the Written Request of the Authority, to the Authority for deposit by the Authority into the Revenue Fund. The Trustee may conclusively presume that there has been no change in the Reserve Requirement unless notified in writing by the Authority.

Application of Redemption Fund

The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium on the Bonds to be redeemed pursuant to S the Indenture; *provided, however*, that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, in accordance with the Indenture.

Insurance and Condemnation Fund

Establishment of Fund. Upon the receipt of any proceeds of insurance or eminent domain with respect to any portion of the Property, the Trustee shall establish and maintain an Insurance and Condemnation Fund, to be held and applied as set forth in the Indenture.

Application of Insurance Proceeds. Any Net Proceeds of insurance against accident to or destruction of the Property collected by the City in the event of any such accident or destruction shall be paid to the Trustee by the City pursuant to the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund. If the City fails to determine and notify the Trustee in writing of its determination, within forty-five (45) days following the date of such deposit, to replace, repair, restore, modify or improve the Property, then such Net Proceeds shall be promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds to the extent that such Net Proceeds permit. All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property by the City, upon receipt of Written Requisitions of the City, as agent for the Authority, which: (i) states with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal; and (ii) specifies in reasonable detail the nature of the obligation. Each such Written Requisition 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. Any balance of the proceeds remaining after such work has been completed as certified by the City to the Trustee shall after payment of amounts due the Trustee be paid to the City.

Application of Eminent Domain Proceeds. If all or any part of the Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be applied and disbursed by the Trustee as follows:

(a) If the City has not given written notice to the Trustee, within forty-five (45) days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for the replacement of the Property or such portion thereof, the Trustee shall transfer such Net Proceeds to the Redemption Fund to be applied towards the redemption of the Bonds.

(b) If the City has given written notice to the Trustee, within forty-five (45) days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for replacement of the Property or such portion thereof, the Trustee shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such repair or rehabilitation, upon the filing of Written Requisitions of the City as agent for the Authority in the form and containing the provisions set forth above. Each such Written Requisition 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.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority pursuant to a Written Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which Written Request shall certify that the investments constitute Permitted Investments). In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause (d) of the definition thereof. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. The Authority shall take the liquidity needs of the moneys held under the Indenture into account in making investments.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall, prior to the completion of the Project, be deposited in the Project Fund, except that interest or gain derived from the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement and that interest or gain derived from the investment of the amount in the Revenue Fund shall be retained therein. Following completion of the Project, all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the Revenue Fund, except that interest or gain derived from the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement. To the extent that any investment agreement requires the payment of fees, such fees shall be paid from available moneys in the Revenue Fund after the deposit of moneys described above. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee or its affiliates may act as sponsor, advisor or depository with respect to any Permitted Investment. To the extent that any Permitted Investment purchased by the Trustee are registrable securities such Permitted Investment shall be registered in the name of the Trustee on behalf of the Owners. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

Such investments shall be valued by the Trustee, but not less often than quarterly, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored no later than the succeeding valuation date. Investments purchased with funds on deposit in the Reserve Account shall have a term to maturity of not greater than five years unless by the terms of such investment, the Trustee can access such funds at par upon reasonable notice.

Certain Covenants

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) 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, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject

to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes. Nothing in shall in any way limit the City's ability to encumber its assets in accordance with the Lease Agreement.

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

Accounting Records. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Lease Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the City, during business hours and under reasonable circumstances.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part.

Tax Covenants. The Authority covenants to and for the benefit of the Owners that, notwithstanding any other provisions of the Indenture, it will:

(a) neither make or use nor cause to be made or used any investment or other use of the proceeds of the Bonds or the moneys and investments held in the funds and accounts established under the Indenture which would cause the Bonds to be arbitrage bonds under section 103(b) and section 148 of the Code and the Regulations issued under section 148 of the Code or which would otherwise cause the interest payable on the Bonds to be includable in gross income for federal income tax purposes;

(b) not take or cause to be taken any other action or actions, or fail to take any action or actions, which would cause the interest payable on the Bonds to be includable in gross income for federal income tax purposes;

(c) at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on the Bonds will be excluded from the gross income, for federal income tax purposes, of the Owners pursuant to section 103 of the Code; and

(d) not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and the Regulations.

Collection of Amounts Due Under Lease Agreement. The Trustee shall promptly collect all amounts due from the City pursuant to the Lease Agreement. The Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority, for the enforcement of all of the obligations of the City under the Lease Agreement.

The Authority shall not amend, modify or terminate any of the terms of the Lease Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent only if (a) in the opinion of Bond Counsel, such amendment, modification or termination will not materially adversely affect the interests of the Owners, or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment, modification or termination.

Continuing Disclosure. The Authority covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the Continuing Disclosure Certificate shall not constitute an Event of Default under the Indenture; *provided, however*, that any Participating Underwriter or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the Authority of its continuing disclosure obligations, including seeking mandate or specific performance by court order.

Events of Default; Remedies

Events of Default. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal or sinking fund installments of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; *provided, however*, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an event of default under and as defined in the Lease Agreement.

Remedies. Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, and upon the written request of the Owners of not less than 25% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, and payment of its fees and expenses, including the fees and expenses of its counsel, shall in its own name and as the Trustee of an express trust:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners under, and require the Authority or the City to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under the Lease Agreement and the Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Lease Agreement or the Indenture, as the case may be;

(b) bring suit upon the Bonds;

(c) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Owners of Bonds; or

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds under the Indenture.

Upon the occurrence of an Event of Default, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers for the Revenues, *ex parte*, and without notice, and the Authority consents to the appointment of such receiver upon the occurrence of an Event of Default. In the case of any receivership, insolvency, bankruptcy, or other judicial proceedings affecting the Authority or the City, the Trustee shall be entitled to file such proofs of claims and other documents as may be necessary or advisable in order to have the claims of the Trustee and the Bond Owners allowed in such proceedings, without prejudice, however, to the right of any Bond Owner to file a claim on his or her own behalf; provided, the Trustee shall be entitled to compensation and reimbursement for the reasonable fees and expenses of its counsel and indemnity for its reasonable expenses and liability from the Authority, the City or the Bond Owners, as appropriate.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

> *First*: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and
>
> *Second*: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Amendments Permitted

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds 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 Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Indenture and the rights and obligations of the Authority, of the Trustee and 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 Authority and the Trustee may enter into without the consent of any Bond Owners,

if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority 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 Authority;

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

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

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code; or

(v) to modify, alter, amend or supplement the Indenture in any other respect, including amendments that would otherwise be described in the Indenture thereof, (A) if such amendment will take effect on a Purchase Date following the purchase of tendered Bonds, or (B) if notice of the proposed Supplemental Indenture is given to Bondholders (in the same manner as notices of redemption are given) at least thirty (30) days before the effective date thereof and, on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to the Indenture.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

Written notice of any amendment or modification made pursuant to the Indenture shall be given by the Authority to any rating agency then rating the Bonds at least thirty (30) days prior to the effective date of such amendment or modification.

Effect of Supplemental Indenture

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

Discharge of Indenture

Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

(a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, Defeasance Obligations in the necessary amount (as provided in the Indenture) to pay or redeem such Bonds; or

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

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority 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 the Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall 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 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 provided in the Indenture 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 of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Obligations, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium 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 provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

SITE AND FACILITY LEASE

The Site and Facility Lease is entered into between the City and the Authority. The City agrees to lease the Property to the Authority for a term continuous with the term of the Lease Agreement. The City and the Authority agree that the lease to the Authority of the City's right, title and interest in the Property pursuant to the Site and Facility Lease serves the public purposes of the City by enabling the Authority to lease the Property back to the City.

THE LEASE AGREEMENT

Lease of Project

The Authority leases the Project to the City, and the City leases the Project from the Authority, upon the terms and conditions set forth in the Lease Agreement.

Term of Lease

The Lease Agreement shall take effect on the Closing Date, and shall end on the earlier of September 1, 2038, or such earlier date on which the Bonds shall no longer be Outstanding under the Indenture. If, on September 1, 2038, the Indenture shall not be discharged by its terms or if the Lease Payments payable under the Lease Agreement shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended until there has been deposited with the Trustee an amount sufficient to pay all obligations due under the Lease Agreement, but in no event shall the Term of the Lease Agreement extend beyond September 1, 2048.

Lease Payments

Obligation to Pay. In consideration of the lease of the Property from the Authority under the Lease Agreement, the City agrees to pay to the Authority, its successors and assigns, as rental for the use and occupancy of the Property during each Fiscal Year, the Lease Payments (denominated into components of principal and interest) for the Property in the respective amounts specified in the Lease Agreement, to be due and payable on the respective Lease Payment Dates specified in the Lease Agreement. Any amount held in the Revenue Fund (except the Reserve Account therein), the Interest Account, the Principal Account or the Sinking Account on any Lease Payment Date, derived from any source of funds of the City or the Authority, shall be credited towards the Lease Payment then due and payable. The Lease Payments coming due and payable in any Fiscal Year shall be for the use of the Property for such Fiscal Year.

The City's obligation to pay Lease Payments under the Lease Agreement shall be absolute and unconditional subject only to abatement, in the event and to the extent that there is substantial interference with the use and occupancy of the property or any portion there of.

Rate on Overdue Payments. In the event the City should fail to make any of the payments required in the Lease Agreement, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest borne by any Outstanding Bond. Such interest, if received, shall be deposited in the Revenue Fund.

Fair Rental Value. The Lease Payments and Additional Payments coming due and payable in each Fiscal Year shall constitute the total rental for the Property for each Fiscal Year and shall be paid by the

City in each Fiscal Year for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, the Property during each Fiscal Year. The Authority and the City agree and determine that the total Lease Payments do not exceed the fair rental value of the Property. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the value of the Property, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the City and the general public.

Source of Payments; Budget and Appropriation. Lease Payments shall be payable from any source of available funds of the City, subject to the provisions of the Lease Agreement.

The City covenants to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments. The covenants on the part of the City contained in the Lease Agreement shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Assignment. The City understands and agrees that all Lease Payments have previously been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City assents to such assignment. The Authority directs the City, and the City agrees, to pay all of the Lease Payments to the Trustee at its Office.

Security Deposit. Notwithstanding any other provision of the Lease Agreement, the City may on any date secure the payment of the Lease Payments for the Property in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts, including but not limited to amounts on deposit in the Revenue Fund and the Reserve Account, is either (i) sufficient to pay such Lease Payments, including the principal and interest components thereof, and premium, if any, in accordance with the Lease Payment schedule set forth in the Lease Agreement, or (ii) invested in whole or in part in Defeasance Obligations in such amount as will, in the opinion of an Independent Accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due under the Lease Agreement, as the City shall instruct at the time of said deposit. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease Agreement.

Prepayment Option

The Authority grants an option to the City to prepay the principal component of the Lease Payments in full, or in part, without premium, as described in the Indenture with respect to the redemption of Bonds.

Quiet Enjoyment

During the Term of the Lease Agreement, the Authority shall provide the City with quiet use and enjoyment of the Project, and the City shall, during such Term, peaceably and quietly have and hold and enjoy the Project without suit, trouble or hindrance from the Authority, except as expressly set forth in the Lease Agreement. The Authority will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so. Notwithstanding the foregoing, the Authority shall have the right to inspect the Project as provided in the Lease Agreement.

Title

If the City pays all of the Lease Payments and Additional Payments during the Term of the Lease Agreement as the same become due and payable, or if the City posts a security deposit for payment of the Lease Payments pursuant to the Lease Agreement, and if the City has paid in full all of the Additional Payments coming due and payable as of such date, and provided in any event that no Event of Default

shall have occurred and be continuing, all right, title and interest of the Authority in and to the Project shall be transferred to and vested in the City. The Authority agrees to take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such transfer of title.

Additional Payments

In addition to the Lease Payments, the City shall pay when due the following Additional Payments:

(i) Any fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Property as and when the same become due and payable;

(ii) Any amounts due to the Trustee pursuant to the Indenture for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;

(iii) Any reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease Agreement or the Indenture; and

(iv) Any reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of the Lease Agreement or the Indenture, or in connection with the issuance of the Bonds, including any and all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the Lease Agreement, the Bonds, the Indenture or any of the other documents contemplated thereby, or incurred by the Authority in connection with the Continuing Disclosure Certificate, or otherwise incurred in connection with the administration thereof.

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Project, all improvement, repair and maintenance of the Project shall be the responsibility of the City and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Project which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Project resulting from ordinary wear and tear or want of care on the part of the City or any assignee or lessee thereof. In exchange for the Lease Payments provided in the Lease Agreement, the Authority agrees to provide only the Project, as hereinbefore more specifically set forth. The City waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the City under the terms of the Lease Agreement.

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

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in the reasonable opinion of the Authority, by nonpayment of any such items, the interest of the Authority in the Project will be materially endangered or the Project or any part thereof will be subject to loss or forfeiture, in which event the City

shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

Modification of Project

The City shall, at its own expense, have the right to make additions, modifications and improvements to the Project. All additions, modifications and improvements to the Project shall thereafter comprise part of the Project and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Project or cause the Project to be used for purposes other than those authorized under the provisions of State and federal law; and the City shall file with the Trustee and the Authority a Written Certificate of the City stating that the Project, upon completion of any additions, modifications and improvements made thereto pursuant to the Lease Agreement, shall be of a value which is not substantially less than the value of the Project immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Project for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City pursuant to the Lease Agreement; *provided, however*, that if any such lien is established and the City shall first notify or cause to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Project, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

Public Liability and Property Damage Insurance

The City shall maintain or cause to be maintained throughout the Term of the Lease Agreement, a standard comprehensive general insurance policy or policies in protection of the Authority, City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Project. Said policy or policies shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $100,000 (subject to a deductible clause of not to exceed $5,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and such liability insurance may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Lease Agreement, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied by the City toward extinguishment or satisfaction of the liability with respect to which paid.

Fire and Extended Coverage Insurance

The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to the improvements constituting a part of the Project by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance, when required, shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and shall include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the judgment of the City. Such insurance shall be in an amount at least equal to the lesser of (a) one hundred percent (100%) of the replacement cost of all of the insured improvements, or (b) the aggregate principal amount of the outstanding Bonds. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided however, that such insurance may not be

maintained by the City in the form of self-insurance. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement.

Rental Interruption Insurance

The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Project as a result of any of the hazards covered in the insurance required by the Lease Agreement, in an amount at least equal to the maximum Lease Payments coming due and payable during any future twenty-four (24) month period. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; *provided, however,* that such insurance may not be maintained in the form of self-insurance. The proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Revenue Fund, and shall be credited towards the payment of the Lease Payments as the same become due and payable.

Recordation thereof; Title Insurance

The City shall provide, from moneys in the Costs of Issuance Fund or at its own expense, contemporaneously with the acquisition of the Project, a CLTA title insurance policy covering, and in the amount of not less than the principal amount of the Bonds, insuring the City's leasehold estate in the Project, subject only to Permitted Encumbrances.

Net Proceeds of Insurance; Form of Policies

Each policy of insurance maintained pursuant to the Lease Agreement shall name the Trustee as loss payee so as to provide that all proceeds thereunder shall be payable to the Trustee. All required insurance policies shall be provided by a commercial insurer in one of the two highest rating categories by Moody's and S&P (without regard to designations of plus (+) or minus (-)). The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. All such policies shall provide that the Trustee shall be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency or amount of any insurance or self-insurance required in the Lease Agreement and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. The City shall cause to be delivered to the Trustee annually, no later than August 1 in each year, a certificate stating that all of the insurance policies required by the Lease Agreement are in full force and effect and identifying whether any such insurance is then maintained in the form of self-insurance.

In the event that any insurance maintained pursuant to the Lease Agreement shall be provided in the form of self-insurance, the City shall file with the Trustee annually, within ninety (90) days following the close of each Fiscal Year, a statement of the City risk manager, insurance consultant or actuary identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the City, the City shall not be obligated to make any payment with respect to any insured event except from such reserves. The results of such review shall be filed with the Trustee.

Installation of Personal Property

The City may, at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon any portion of the Project. All such items shall remain the sole property of the City, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by the City at any time provided that the City shall repair and restore any and all damage to the Project resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the City from purchasing or leasing items to be installed pursuant to the Lease Agreement under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of

the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Project.

Liens

Neither the City nor the Authority shall, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to any portion of the Project, other than the respective rights of the Trustee, the Authority and the City as provided in the Lease Agreement and Permitted Encumbrances. Except as expressly provided in the Lease Agreement, the City and the Authority shall promptly, at their own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The City shall reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Tax Covenants

Private Activity Bond Limitation. The City shall assure that proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

No Arbitrage. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest with respect to the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Continuing Disclosure

The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Lease Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not constitute an Event of Default under the Lease Agreement; *provided, however*, that the Participating Underwriter or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the City of its obligations under the Lease Agreement, including seeking mandate or specific performance by court order.

Application of Net Proceeds

From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Project by fire or other casualty shall be paid by the City to the Trustee and shall be deposited in the Insurance and Condemnation Fund by the Trustee and applied as set forth in the Indenture.

From Eminent Domain Award. If the Project or any portion thereof shall be taken permanently or temporarily under the power of eminent domain or sold to a government threatening to exercise the

power of eminent domain, the Net Proceeds resulting therefrom shall be deposited in the Insurance and Condemnation Fund and applied as set forth in the Indenture.

From Title Insurance Award. The Net Proceeds of any title insurance award shall be paid to the Trustee, deposited in the Insurance and Condemnation Fund and applied as set forth in the Indenture.

Abatement of Lease Payments

Abatement Due to Damage or Destruction of the Property; Non-Completion. The Lease Payments shall be abated during any period in which by reason of damage to or destruction of the Property (other than by eminent domain) there is substantial interference with the use and occupancy by the City of the Property or any portion thereof. The amount of such abatement shall be an amount agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged or destroyed and available for use and possession by the City. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction or the date when the remaining portion of the Property is available for use and possession by the City. In the event of any such damage, destruction or non-completion, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage, destruction or non-completion. There shall be no abatement of the Lease Payments to the extent that moneys derived from any person as a result of such damage or destruction are available to pay the amount which would otherwise be abated or if there is any money available in the Revenue Fund or the Reserve Account to pay the amount which would otherwise be abated.

Abatement Due to Eminent Domain. If all of the Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement shall cease with respect to the Property as of the day possession shall be so taken. If less than all of the Property shall be taken permanently, or if all of the Property or any part thereof shall be taken temporarily under the power of eminent domain, (a) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there shall be a partial abatement of Lease Payments in an amount to be agreed upon by the City and the Authority such that the resulting Lease Payments for the Property represent fair consideration for the use and occupancy of the remaining usable portion of the Property.

Rights of Access

The City agrees that the Authority and any Authorized Representative of the Authority, and the Authority's successors or assigns, shall have the right at all reasonable times to enter upon and to examine and inspect the Property. The City further agrees that the Authority, any Authorized Representative of the Authority, and the Authority's successors or assigns, shall have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the City to perform its obligations under the Lease Agreement; provided, however, that the Authority's assigns shall not be required to cause such proper maintenance.

Release and Indemnification Covenants

The City shall and agrees to indemnify and save the Authority, the Trustee and their respective officers, agents, successors and assigns, harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Property by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under the Lease Agreement, (c) any act or negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (d) any act or negligence of any lessee of the City with respect to the Property, or (e) the performance by the Trustee of its duties under the Lease Agreement or under the Indenture. No indemnification is made under the Lease Agreement for willful misconduct or negligence under the Lease Agreement by the Authority, the Trustee or any of their respective officers or employees. The indemnification under the Lease Agreement shall survive removal or resignation of the Trustee, termination of the Lease Agreement or discharge of the Bonds.

Assignment by the Authority

Certain rights of the Authority under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under the Lease Agreement, have been pledged and assigned to the Trustee for the benefit of the Owners of the Bonds pursuant to the Indenture, to which pledge and assignment the City consents. The assignment of this Agreement to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting under the Lease Agreement shall be subject to the provisions of the Indenture, including, without limitation, the provisions of the Lease Agreement.

Assignment and Subleasing by the City

The Lease Agreement may not be assigned by the City. The City may sublease the Project or any portion thereof, subject to, and delivery to the Authority of a certificate as to, all of the following conditions:

(a) The Lease Agreement and the obligation of the City to make Lease Payments under the Lease Agreement shall remain obligations of the City;

(b) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;

(c) No such sublease by the City shall cause the Project to be used for a purpose other than as may be authorized under the provisions of the laws of the State; and

(d) The City shall furnish the Authority and the Trustee with a written opinion of Bond Counsel, stating that such sublease is permitted by the Lease Agreement and the Indenture, and will not cause the interest on the Bonds to become included in gross income for federal income tax purposes.

Amendment of Lease

Substitution of Site. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute other land (a "Substitute Site") for the Site (the "Former Site"), or a portion thereof, provided that the City shall satisfy all of the following requirements which are declared to be conditions precedent to such substitution:

(a) The City shall file with the Authority and the Trustee an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(b) The City shall file with the Authority and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(c) The City shall certify in writing to the Authority and the Trustee that such Substitute Site serves the purposes of the City, constitutes property that is unencumbered (or the portion of such property to be to substituted is unencumbered), subject to Permitted Encumbrances, and constitutes property which the City is permitted to lease under the laws of the State;

(d) The City delivers to the Trustee and the Authority evidence that the Substitute Site (or the portions to be to substituted) is of equal or greater value than the Site (or the portions thereof) to be to substituted;

(e) The City shall certify the Substitute Site shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement;

(f) The City shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which adds thereto a description of the Substitute Site and deletes therefrom the description of the Former Site;

(g) The City shall certify that the Substitute Site is of the same or greater essentiality to the City as was the Former Site;

(h) The City shall certify that the Substitute Site has a useful life equal to or longer than the remaining term of the Bonds; and

(i) The City shall provide notice of such substitution to any rating agency then rating the Bonds.

So long as the requirements set forth above are satisfied, any such substitution may be accomplished administratively and shall not require separate approval by the City Council.

Substitution of Facility. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute a substitute facility or substitute facilities (a "Substitute Facility") for the Facility (the "Former Facility"), or a portion thereof, provided that the City shall satisfy all of the following requirements which are declared to be conditions precedent to such substitution:

(a) The City shall file with the Authority and the Trustee an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility, if applicable;

(b) The City shall file with the Authority and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(c) The City shall certify in writing to the Authority and the Trustee that such Substitute Facility serve the purposes of the City, constitutes property that is unencumbered (or the portion of such property to be to substituted is unencumbered), subject to Permitted Encumbrances, and constitutes property which the City is permitted to lease under the laws of the State;

(d) The City delivers to the Trustee and the Authority evidence that the Substitute Facility (or the portions to be to substituted) is of equal or greater value than the property (or the portions thereof) to be to substituted;

(e) The City shall certify the Substitute Facility shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement;

(f) The City shall certify that the Substitute Facility is of the same or greater essentiality to the City as was the Former Facility;

(g) The City shall certify that the Substitute Facility has a useful life equal to or longer than the remaining term of the Bonds; and

(h) The City shall provide notice of such substitution to any rating agency then rating the Bonds.

So long as the requirements set forth above are satisfied, any such substitution may be accomplished administratively and shall not require separate approval by the City Council.

Release of Site. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Site, provided that the City shall satisfy all of the following requirements which are declared to be conditions precedent to such release:

(a) The City shall file with the Authority and the Trustee to the Site and Facility Lease which describes the Site, as revised by such release;

(b) The City shall file with the Authority and the Trustee an amendment to the Lease Agreement which describes the Site, as revised by such release;

(c) The City delivers to the Trustee and the Authority evidence that the Site, as revised by such release, together with the Facility, has a total value at least equal to 1.1 times the principal amount of the Bonds then outstanding;

(d) The City shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which describes the Site, as revised by such release; and

(e) The City shall provide notice of such release to any rating agency then rating the Bonds.

So long as the requirements set forth above are satisfied, any such release may be accomplished administratively and shall not require separate approval by the City Council.

Release of Facility. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Facility provided that the City shall satisfy all of the following requirements which are declared to be conditions precedent to such release:

(a) The City shall file with the Authority and the Trustee an amendment to the Site and Facility Lease which describes the Facility, as revised by such release;

(b) The City shall file with the Authority and the Trustee an amendment to the Lease Agreement which describes the Facility, as revised by such release;

(c) The City delivers to the Trustee and the Authority evidence that the Facility, as revised by such release, together with the Site, has a total value at least equal to 1.1 times the principal amount of the Bonds then outstanding; and

(d) The City shall provide notice of such release to any rating agency then rating the Bonds.

So long as the requirements set forth above are satisfied, any such release may be accomplished administratively and shall not require separate approval by the City Council.

Generally. The Authority and the City may at any time amend or modify any of the provisions of the Lease Agreement, but only

(a) with the prior written consents of the Owners of a majority in aggregate principal amount of the Outstanding Bonds, or

(b) without the consent of any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the City in the Lease Agreement;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease Agreement, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments will not materially adversely affect the interests of the Owners of the Bonds; or

(iii) to amend any provision thereof relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the Bonds under the Code, in the opinion of Bond Counsel.

Events of Default Defined

The following shall be "Events of Default" under the Lease Agreement:

(a) Failure by the City to pay any Lease Payment required to be paid under the Lease Agreement at the time specified in the Lease Agreement.

(b) Failure by the City to make any Additional Payment required under the Lease Agreement and the continuation of such failure for a period of thirty (30) days.

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee; *provided, however,* that if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure shall not constitute an Event of Default if the City shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith shall cure such failure in a reasonable period of time.

(d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of applicable federal bankruptcy law, or under any similar acts which may hereafter be enacted.

Remedies on Default

Whenever any Event of Default referred to in the Lease Agreement shall have happened and be continuing, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; *provided, however,* that notwithstanding anything to the contrary in the Lease Agreement or in the Indenture, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable or to terminate the Lease Agreement or to cause the fee interest or the leasehold interest of the City in the Project to be sold, assigned or otherwise alienated. Each and every covenant thereof to be kept and performed by the City is expressly made a condition and, upon the breach thereof, the Authority may exercise any and all rights of entry and re-entry upon the Project. The City irrevocably consents to the Authority's repossession of the Project if such an Event of Default shall occur and consents to the Authority's re-letting of the Project for the account of the City. In the event of such default and notwithstanding any re-entry by the Authority, the City shall, expressly provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions contained in the Lease Agreement and, in any event, such rent and/or damages shall be payable to the Authority at the time and in the manner as provided in the Lease Agreement, to wit:

(a) The City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Project, or, in the event the Authority is unable to re-lease the Project, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided in the Lease Agreement for the payment of Lease Payments under the Lease Agreement, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Project or the exercise of any other remedy by the Authority.

(b) The City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to enter upon and re-lease the Project in the event of default by the City in the performance of any covenants contained in the Lease Agreement to be performed by the City and to remove all personal property whatsoever situated upon the Project to place such property in storage or other suitable place in San

Joaquin County, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Project and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement.

(c) The City waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Project as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Project and all claims for damages to or loss of any property belonging to the City that may be in or upon the Project.

(d) The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-lease the Project in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise.

Limitation on Remedies

Notwithstanding the foregoing provisions of the Lease Agreement, neither the Authority nor the Trustee shall exercise any remedies against the Project to the extent such remedies would generate funds which are not available to satisfy the obligations of the Lease Agreement or the Indenture.

No Remedy Exclusive

No remedy in the Lease Agreement conferred upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall, except as expressly provided in the Lease Agreement to the contrary, be in addition to every other remedy given under the Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in the Lease Agreement it shall not be necessary to give any notice, other than such notice as may be required in this the Lease Agreement or by law.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the City or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

"EMMA" or *"Electronic Municipal Market Access"* means the centralized on-line repository for documents filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"Participating Underwriter" shall mean the original underwriter of the Bonds, required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Authority under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report to MSRB.* The City shall, or shall cause the Dissemination Agent to, not later than March 31 of each year (being the last day of the 9th month after the end of the City's fiscal year, which ends on June 30), commencing with the report for the 2008-2009 fiscal year, provide to the Participating Underwriter and to file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report prepared by or on behalf of the City that is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is unable to provide an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA in substantially the form attached as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements of the City for the preceding fiscal year, prepared in accordance with the laws of the State and including all statements and information prescribed for inclusion therein by the Controller of the State. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited final statement of the City, the Annual Report shall also include operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Bonds, as follows:

(i) A maturity schedule for the outstanding Bonds, and a listing of Bonds redeemed prior to maturity during the prior Fiscal Year.

(ii) Balance in each of the following funds established pursuant to the Indenture as of the close of the prior fiscal year:

(A) total deposits in the Revenue Fund for the prior Fiscal Year (with a statement of the debt service requirement discharged by the Revenue Fund in the prior Fiscal Year); and

(B) the Reserve Account (with a statement of the current Reserve Requirement and the name of the guaranteed investment contract provider, if any).

(iii) Table 12—"City of Stockton, Assessed Full Cash Value of all Taxable Property;"

(iv) Table 13—"City of Stockton, Secured Property Tax Levies and Collections;"

(v) Table 14—"City of Stockton, Principal Secured Property Taxpayers;" and

(vi) Table 15—"City of Stockton, Motor Vehicle in Lieu Fees."

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the

specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) *Listed Events*. Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) Principal and interest payment delinquencies.
(ii) Non-payment related defaults.
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
(v) Substitution of credit or liquidity providers, or their failure to perform.
(vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
(vii) Modifications to rights of security holders.
(viii) Contingent or unscheduled bond calls.
(ix) Defeasances.
(x) Release, substitution, or sale of property securing repayment of the securities.
(xi) Rating changes.

(b) *Determination of Materiality of Listed Events*. Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) *Notice to Dissemination Agent*. If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) *Notice of Listed Events*. The City shall file, or cause the Dissemination Agent to file, a notice of the occurrence of a Listed Event, if material, with EMMA, in a readable PDF or other electronic format as prescribed by EMMA, with a copy to the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) (defeasances) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Bondholders of affected Bonds.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5.

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The initial Dissemination Agent shall be the City. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to any reports, notices or disclosures provided to it under this Continuing Disclosure Certificate, and has no liability to any person, including any Owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship

with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, Holders or Beneficial Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) *Compliance as of Issue Date*. The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) *Consent of Holders; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the Bondholders in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel provided to the Dissemination Agent, materially impair the interests of the Bondholders or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Bondholder 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 Disclosure Certificate. The sole remedy under this Disclosure

Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF STOCKTON

By _____
Mark Moses
Chief Financial Officer

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND EACH STATE REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Stockton Public Financing Authority
Name of Issue:	$35,080,000 Stockton Public Financing Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects)
Date of Issuance:	[Closing Date]

NOTICE IS HEREBY GIVEN that the of City of Stockton (the "City")has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated [Closing Date], furnished by the City in connection with the above-named Issue. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF STOCKTON, as Dissemination Agent

By _____
Name _____
Title _____

cc: Trustee

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Stockton Public Financing Authority
425 North El Dorado Street
Stockton, California 95202

OPINION: $35,080,000 Stockton Public Financing Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects)

Members of the Authority:

We have acted as bond counsel in connection with the delivery by the Stockton Public Financing Authority (the "Authority") of $35,080,000 aggregate principal amount of the bonds of the Authority designated the "Stockton Public Financing Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects)" (the "Bonds"), pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), and pursuant to an indenture of trust, dated as of September 1, 2009 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee, and a resolution of the Authority adopted on August 26, 2008. The Bonds are secured by Revenues (as defined in the Indenture), including certain payments made by the City of Stockton (the "City") under a lease agreement, dated as of September 1, 2009 (the "Lease Agreement"), by and between the Authority and the City. We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the City contained in the Indenture and Lease Agreement, as applicable, and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Authority is a duly constituted redevelopment agency under the laws of the State of California with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly approved by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. Subject to the Authority's and the City's compliance with certain covenants, interest on the Bonds (i) is excludable from gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), and (iii) interest on the

Bonds is not taken into account in computing adjusted current earnings, which is used as an adjustment in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Lease Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Authority, the City and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2009 Bonds, payment of principal, redemption premium, if any, and interest with respect to the 2009 Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2009 Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The City, the Authority, the Trustee and the Underwriter understand that the current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and that the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2009 Bonds. The 2009 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 2009 Bond certificate will be issued for each maturity of the 2009 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTTC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2009 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 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of

Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2009 Bonds, except in the event that use of the book-entry system for the 2009 Bonds is discontinued.

To facilitate subsequent transfers, all 2009 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 the 2009 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 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009 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 the 2009 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2009 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Trust Agreement. For example, Beneficial Owners of the 2009 Bonds may wish to ascertain that the nominee holding the 2009 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC, if less than all of the 2009 Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2009 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, the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of, premium, if any, and interest on the 2009 Bonds by Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2009 Bonds at any time by giving reasonable notice to the City, the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2009 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2009 Bond certificates will be printed and delivered.

The foregoing information concerning DTC and DTC's book-entry system has been provided by DTC, and neither the Authority nor the Trustee takes any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the 2009 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply.

The City, the Authority and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the 2009 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2009 Bonds or an error or delay relating thereto.

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