



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: City of Lodi Electric System Revenue Certificates of Participation 1999 Series A and 1999 Series B

MEETING DATE: July 21, 1999

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: That the City Council approve the attached resolution relating to City of Lodi Electric System Revenue Certificates of Participation (COP's) 1999 Series A and 1999 Series B.

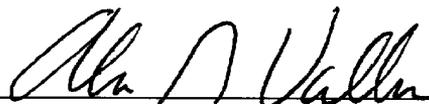
BACKGROUND INFORMATION: As previously discussed with the Council, the above COP's are a major component of the financial plan for the City of Lodi electric system. Funds provided will be used to reimburse the City for a portion of past electric distribution system capital expenditures and to provide funds for facility and distribution, transmission and lighting systems upgrades.

The attached resolution concerns approval, execution and delivery of COP documents listed below:

1. Installment Purchase Contract;
2. Continuing Disclosure Agreement;
3. Certificate Purchase Agreement;
4. Preliminary Official Statement; and
5. Official Statement (delivered later).

The above documents are substantially in final form. Upon COP pricing, dollar amounts and dates will be updated and presented for execution.

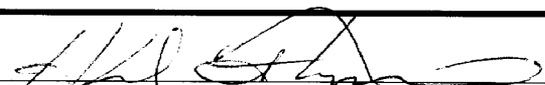
FUNDING: Electric Fund


 Alan N. Vallow
 Electric Utility Director

PREPARED BY: John Stone, Manager, Business Planning and Marketing

ANV/JS/II

C: City Attorney
Finance Director

APPROVED: 
 H. Dixon Flynn -- City Manager

RESOLUTION NO. 99-107

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY LODI
RELATING TO ELECTRIC SYSTEM REVENUE CERTIFICATES
OF PARTICIPATION; APPROVING THE FORMS OF AND AUTHORIZING THE
EXECUTION AND DELIVERY OF AN INSTALLMENT PURCHASE CONTRACT,
A CONTINUING DISCLOSURE AGREEMENT, A CERTIFICATE PURCHASE
CONTRACT AND AN OFFICIAL STATEMENT, AND APPROVING THE
DISTRIBUTION OF A PRELIMINARY OFFICIAL STATEMENT IN CONNECTION
THEREWITH; AND AUTHORIZING CERTAIN OTHER MATTERS
RELATING THERETO**

WHEREAS, the City of Lodi, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), has determined to finance and refinance the costs of certain additions, betterments and improvements to the City's electric system (the "Electric System"), including the acquisition and construction of certain facilities for the transmission and distribution for the Electric System; and

WHEREAS, in order to implement the foregoing, the City and the Lodi Public Improvement Corporation, a non-profit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation") propose to execute and enter into an Installment Purchase Contract (the "Installment Purchase Contract"), whereby the Corporation will acquire from the City certain existing improvements (the "Substation Facilities") to the Electric System and whereby the Corporation will sell such Substation Facilities back to the City and will sell certain additional improvements (the "Projects") to the Electric System to be constructed as provided in the Installment Purchase Contract; and

WHEREAS, pursuant to the Installment Purchase Contract, the City will be obligated to make installment payments to the Corporation for the purchase of the Substation Facilities and Projects; and

WHEREAS, the City desires to approve the financing and refinancing of the improvements to the Electric System as provided in the Installment Purchase Contract through the execution and delivery of Electric System Revenue Certificates of Participation, 1999 Series A Current Interest Certificates and Electric System Revenue Certificates of Participation, 1999 Series B Capital Appreciation Certificates (collectively, the "Certificates"), evidencing and representing proportionate interests of the owners thereof in the Installment Payments to be made by the City, pursuant to a Trust Agreement (the "Trust Agreement"), proposed to be executed by the Corporation and such trustee (the "Trustee") as shall be duly appointed by the Corporation; and

WHEREAS, the City proposes to execute and deliver a Certificate Purchase Contract (the "Certificate Purchase Contract") with Salomon Smith Barney Inc. (the "Underwriter"), pursuant to which the Underwriter will purchase the Certificates for reoffering to the public, and to authorize the execution and distribution of a Preliminary Official Statement, an Official Statement, and a Continuing Disclosure Agreement pertaining to the Certificates; and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LODI, AS FOLLOWS:

Section 1. The City Council hereby specifically finds and determines that the actions authorized hereby constitute and are with respect to the public affairs of the City and that the statements, findings and determinations of the City set forth above and in the preambles of the documents approved herein are true and correct and that the consummation of the transactions contemplated therein shall result in significant public benefits to the City in that the City expects to improve the efficient operation of the City's Electric System through financing and refinancing of improvement to the Electric System as provided in the Installment Purchase Contract.

Section 2. The Installment Purchase Contract, proposed to be executed and entered into by and between the City and the Corporation, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Finance Director, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Corporation the Installment Purchase Contract in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that the schedule of the installment payments to be contained in the Installment Purchase Contract and to be attached as exhibits thereto shall be determined by the City Manager or the Finance Director of the City upon the sale of the Certificates, but shall not exceed \$45,000,000 in aggregate principal amount, shall provide for installment payments not later than 35 years from the date of delivery of the Certificates, and shall result in a net interest cost not in excess of eight percent per annum.

Section 3. The Certificate Purchase Contract, proposed to be executed and entered into by and between the City and the Underwriter, in the form presented at this meeting and on file with the City Clerk, and the performance of the City of its obligation thereunder, are hereby approved, and the City Manager and the Finance Director, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Underwriter the Purchase Contract in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. The Preliminary Official Statement, in the form presented at this meeting and on file with the City Clerk, is hereby approved. The City Manager and the Finance Director, each acting singly, are hereby authorized and directed to cause the Preliminary Official Statement to be deemed final for purposes of Rule 15c2-12 of the Securities and Exchange Act of 1934 (the "Rule")

and to be distributed to potential purchasers of the Certificates in substantially the form presented to this meeting with such changes therein as the officer deeming the Preliminary Official Statement final for purposes of the Rule may approve, such approval to be conclusively evidenced by deeming the Preliminary Official Statement final for purposes of the Rule.

Section 5. The preparation and delivery of an Official Statement, and its use by the Underwriter in connection with the offering and sale of the Certificates are hereby approved. The Official Statement shall be substantially in the form of the Preliminary Official Statement with such changes therein as the officer executing the Official Statement may approve, which approval to be conclusively evidenced by such officer's execution and delivery thereof. The City Manager and the Finance Director, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Official Statement and any amendment or supplement thereto contemplated by the Certificate Purchase Contract, in the name and on behalf of the City, and thereupon to cause the final Official Statement and any such amendment or supplement to be delivered to the Underwriter with such execution being conclusive evidence of the approval thereof.

Section 6. The Continuing Disclosure Agreement, proposed to be executed and entered by the City and the Trustee, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Finance Director, each acting singly, are hereby authorized and directed for and in the name and on behalf of the City to execute and deliver the Continuing Disclosure Agreement in substantially said form, with such changes therein as the officer executing such document may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. The City Clerk is hereby authorized and directed to attest the signature of the City Manager or the Finance Director and to affix and attest the seal of the City, as may be required or appropriate, in connection with the execution and delivery of the Certificates and the documents approved by this Resolution.

Section 8. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things (including the negotiating and obtaining of a municipal bond insurance policy or reserve fund surety bond with respect to the Certificates if the City Manager or Finance Director determine that such insurance ~~policy or surety~~ bond will result in savings to the City) and to execute and deliver any and all documents which they may deem necessary or desirable in order to consummate the transactions authorized hereby and to consummate the sale, execution and delivery of the Certificates and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Installment Purchase Contract, the Continuing Disclosure Agreement, the Certificate Purchase Contract, the Preliminary Official Statement, the Official Statement and the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 9. This Resolution shall take effect immediately upon its passage.

Date: July 21, 1999

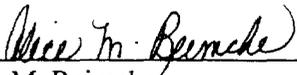
I hereby certify that Resolution 99-107 was passed and adopted by the City Council of the City of Lodi in a regular meeting held July 21, 1999 by the following votes:

AYES: COUNCIL MEMBERS – Hitchcock, Mann, Nakanishi and Land (Mayor)

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – Pennino



Alice M. Reimche
City Clerk

Approved As to Form:



Randall A. Hays
City Attorney

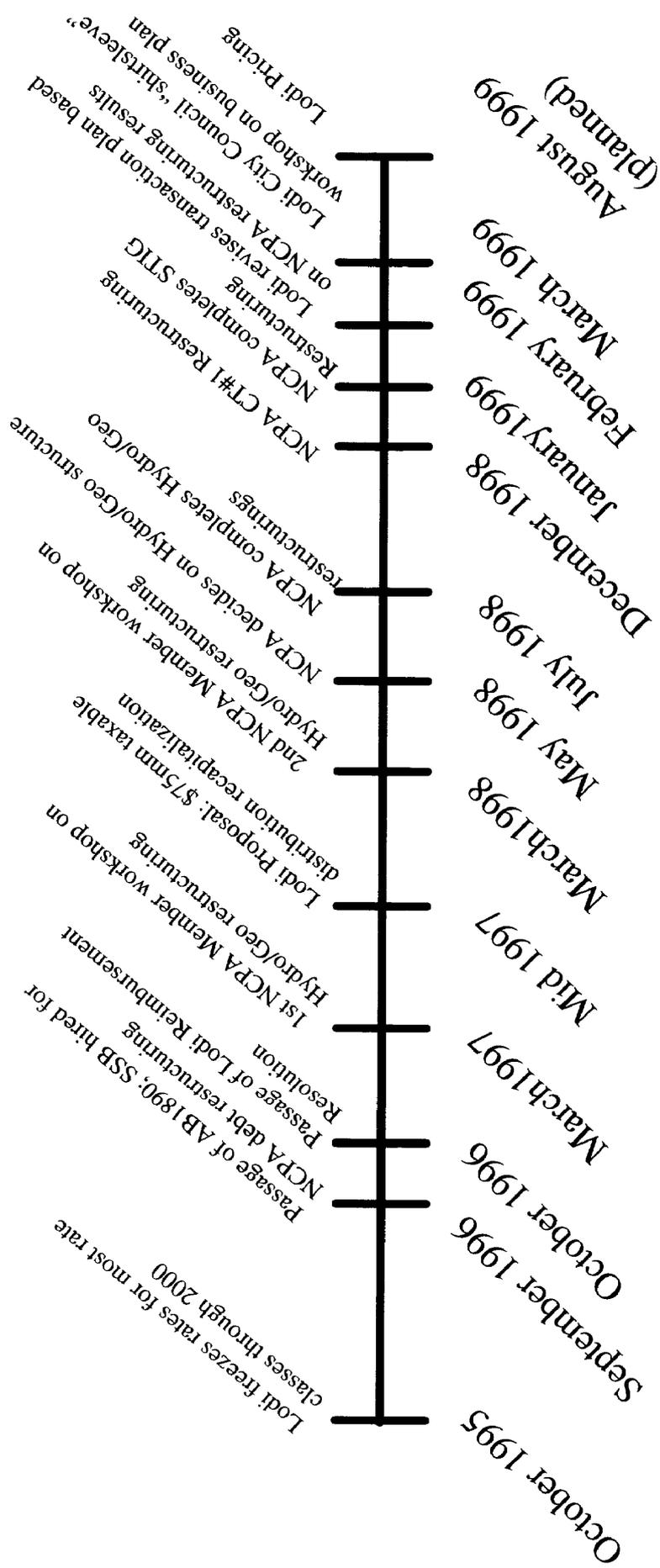


City of Lodi

Discussion Materials

July 13, 1999

History of Utility Restructuring Program



• *City Council and Utility staff have been developing a plan for competition for several years*

July 13, 1999



Public Financial Management
 Financial and Investment Advisors

SALIMON SMITH BARNES
 a member of cetero inc

Lodi Electric Utility -- Use of Bond Proceeds

Reimbursements for Prior Expenditures:

Line Extensions and Service Connections:	\$1,879,688
Distribution System Improvements	1,116,320
Substation Construction	1,507,096
Vehicle and Equipment Purchases	1,034,131
Interconnection Projects	<u>1,189,146</u>
Subtotal	\$6,726,381

Capital Plan (1999-2004):

Distribution/Transmission System Improvements	\$20,509,000
Equipment / Facilities Improvements	5,583,000
Vehicles - New and Replacement	2,554,000
Distribution System / Equipment Replacements	<u>5,839,000</u>
Subtotal	\$34,485,000

ALL PROJECTS

\$41,211,381

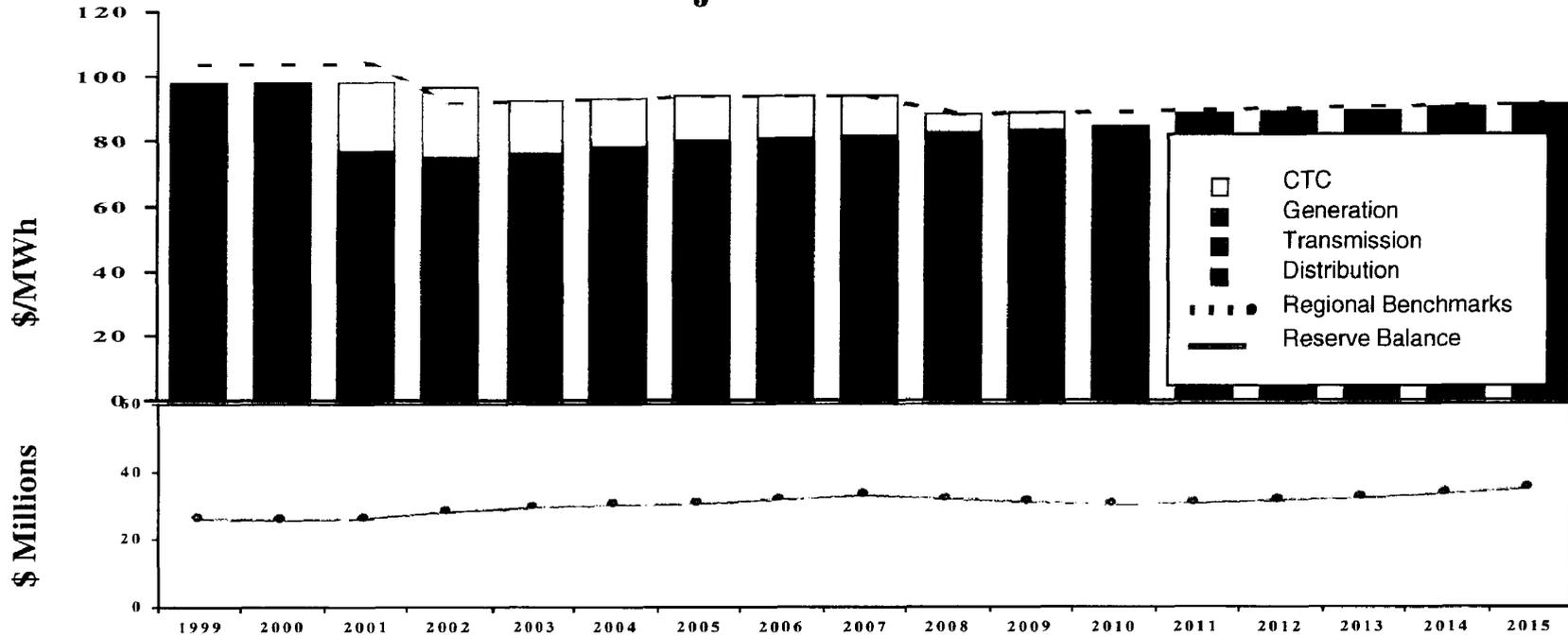
July 13, 1999



Public Financial Management
Financial and Investment Advisors

SALOMON SMITH BARNEYS
A member of Citicorp

Projected Rate Structure



• Key Assumptions:

- ▶ Henwood "low market" power price forecast
- ▶ Proposed issue plus \$10mm of distribution financing every 5 years

• *Lodi's projected rate structure maintains rate competitiveness and maintains reserves*

Step 8: Series 1999 A&B Bonds (Distribution System Financing)

- Purpose
 - \$20-22 million: new projects for distribution system improvements and reliability
 - \$15 million: new transmission project (prior transmission debt retired)
 - \$6-7 million: reimbursement for 1996-1999 distribution capital costs previously designated for capital finance

- Transaction Structure
 - \$18-24 million current interest bonds
 - \$12-18 million capital appreciation bonds
 - Amortized 2011 through 2032
 - Floating rate until 2011

- Security Structure
 - Installment-sale COPs
 - Reserve fund requirement: max annual debt service (satisfied w/ surety)
 - Rate covenant: 1.10x coverage by net revenues
 - Additional bonds test: 1.10x max annual debt service

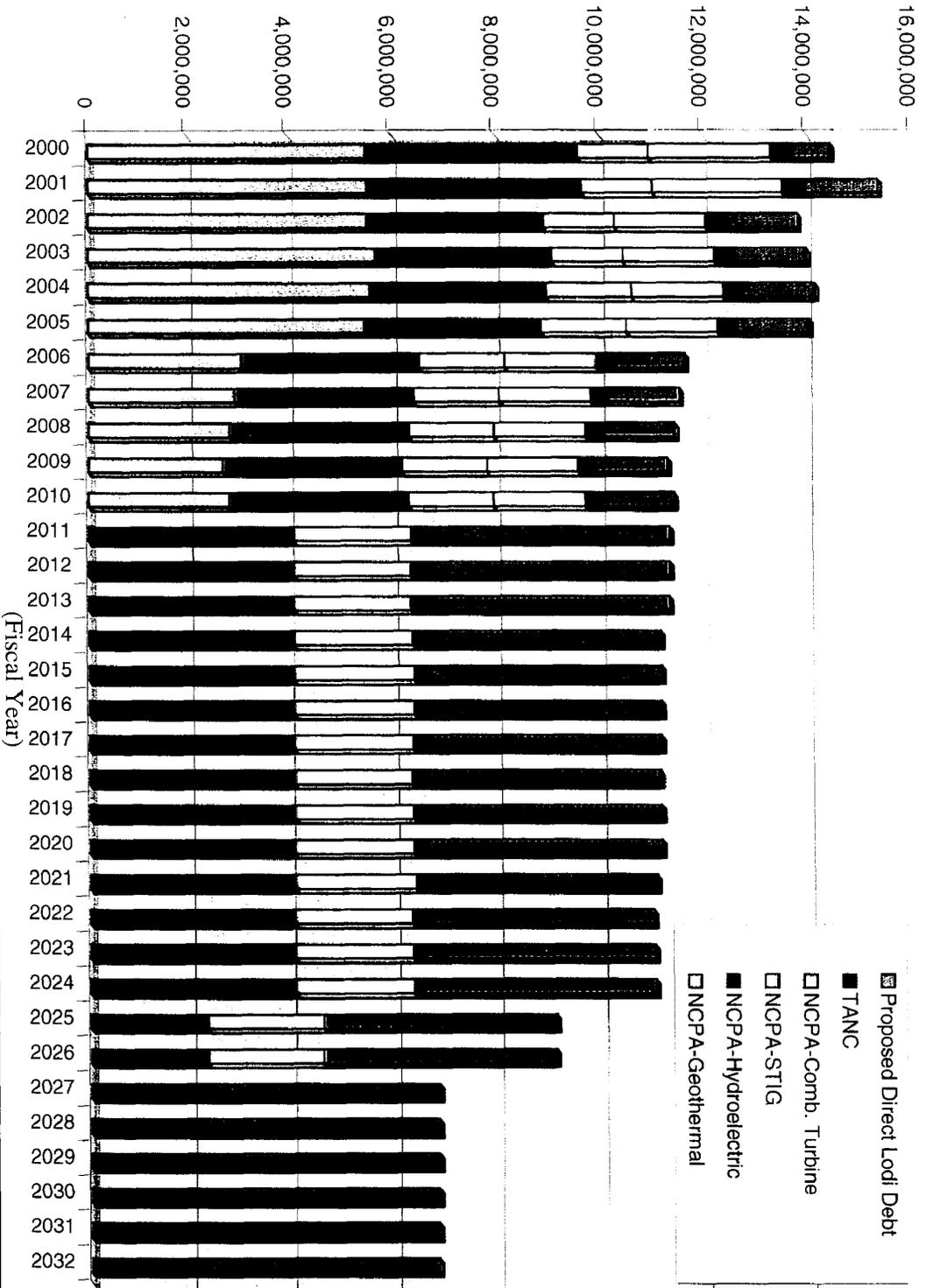
July 13, 1999



Public Financial Management
Financial and Investment Advisors

SALOMON SMITH BARNER
A member of Citigroup

Lodi Debt Service by Project



July 13, 1999



Planning and Financial Services Department

Schedule / Next Steps

July 21: Approve Bond Resolution and Bond Documents

August 4: Approve Swap Resolution and Swap Documents

August 11: Price Bonds; Sign Bond Purchase Agreement

Week of August 23: Price Swap

August 27: Close Bond Transaction

July 20, 1999



Public Financial Management
Financial and Investment Advisors

SALOMON SMITH BARNEY
A member of citigroup

OH&S Draft
July 12, 1999

INSTALLMENT PURCHASE CONTRACT

by and between

CITY OF LODI

and

LODI PUBLIC IMPROVEMENT CORPORATION

Dated as of August 1, 1999

TABLE OF CONTENTS

		Page
ARTICLE I	DEFINITIONS.....	1
	SECTION 1.01. Definitions.....	1
ARTICLE II	ACQUISITION, CONSTRUCTION AND SALE OF PROJECTS	20
	SECTION 2.01. Transfer of Existing Facilities.....	20
	SECTION 2.02. Purchase of Substation Facilities and 1999 Projects by City.....	20
ARTICLE III	PAYMENTS AND PREPAYMENTS	21
	SECTION 3.01. Payments.....	21
	SECTION 3.02. Prepayments.....	21
ARTICLE IV	ELECTRIC SYSTEM REVENUES; FUNDS	22
	SECTION 4.01. Pledge of Net Revenues and Moneys in Electric Fund; Electric Fund.....	22
	SECTION 4.02. Improvement Fund.....	23
	SECTION 4.03. Investments	23
ARTICLE V	CERTIFICATE INSURANCE POLICY.....	24
ARTICLE VI	PARITY OBLIGATIONS AND SUBORDINATE OBLIGATIONS	25
	SECTION 6.01. Conditions for the Execution of Parity Obligations.....	25
	SECTION 6.02. Subordinate Obligations.....	26
ARTICLE VII	COVENANTS OF THE CITY	26
	SECTION 7.01. Compliance with Contracts.....	26
	SECTION 7.02. Use of Proceeds.....	26
	SECTION 7.03. Tax Covenants	27
	SECTION 7.04. Against Encumbrances.....	27
	SECTION 7.05. Sale or Other Disposition of Property.....	27
	SECTION 7.06. Prompt Acquisition and Construction of the 1999 Projects.....	28
	SECTION 7.07. Maintenance and Operation of the Electric System; Budgets	28
	SECTION 7.08. Compliance with Contracts for Use of the Electric System	28
	SECTION 7.09. Insurance	28
	SECTION 7.10. Accounting Records; Financial Statements and Other Reports	28
	SECTION 7.11. Protection of Security and Rights of the Corporation.....	29

TABLE OF CONTENTS
(continued)

	Page
SECTION 7.12. Payment of Taxes and Compliance with Governmental Regulations	29
SECTION 7.13. Amount of Rates and Charges	29
SECTION 7.14. Collection of Rates and Charges	29
SECTION 7.15. Eminent Domain and Insurance Proceeds	30
SECTION 7.16. Further Assurances.....	30
SECTION 7.17. Continuing Disclosure	30
ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES	30
SECTION 8.01. Events of Default and Acceleration of Principal	30
SECTION 8.02. Application of Net Revenues upon Acceleration.....	31
SECTION 8.03. Other Remedies.....	32
SECTION 8.04. Non-Waiver.....	32
SECTION 8.05. Remedies Not Exclusive.....	33
ARTICLE IX DISCHARGE OF OBLIGATIONS.....	33
SECTION 9.01. Discharge of Obligations	33
ARTICLE X MISCELLANEOUS	34
SECTION 10.01. Liability of City Limited to Net Revenues	34
SECTION 10.02. Assignment of Contract	34
SECTION 10.03. Benefits of Contracts Limited to Parties.....	34
SECTION 10.04. Successor Is Deemed Included in all References to Predecessor	34
SECTION 10.05. Waiver of Personal Liability	35
SECTION 10.06. Article and Section Headings, Gender and References	35
SECTION 10.07. Partial Invalidity.....	35
SECTION 10.08. Net Contract.....	35
SECTION 10.09. California Law	35
SECTION 10.10. Indemnification.....	35
SECTION 10.11. Funds.....	36
SECTION 10.12. Notices	36
SECTION 10.13. Effective Date	36
SECTION 10.14. Execution in Counterpart	37

INSTALLMENT PURCHASE CONTRACT

This Installment Purchase Contract (the "Contract"), dated as of August 1, 1999, by and between the City of Lodi, California, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), and the Lodi Public Improvement Corporation, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation");

WITNESSETH:

WHEREAS, the City is authorized by law to establish, purchase and operate public works to furnish its inhabitants with light and power; and

WHEREAS, the City has established an electric utility system to serve the inhabitants of the City (as hereinafter defined, the "Electric System"); and

WHEREAS, the Corporation is authorized by law to enter into contracts to acquire by purchase facilities for the generation, transmission and distribution of electricity; and

WHEREAS, the City has determined that the purchase of various additions, betterments and improvements to its Electric System as provided in this Contract is necessary and proper for City purposes under the terms of applicable law and is for the common benefit of the City as a whole; and

WHEREAS, the City has determined to enter into this Contract with the Corporation for the purchase of the Substation Facilities and the 1999 Projects (as hereinafter defined) from the Corporation; and

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

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any opinion or report or other document mentioned herein or therein have the meanings

defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein:

Above-Market Costs

“Above-Market Costs” means costs associated with assets or obligations of the Electric System, including assets or obligation of a joint power agency in which the City has an interest and for the payment of which the City is responsible, which the City has determined are in excess of the costs of such assets or obligations which are recoverable from market rates for the services relating to such assets or obligations.

Accountant’s Report

“Accountant’s Report” means a report signed by an Independent Certified Public Accountant.

Accreted Value

“Accreted Value” means, with respect to a Schedule B Payment, as of any date of calculation, an amount equal to the interest accrued and compounded on the Initial Amount of such Schedule B Payment to the February 1 or August 1 next preceding such date of calculation, plus, if such date of calculation shall not be a February 1 or August 1, a portion of the difference between the Accreted Value of such Schedule B Payment as of the immediately preceding February 1 or August 1, as appropriate (or the Delivery Date if the date of calculation is prior to February 1, 1999) and the Accreted Value of such Schedule B Payment as of the immediately succeeding February 1, or August 1, calculated based upon the assumption that Accreted Value accrues during any semi-annual period in equal daily amounts on the basis of a year of 360 days composed of 12 months of 30 days each, as determined in accordance with the provisions of Section 2.02(c) of the Trust Agreement.

Adjusted Annual Debt Service

“Adjusted Annual Debt Service” means, for any Fiscal Year in question, the Annual Debt Service for such Fiscal Year minus the sum of the amount of the Annual Debt Service with respect to Outstanding Parity Obligations to be paid from the proceeds of Parity Obligations or interest earned thereon (other than interest deposited into the Electric Fund), all as set forth in a Certificate of the City.

Adjusted Annual Net Revenues

“Adjusted Annual Net Revenues” mean, for any Fiscal Year, the Adjusted Annual Revenues during such Fiscal Year less the Adjusted Maintenance and Operation Costs during such Fiscal Year.

Adjusted Annual Revenues

“Adjusted Annual Revenues” mean, for any Fiscal Year, the Revenues during such Fiscal Year plus, for the purposes of determining compliance with Section 7.13 hereof only, the amount

of Available Reserves on deposit, or which the City has authorized to be deposited, in the Electric Fund as of the first day of such Fiscal Year.

Adjusted Maintenance and Operation Costs

“Adjusted Maintenance and Operation Costs” means, with respect to any period of time, the Maintenance and Operation Costs during such period less the amount of such Maintenance and Operation Costs paid from Receipts Pledged to Above-Market Costs.

Annual Debt Service

“Annual Debt Service” means, for any Fiscal Year or any designated twelve (12) month period in question, (i) with respect to the Certificates, the required payments scheduled to be made with respect to all Outstanding Certificates in such Fiscal Year or twelve (12) month period, provided that for the purpose of determining the Reserve Fund Requirement, clauses (C) and (D) below shall apply if any Payment Agreement is in effect with respect to any Outstanding Certificates; or (ii) with respect to Outstanding Parity Obligations, the required payments scheduled to be made with respect to all Outstanding Parity Obligations in such Fiscal Year or twelve (12) month period provided, that for the purposes of determining compliance with Section 7.13 and conditions for the execution of Parity Obligations:

(A) Generally. Except as otherwise provided by subparagraph (B) with respect to Variable Interest Rate Parity Obligations and by subparagraph (C) with respect to Parity Obligations as to which a Payment Agreement is in force, interest on any Parity Obligation shall be calculated based on the actual amount of interest that is payable under that Parity Obligation;

(B) Interest on Variable Interest Rate Parity Obligations. The amount of interest deemed to be payable on any Variable Interest Rate Parity Obligation shall be calculated on the assumption that the interest rate on that Parity Obligation would be equal to the Assumed RBI-based Rate;

(C) Interest on Payments or Parity Obligations with respect to which a Payment Agreement is in force. The amount of interest deemed to be payable on any Payment or Parity Obligations with respect to which a Payment Agreement is in force shall, so long as the Qualified Counterparty thereto is not in default thereunder, be based on the net economic effect on the City expected to be produced by the terms of such Payment or Parity Obligation and such Payment Agreement, including but not limited to the effects that (i) such Parity Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Payment or Parity Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Payment or Parity Obligation with respect to which a Payment Agreement is in force shall, so long as the Qualified Counterparty thereto is not in default thereunder, be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Payment or Parity Obligation plus the Payment Agreement Payments minus

the Payment Agreement Receipts, and for the purpose of calculating Payment Agreement Receipts and Payment Agreement Payments under such Payment Agreement, the following assumptions shall be made:

(1) Counterparty Obligated to Pay Actual Variable Interest Rate on Variable Interest Rate Parity Obligations. If the Payment Agreement obligates a Qualified Counterparty to make payments to the City based on the actual Variable Interest Rate on a Parity Obligation that would, but for the Payment Agreement, be treated as a Variable Interest Rate Parity Obligation and obligates the City to make payments to the Qualified Counterparty based on a fixed rate, payments by the City to the Qualified Counterparty shall be assumed to be made at the fixed rate specified by the Payment Agreement and payments by the Qualified Counterparty to the City shall be assumed to be made at the actual Variable Interest Rate on such Parity Obligation, without regard to the occurrence of any event that, under the provisions of the Payment Agreement, would permit the Qualified Counterparty to make payments on any basis other than the actual Variable Interest Rate on such Parity Obligation, and such Parity Obligation shall set forth a debt service schedule based on that assumption;

(2) Variable Interest Rate Parity Obligations and Payment Agreements Having the Same Variable Interest Rate Component. If both a Payment Agreement and the related Parity Obligation that would, but for the Payment Agreement, be treated as a Variable Interest Rate Parity Obligation include a variable interest rate payment component that is required to be calculated on the same basis (including, without limitation, on the basis of the same variable interest rate index), it shall be assumed that the variable interest rate payment component payable pursuant to the Payment Agreement is equal in amount to the variable interest rate component payable on such Parity Obligation;

(3) Variable Interest Rate Parity Obligations and Payment Agreements Having Different Variable Interest Rate Components. If a Payment Agreement obligates either the City or the Qualified Counterparty to make payments of a variable interest rate component on a basis that is different (including, without limitation, on a different variable interest rate index) from the basis that is required to be used to calculate interest on the Parity Obligation that would, but for the Payment Agreement, be treated as a Variable Interest Rate Parity Obligation it shall be assumed:

(a) City Obligated to Make Payments Based on Variable Interest Rate Index. If payments by the City under the Payment Agreement are based on a variable interest rate index and payments by the Qualified Counterparty are based on a fixed interest rate, payments by the City to the Qualified Counterparty will be based upon an interest rate equal to the Assumed RBI-based Rate, and payments by the Qualified Counterparty to the City will be based on the fixed rate specified by the Payment Agreement; and

(b) City Obligated to Make Payments Based on Fixed Interest Rate. If payments by the City under the Payment Agreement are based on a fixed interest rate and payments by the Qualified Counterparty are based on a variable interest rate index, payments by the City to the Qualified Counterparty will be based on an interest rate equal to the rate (the “assumed fixed payor rate”) that is one hundred and five percent (105%) of the fixed interest rate specified by the Payment Agreement to be paid by the City, and payments by the Qualified Counterparty to the City will be based on a rate equal to the [Assumed RBI-based Rate] as the variable interest rate deemed to apply to the Variable Interest Rate Parity Obligation.

(4) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (C)(1), (2) and (3) of this definition, the City shall not be required to (but may at its option) take into account as set forth in subparagraph (C) of this definition (for the purpose of determining Annual Debt Service) the effects of any Payment Agreement that has a remaining term of ten (10) years or less;

(D) Debt Service on Parity Payment Agreements. No interest shall be taken into account with respect to a Parity Payment Agreement for any period during which Payment Agreement Payments on that Parity Payment Agreement are taken into account in determining Annual Debt Service on a related Parity Obligation under subparagraph (C) of this definition; provided, that for any period during which Payment Agreement Payments are not taken into account in calculating Annual Debt Service on any Parity Obligation because the Parity Payment Agreement is not then related to any Parity Obligation, interest on that Parity Payment Agreement shall be taken into account by assuming:

(1) City Obligated to Make Payments Based on Fixed Interest Rate. If the City is obligated to make Payment Agreement Payments based on a fixed interest rate and the Qualified Counterparty is obligated to make payments based on a variable interest rate index, payments by the City will be based on the specified fixed rate, and payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable interest rate index specified by the Payment Agreement during the quarter preceding the quarter in which the calculation is made; and

(2) City Obligated to Make Payments Based on Variable Interest Rate Index. If the City is obligated to make Payment Agreement Payments based on a variable interest rate index and the Qualified Counterparty is obligated to make payments based on a fixed interest rate, payments by the City will be based on an interest rate equal to the average rate determined by the variable interest rate index specified by the Payment Agreement during the quarter preceding the quarter in which the calculation is made, and the Qualified Counterparty will make payments based on the fixed rate specified by the Parity Payment Agreement; and

(3) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (D)(1) and (2) of this definition, the City shall not be required to (but may at its option) take into account (for the purpose of determining Annual Debt Service) the effects of any Payment Agreement that has a remaining term of ten (10) years or less;

(E) Balloon Parity Obligations. For purposes of calculating Annual Debt Service on any Balloon Parity Obligations, it shall be assumed that the principal of those Balloon Parity Obligations, together with interest thereon at a rate equal to the Assumed RBI-based Rate, will be amortized in equal annual installments over a term of thirty (30) years from the date of issuance.

Annual Revenues

“Annual Revenues” means, for any Fiscal Year or any designated twelve (12) month period, the Revenues during such Fiscal Year or twelve (12) month period.

Assumed RBI-based Rate

“Assumed RBI-based Rate” means, as of any date of calculation, an assumed interest rate equal to ninety percent (90%) of the average RBI during the twelve (12) calendar months immediately preceding the month in which the calculation is made.

Available Reserves

“Available Reserves” means, as of any date of calculation, the amount of unrestricted funds in the Electric Fund designated as “Available Reserves” for purposes of this Contract by the City and then available to pay Maintenance and Operation Costs and/or Annual Debt Service which may include transfers to the Electric Fund from the Rate Stabilization Fund or any other moneys legally available to deposit in the Electric Fund.

Balloon Parity Obligation

“Balloon Parity Obligation” means any Parity Obligation described as such in such Parity Obligation.

Business Day

“Business Day” means any day (other than a Saturday or a Sunday) on which banks in New York, New York, are open for business and on which the Trustee is open for business at its corporate trust office in [San Francisco], California.

Certificate Insurance Policy

“Certificate Insurance Policy” shall mean the municipal bond insurance policy issued by the Certificate Insurer insuring the payment when due of the Principal Installments and Interest Installments evidenced and represented by the Certificates as provided therein.

Certificate Insurer

“Certificate Insurer” shall mean [Name of Insurer], a _____ insurance company, as issuer of the Certificate Insurance Policy.

Certificate of the City

“Certificate of the City” means an instrument in writing signed by the City Manager, the Finance Director, or any other officer of the City duly authorized by the City Council for that purpose.

Certificates

“Certificates” mean the Electric System Revenue Certificates of Participation, 1999 Series A Current Interest Certificates and the Electric System Revenue Certificates of Participation, 1999 Series B Capital Appreciation Certificates, evidencing and representing proportionate interests of the owners thereof in the Payments to be made by the City, executed and delivered pursuant to the Trust Agreement.

City

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

City Transfers

“City Transfers” means any payments from Revenues to the City for payments-in-lieu of taxes, transfers to the General Fund or similar payments but shall not include administrative costs of the City that are charged directly or apportioned to the operation of the Electric System, other than taxes on payments-in-lieu of taxes but including salaries and wages of employees, overhead and insurance premiums and similar charges.

Code

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

Contract

“Contract” means this Installment Purchase Contract, executed and entered into as of August 1, 1999, by and between the City and the Corporation, as the same may be amended or supplemented from time to time.

Corporation

“Corporation”, means the Lodi Public Improvement Corporation, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Cost

“Cost” shall mean the costs, expenses and liabilities paid or incurred or to be paid or incurred by the City in connection with the planning, engineering, designing, acquiring, constructing, installing, and financing the Existing Facilities and the 1999 Projects or any portion thereof, and the obtaining of all governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, the cost of any demolitions or relocations necessary in connection therewith, any good faith or other similar payment or deposits, the cost of acquisition by or for the City of real and personal property or any interests therein, costs of physical construction and costs of the City incidental to such construction or acquisition, all costs relating to injury and damage claims, the costs of any indemnity or surety bonds and premiums on insurance, including obligations to a stock, mutual or reciprocal insurance company or exchange, preliminary investigation and development costs, engineering fees and expenses, contractors’ fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal fees and expenses, administration and general overhead expenses and costs of keeping accounts and making reports required by this Contract prior to or in connection with the completion of construction, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with the Existing Facilities and the 1999 Projects during the period of construction thereof and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City. It is intended that this definition of Cost be broadly construed to encompass all costs, expenses and liabilities of the City which are chargeable to the capital accounts of the Existing Facilities and the 1999 Projects in accordance with Generally Accepted Accounting Principles.

Debt Service Fund

“Debt Service Fund” means the “City of Lodi Electric System 1999 Certificates Debt Service Fund” established pursuant to Section 3.02 of the Trust Agreement.

Delivery Date

“Delivery Date” means _____, 1999.

Electric Fund

“Electric Fund” means the City of Lodi Electric Fund heretofore established by the City which fund is to be maintained and applied by the City in accordance with Section 4.01 hereof.

Electric Service

“Electric Service” means the services, commodities and products furnished, made available or provided by the Electric System.

Electric System

“Electric System” means the electric public utility system of the City, comprising all electric generation, transmission and distribution facilities and all general plant facilities related thereto now owned by the City and all other properties, structures or works for the generation, transmission or distribution of electricity hereafter acquired by the City, including all contractual rights for electricity or the transmission thereof, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof, or any additional contract rights for electricity or the transmission thereof, hereafter acquired.

Engineer’s Report

“Engineer’s Report” means a report signed by an Independent Engineer.

Event of Default

“Event of Default” means an event described in Section 8.01 hereof.

Existing Facilities

“Existing Facilities” mean the additions, betterments, modifications and improvements, including the acquisition and installation of equipment to the Electric System generally described in Exhibit 1 hereto.

Federal Securities

“Federal Securities” mean direct obligations of, or obligations the interest on and principal of which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and including a receipt, certificate or any other evidence of any ownership interest in such an obligation, or in specified portions thereof (which may consist of specified portions of interest thereon).

Final Compounded Amount

“Final Compounded Amount” means, with respect to the Schedule B Payments, the amounts designated as such in Schedule B hereto.

Finance Director

“Finance Director” means the Finance Director of the City.

Fiscal Year

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

Fitch

“Fitch” means means Fitch IBCA, Inc., a corporation duly organized and existing under and by virtue of the laws of the [State of Delaware], and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “Fitch” shall be deemed to refer to any other nationally recognized municipal securities rating agency rating Parity Obligations at the Request of the City.

Generally Accepted Accounting Principles

“Generally Accepted Accounting Principles” mean the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted Corporation on such procedures selected by the City, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Improvement Fund

“Improvement Fund” means the City of Lodi Electric System 1999 Projects Improvement Fund established pursuant to Section 4.02 hereof.

Independent Certified Public Accountant

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State, appointed and paid by the City, and who, or each of whom:

(A) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the City;

(B) does not have a substantial financial interest, direct or indirect, in the operations of the City; and

(C) is not connected with the City as a director, officer or employee of the City, but who may be regularly retained to audit the accounting records of and make reports thereon to the City.

Independent Engineer

“Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to public electric utility systems, appointed and paid by the City, and who or each of whom:

- (A) is in fact independent and not under the domination of the City;
- (B) does not have a substantial financial interest, direct or indirect, in the operations of the City; and
- (C) is not connected with the City as a director, officer or employee of the City, but may be regularly retained to make reports to the City.

Initial Amount

“Initial Amount” means, with respect to the Schedule B Payments, the amount designated as such on Schedule B hereto.

Interest Installments

“Interest Installments” mean the interest on the unpaid Principal Installments for the Schedule A Payments determined at the applicable rate set forth in Schedule A hereto.

Maintenance and Operation Costs

“Maintenance and Operation Costs” mean the costs paid or incurred by the City for maintaining and operating the Electric System including, but not limited to, (a) all costs of electric energy and power generated or purchased by the City for resale, costs of transmission, fuel supply and water supply in connection with the foregoing, (b) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Electric System in good repair and working order, (c) all administrative costs of the City that are charged directly or apportioned to the operation of the Electric System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, (d) all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the execution of this Contract or of any resolution authorizing the issuance of any Parity Obligations or of such Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, remarketing agent or surety costs for this Contract or Parity Obligations, letter of credit fees for this Contract or Parity Obligations, fees and expenses of Independent Certified Public Accountants and Independent Engineers; (e) all amounts required to be paid by the City under contracts with a joint powers agency for the purchase of capacity, energy, transmission capability or any other commodity or service in connection with the foregoing, which contract requires payments by the City to be made thereunder to be treated as maintenance and operation costs; (f) all deposits to be made to the Rebate Fund pursuant to the Tax Certificate and all deposits in comparable accounts established with respect to Parity Obligations required to be deposited pursuant to the proceedings authorizing such Parity Obligations; and (g) any other cost or expense which, in accordance with

Generally Accepted Accounting Principles, is to be treated as a cost of operating or maintaining the Electric System; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor, amortization of intangibles and City Transfers.

Maximum Annual Debt Service

“Maximum Annual Debt Service” means, with respect to any period of time, the greatest Annual Debt Service payable on the unpaid Payments and any outstanding Parity Obligations or Parity Obligations being issued during such period of time.

Moody’s

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “Moody’s” shall be deemed to refer to any other nationally recognized municipal securities rating agency rating Parity Obligations at the Request of the City.

Net Proceeds

“Net Proceeds” mean, when used with respect to any condemnation award or with respect to any insurance proceeds, the amount of such condemnation award or such insurance proceeds remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such award or such proceeds.

Net Revenues

“Net Revenues” mean, for any period of time in question, the Revenues during such period less the Maintenance and Operation Costs during such period.

1999 Projects

“1999 Projects” mean the additions, betterments, modifications and improvements, including the acquisition and installation of equipment, to the Electric System generally described in Exhibit 2 hereto and such other additions, betterments, modifications to the Electric System which may be added to Exhibit 2 by the City provided that the City provides the Trustee with an Opinion of Counsel to the effect that such additions to Exhibit 2 will not adversely affect the exclusion from gross income of the interest portion of the Installment Payments.

Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the City.

Outstanding

“Outstanding,” when used as of any particular time with reference to Payments, means all Payments which have not been paid or otherwise satisfied as provided in Article IX.

Parity Bank Agreement

“Parity Bank Agreement” means an agreement with a bank or other financial institution relating to an irrevocable letter of credit, guarantee or other credit enhancement device providing liquidity or irrevocable credit or security for the payment of Parity Obligations.

Parity Obligations

“Parity Obligations” mean all obligations hereafter incurred by the City the payment of which constitutes a charge and lien on the Net Revenues and moneys in the Electric Fund equal to and on a parity with the charge and lien upon the Net Revenues for the payment of the Payments except that for purposes of Section 6.01 and Section 7.13 hereof only such terms shall not include (i) Parity Payment Agreements including in determining Annual Debt Service and (ii) Parity Bank Agreements as to which no amounts have been drawn under any such Parity Bank Agreements which have not been reimbursed by the City.

Parity Payment Agreement

“Parity Payment Agreement” means a Payment Agreement which is a Parity Obligation.

Payment Agreement

“Payment Agreement” means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, cash flow, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Qualified Counterparty in connection with, or incidental to, the entering into of any Parity Obligation, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

Payment Agreement Payments

“Payment Agreement Payments” mean the amounts required to be paid periodically by the City to the Qualified Counterparty pursuant to a Payment Agreement.

Payment Agreement Receipts

“Payment Agreement Receipts” mean the amounts required to be paid periodically by the Qualified Counterparty to the City pursuant to a Payment Agreement.

Payment Date

“Payment Date” means, with respect to the Payments, February 1 and August 1 of each year in which a Principal Installment or Interest Installment is due as indicated on Schedule A or Schedule B.

Payments

“Payments” mean collectively the Schedule A Payments and the Schedule B Payments.

Permitted Investments

“Permitted Investments” mean any of the following obligations if and to the extent that they are permissible investments of funds of the City as stated in its current investment policy and to the extent then permitted by law:

- (1) Federal Securities;
- (2) Bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act and bonds of any federal home loan bank established under said act; bonds, debentures, participation certificates or other obligations of the Government National Mortgage Association or the Federal National Mortgage Association established under the National Housing Act, as amended;
- (3) Demand deposits, time certificates of deposit or negotiable certificates of deposit issued by a state or nationally chartered bank or trust company, including the Trustee and its affiliates, or a state or national savings and loan association, provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or (ii) issued by any bank or trust company organized under the laws of any state of the United States, or any national banking association (including the Trustee), having a combined capital and surplus of at least \$500,000,000, whose non-guaranteed senior debt is rated “A1” or equivalent or better by the Rating Agencies and such certificates shall have maturities of six months or less;
- (4) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States (including the Trustee and its affiliates) or any national banking association or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is secured at all times by collateral security described in clause (1) or (2) of this definition and in which the Trustee has a perfected security interest, and which collateral (a) is held by the Trustee or a third party agent on behalf of the Trustee, (b) is not subject to liens or claims of third parties, (c) has a market value determined as frequently and in an amount sufficient to satisfy the collateralization levels required by the Rating Agencies,

and (d) failure to maintain the requisite collateral level will require the liquidation of the collateral;

(5) Bankers' acceptances which are issued by a bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee and its affiliates) rated "A" or equivalent or better by the Rating Agencies; provided, that such banker's acceptances may not exceed 270 days' maturity;

(6) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical-rating as provided by the Rating Agencies, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that have an "A" or equivalent or higher rating for the issuer's debentures, other than commercial paper, as provided by the Rating Agencies; provided that purchases of eligible commercial paper may not exceed one hundred eighty (180) days' maturity nor represent more than ten percent (10%) of the outstanding commercial paper of an issuer corporation;

(7) Bonds, notes, warrants or other evidence of indebtedness of any of the states of the United States or of any political subdivision or public agency thereof which are rated in the highest short-term or one of the two highest long-term rating categories by the Rating Agencies;

(8) Any investment agreement with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee and its affiliates) or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, having a combined capital and surplus of at least \$100,000,000 and that is rated at least "AA" or equivalent by the Rating Agencies, or (ii) any corporation that is rated at least "AA" or equivalent by the Rating Agencies and is organized and operating within the United States of America and has total assets in excess of five hundred million dollars (\$500,000,000); provided, that the form of such investment agreement shall have been approved by the Rating Agencies;

(9) Government money market portfolios or money market funds (including portfolios or funds of the Trustee and its affiliates) restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, which portfolios shall have an "Am" or "Am-G" or equivalent or higher rating by the Rating Agencies;

(10) Tax-exempt securities rated "AAA" or equivalent by the Rating Agencies, for which the interest and principal has been provided by an escrow deposit which, in the opinion of an Independent Certified Public Accountant, is

fully sufficient to pay the principal of and interest and redemption premium, if any, on such tax-exempt securities at their stated maturity or redemption date;

(11) A taxable or tax-exempt government money market portfolio (including portfolios of the Trustee and its affiliates) restricted to obligations with maturities of one year or less, and either issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America or rated “AAA” or equivalent by the Rating Agencies;

(12) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State and which is authorized to accept investments by or on behalf of the City of the moneys held by the Trustee in any of the accounts or funds established pursuant hereto;

(13) The investment pool operated by or on behalf of the County of San Joaquin; and

(14) The California Asset Management Program (CAMP).

Principal Installments

“Principal Installments” mean: (i) with respect to the Schedule A Payments, the amount designated as such in Schedule A hereto; and (ii) with respect to the Schedule B Payments, as of any date of calculation, the Accreted Value thereof as of such date of calculation.

Qualified Counterparty

“Qualified Counterparty” means a party (other than the City) who is the other party to a Payment Agreement and (1) (a) whose senior debt obligations are rated in one of the three (3) highest rating categories of each of the Rating Agencies then rating the Certificates or any Parity Obligations (without regard to any gradations within a rating category), or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been or whose debt service obligations have been assigned a credit rating in one of the three highest rating categories of each of the Rating Agencies then rating the Certificates or any Parity Obligations, and (2) who is otherwise qualified to act as the other party to a Payment Agreement with the City under any applicable laws.

Rate Stabilization Fund

“Rate Stabilization Fund” means the fund by that name heretofore established and maintained by the City.

Rating Agencies

“Rating Agencies” mean Moody’s, S&P and Fitch, and their respective successors or assigns, or any other nationally recognized securities rating agency or agencies rating the Certificates or any outstanding Parity Obligations at the Request of the City.

RBI

“RBI” means the Bond Buyer Revenue Bond Index or comparable index of long-term municipal obligations chosen by the City, or, if no comparable index can be obtained, eighty percent (80%) of the interest rate on actively traded thirty (30) year United States Treasury obligations.

Rebate Fund

“Rebate Fund” means the City of Lodi Electric System 1999 Certificates Rebate Fund established pursuant to Section 3.05 of the Trust Agreement.

Receipts Pledged to Above-Market Costs

“Receipts Pledged to Above-Market Costs” means any income, revenue or receipts received or receivable by the City, or any other person or entity, from any source, including income, revenue or receipts which would otherwise constitute Revenues, which are pledged, dedicated or otherwise to be set aside for the payment, prepayment, or making provision for the payment or prepayment of, those Above-Market Costs relating to assets or obligations of the Electric System in existence as of the date of the initial executive and delivery of the Certificates.

Request of the City

“Request of the City” means an instrument in writing signed by the City Manger of the City, the Finance Director, or any other officer of the City duly authorized by the City Council for that purpose.

Reserve Fund

“Reserve Fund” means the City of Lodi Electric System 1999 Certificates Reserve Fund referred to in Section 4.01 hereof.

Reserve Fund Requirement

“Reserve Fund Requirement” means, with respect to the Certificates and as of any date of determination, the least of (a) ten percent (10%) of the initial offering price to the public of the Certificates as determined under the Code, or (b) the greatest Annual Debt Service with respect to the Certificates in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Payment is due, or (c) one hundred twenty-five percent (125%) of the sum of the Annual Debt Service with respect to all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of the Certificates) and terminating with the last Fiscal Year in which any Payment is due, divided by the number of such Fiscal Years, all as computed and determined by the City and specified in writing to the Trustee; provided, that such requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank or other institution if

the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit equal to "Aa" or higher assigned by Moody's (if Moody's is then rating any of the Parity Obligations) and "AA" or higher assigned by S&P (if S&P is then rating any of the Parity Obligations) and that maintain at all times ratings at least equal to the lowest ratings (without giving effect to municipal bond insurance or other credit enhancement) on any of the Parity Obligations provided by Moody's (if Moody's is then rating any of the Parity Obligations) and by S&P (if S&P is then rating any of the Parity Obligations). If at any time obligations insured by any such municipal bond insurer issuing a policy of municipal bond insurance or surety bond or a bank or other institution issuing a letter of credit as permitted by this definition shall no longer maintain ratings as required in accordance with the immediately preceding sentence, the City shall provide or cause to be provided cash or a substitute municipal bond insurance policy or surety bond or a letter of credit meeting such requirements.

Revenues

"Revenues" mean all gross income and revenue received or receivable by the City from the ownership or operation of the Electric System, including all rates and charges received by the City for the Electric Service and the other services and facilities of the Electric System, all proceeds of insurance covering business interruption loss relating to the Electric System and all other income and revenue howsoever derived by the City from the ownership or operation of the Electric System or otherwise arising from the Electric System, including all Payment Agreement Receipts, and all income from the deposit or investment of any money in the Electric Fund, but excluding (i) proceeds of taxes, (ii) refundable deposits made to establish credit and advances or contributions in aid of construction and line extension fees, and (iii) Receipts Pledged to Above-Market Costs.

S&P

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then "S&P" shall be deemed to refer to any other nationally recognized municipal securities rating agency rating Parity Obligations at the Request of the City.

Schedule A Payments

"Schedule A Payments" mean the Payments set forth in Schedule A hereto.

Schedule B Payments

"Schedule B Payments" mean the Payments set forth in Schedule B hereto.

State

"State" means the State of California.

Subordinate Obligations

“Subordinate Obligations” mean obligations of the City authorized and executed by the City under applicable law, the payments under and pursuant to which are payable from Net Revenues, subject and subordinate to payments the payment of the Payments hereunder and pursuant to Parity Obligations. Such obligation may be payable from any fund established for the purpose of paying debt service on such Subordinate Obligations.

Substation Facilities

“Substation Facilities” means the additions, betterments, modifications and improvements, including the acquisition and installation of equipment, to the Electric System generally described in Exhibit 3 hereto.

Tax Certificate

“Tax Certificate” means the Tax Certificate and Agreement concerning certain matters pertaining to the use and investment of proceeds of the Certificates executed and delivered by the City on the date of initial delivery of the Certificates, including any and all exhibits attached thereto.

Trust Agreement

“Trust Agreement” means that certain Trust Agreement, dated as of August 1, 1999, by and between the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Trustee

“Trustee” means _____, a [national banking association duly organized and existing under the laws of the United States of America], or any association or corporation which may at any time be substituted in its place, as provided in the Trust Agreement.

Variable Interest Rate

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

Variable Interest Rate Parity Obligations

“Variable Interest Rate Parity Obligations” mean, for any period of time, all in accordance with the definition of “Annual Debt Service” set forth in this Section 1.01, any Parity Obligations that bear a Variable Interest Rate during such period, except that (i) Parity Obligations shall not be treated as Variable Interest Rate Parity Obligations if the net economic effect of interest rates on particular payments of the Parity Obligations and interest rates on other payments of the same Parity Obligations, as set forth in such Parity Obligations, or the net economic effect of a Payment Agreement with respect to particular Parity Obligations, in either case, is to produce obligations that bear interest at a fixed interest rate, and (ii) Parity Obligations with respect to which a Payment Agreement is in force shall be treated as Variable Interest Rate Parity Obligations if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

ARTICLE II

ACQUISITION, CONSTRUCTION AND SALE OF PROJECTS

SECTION 2.01. Transfer of Existing Facilities. The City hereby sells, assigns, and transfers to the Corporation, and the Corporation hereby purchases from the City, all of the City’s right, title and interest in the Substation Facilities.

SECTION 2.02. Purchase of Substation Facilities and 1999 Projects by City.

(a) The Corporation hereby sells, assigns and transfers to the City, and the City hereby purchases from the Corporation, all of the Corporation’s right, title and interest in the Substation Facilities.

(b) The Corporation hereby agrees to finance the Costs of the Existing Facilities and the 1999 Projects and to sell the 1999 Projects to the City as provided in Section 4.02 hereof. In order to implement this provision, the Corporation hereby appoints the City as its agent for the purpose of planning, engineering, designing, acquiring, constructing and installing of the 1999 Projects, and the City hereby agrees to enter into such agreements, construction contracts and purchase orders as may be necessary, as agent for the Corporation, to provide for the planning, engineering, designing, acquiring, constructing and installing of the 1999 Projects.

The City hereby agrees that as such agent it will cause the 1999 Projects to be planned, engineered, designed, acquired, constructed and installed and will diligently proceed therewith after the deposit of funds in the Improvement Fund for such purpose pursuant to Section 4.02 hereof. The City agrees that it will use its best efforts to cause the planning, engineering, designing, acquiring, constructing and installing of the 1999 Projects to be completed in a timely fashion, unforeseeable delays beyond the reasonable control of the City only excepted. Notwithstanding the foregoing, it is hereby expressly understood and agreed that the Corporation shall be under no liability of any kind or character whatsoever for the payment of any costs or expenses incurred by the City for the planning, engineering, designing, acquisition, construction or installation of the 1999 Projects and that all such costs and expenses shall be paid by the City,

regardless of whether the funds deposited in the Improvement Fund are sufficient to cover all such costs.

(c) The Corporation hereby sells, assigns and transfers to the City, and the City hereby purchases from the Corporation, all of the Corporation's right, title and interest in the 1999 Projects. Immediately upon completion of each separate component of the 1999 Projects, all right, title and interest in and to each such completed component of the 1999 Projects shall vest in the City without any further action by the City or the Corporation.

ARTICLE III

PAYMENTS AND PREPAYMENTS

SECTION 3.01. Payments. The City shall, subject to any rights of prepayment provided in Section 3.02 hereof and the exercise of any remedies under Section 8.01 hereof, pay the Corporation the Payments as the purchase price for the Substation Facilities and the 1999 Projects. The Payments consist of the Schedule A Payments, comprised of Principal Installments and Interest Installments, and the Schedule B Payments, comprised of Principal Installments. The Interest Installments of the Schedule A Payments and the portion of the Principal Installments of the Schedule B Payments in excess of the Initial Amounts of such Schedule B Payments constitute interest. Subject to the terms of Sections 3.02 and 8.01 hereof, the City shall pay the Principal Installments and the Interest Installments in the amounts and on the Payment Dates set forth in Schedules A and B attached hereto and by this reference incorporated as a part of this Contract. Such payments of Principal Installments and Interest Installments, and deposits to the Reserve Fund, shall be made in accordance with Section 4.01 hereof.

The obligation of the City to pay the Payments is, subject to Section 10.01 hereof, absolute and unconditional, and until such time as the Payment shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX hereof), the City will not discontinue or suspend any Payments required to be paid by it under this Section when due, whether or not the Electric System or any part thereof (including the Projects) is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, abatement or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement or for any other cause whatsoever.

SECTION 3.02. Prepayments. The City may prepay from any source of available funds on any date on or after August 1, ____, all or any part of the Principal Installment of the unpaid Schedule A Payments and Schedule B Payments becoming due and payable on or after August 1, ____, in such order of prepayment as the City may determine, at the following prepayment price (expressed as a percentage of the Principal Installments of the Payments to be prepaid), plus, with respect to Schedule A Payments, accrued Interest Installments thereon to the date of prepayment, namely:

Prepayment Period
(both dates inclusive)

Prepayment Price

August 1, _____, through July 31, _____
August 1, _____, through July 31, _____
August 1, _____, and thereafter

Before making any prepayment pursuant to this Section, the City shall give written notice to the Corporation specifying the date on which the prepayment will be paid and the order thereof, which date shall be not less than fifty (50) days from the date such notice is given; provided, that notwithstanding any such prepayment, the City shall not be relieved of its obligations hereunder, including specifically its obligations under this article, until the Payments shall have been fully paid (or provision for payment thereof shall have been made pursuant to Article IX hereof).

ARTICLE IV

ELECTRIC SYSTEM REVENUES; FUNDS

SECTION 4.01. Pledge of Net Revenues and Moneys in Electric Fund; Electric Fund.

(a) Subject to the application thereof of the terms and conditions herein provided, all Net Revenues of the Electric System and all moneys on deposit in the Electric Fund (as hereinafter defined) are hereby irrevocably pledged to the payment of the Payments which pledge shall be on a parity with any pledge of Net Revenues or of moneys in the Electric Fund securing Parity Obligations as to which the provisions of Section 6.01 hereof have been satisfied. This pledge shall constitute a first pledge of and charge and lien upon the Net Revenues of the Electric System and moneys in the Electric Fund for the payment of amounts due with respect to this Contract and all Parity Obligations in accordance with the terms hereof.

The general fund of the City is not liable for, and neither the faith and credit nor the taxing power of the City is pledged to, the payment of the Payments.

(b) In order to carry out and effectuate the obligation of the City contained herein to pay the Payments, the City agrees and covenants that all Revenues received by it shall be deposited when and as received in the "City of Lodi Electric Fund" (the "Electric Fund"), which fund has heretofore been established by the City and which fund the City agrees and covenants to maintain separate and apart from other moneys of the City (subject to Section 4.05 hereof) so long as any Payment remains unpaid hereunder, and all money on deposit in the Electric Fund shall be applied and used only as provided herein. The City shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Electric Fund as they become due and payable, and all remaining money on deposit in the Electric Fund shall be set aside and deposited by the City at the following times in the following order of priority:

(1) Debt Service Fund Deposits. On or before the third Business Day before each date on which a Payment becomes due and payable under this Contract, whether on a Payment Date or upon an acceleration pursuant to Section 8.01, the City shall, from the money in the Electric Fund, deposit in the "City of Lodi Electric System 1999 Certificates Debt Service Fund" (the "Debt Service Fund"), established pursuant to Section 3.02 of the Trust Agreement, a sum equal to the Payment becoming due and payable under this Contract on such due date, except that no such deposit need be made to the extent the Trustee then holds money available for such purpose in the Debt Service Fund available to pay the Payment becoming due and payable under this Contract on such date. The City shall also, from such remaining moneys in the Electric Fund, pay to the party entitled thereto or transfer or cause to be transferred to any applicable debt service or other payment fund or account for any Parity Obligations, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, on the dates specified in the proceedings relating to such Parity Obligations, the sum or sums required to be paid or deposited in such debt service or other payment fund or account with respect to principal, premium, if any, and interest in Parity Obligations (or in the case of Parity Payment Agreements, the net payments due) in accordance with the terms of such Parity Obligations.

(2) Reserve Fund Deposits. On or before the third Business Day before each Payment Date, the City shall, from the remaining money on deposit in the Electric Fund after deposits and transfers pursuant to paragraph (1) above, transfer to the Trustee for deposit in the Reserve Fund established pursuant to Section 3.04 of the Trust Agreement, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. The City shall also, from such remaining moneys in the Electric Fund, transfer or cause to be transferred to any applicable reserve fund or account for any Parity Obligations for which a separate reserve has been funded pursuant to Section 6.01(e) hereof, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, the sum or sums, if any, equal to the amount required to be deposited therein in accordance with the terms of such Parity Obligations.

After making the foregoing deposits and transfers hereinabove required to be made, the City may apply any remaining money in the Electric Fund for any lawful purpose of the City, including for the payment of any Subordinate Obligations in accordance with the instruments authorizing such Subordinate Obligations; provided, however, that no moneys in the Electric Fund shall be applied to any purpose not related to the expansion of the facilities or business thereof or replacement of facilities thereof, including the payment of any Subordinate Obligations or City Transfers in any Fiscal Year unless amounts remaining on deposit in the Electric Fund shall be sufficient to make the remaining transfers hereinabove required to be made in such Fiscal Year.

SECTION 4.02. Improvement Fund. There is hereby established the "City of Lodi Electric System 1999 Projects Improvement Fund" (the "Improvement Fund"), which fund the

City hereby agrees to maintain until the completion of the acquisition and construction of the 1999 Projects. All money in the Improvement Fund shall be used and withdrawn by the City to pay the Costs of the Existing Facilities and the 1999 Projects upon receipt of a Request of the City. The City shall maintain on file a record of all expenditures from the Improvement Fund, including appropriate Requests of the City evidencing the person to whom payment is to be made, the amount of money to be paid, the purpose for which the obligation to be paid was incurred and that such payment was a proper charge against the Improvement Fund and has not been the subject of a previous Request of the City. After the completion of 1999 Projects, any remaining balance in the Improvement Fund shall be transferred by the City to the Debt Service Fund and applied to the payment or prepayment of Principal Installments, or applied to the payment of the principal portion of the purchase price of Certificates.

SECTION 4.03. Investments. Any moneys held in the Electric Fund shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement hereunder. All investment earnings from moneys or deposits in the Electric Fund shall be credited in such fund and applied only to the purposes permitted for such fund.

The City may commingle any of the funds or accounts (except for funds held in any rebate fund, which shall be held separately) established pursuant hereto into a separate fund or funds for investment purposes only; provided however, that all funds or accounts held by the City hereunder shall be accounted for separately notwithstanding such commingling. For the purpose of determining the amount in any such fund or account, all Permitted Investments credited to such fund or account shall be valued, except as otherwise provided herein, at the lower of cost or market value (inclusive of all interest accrued but not paid).

ARTICLE V

CERTIFICATE INSURANCE POLICY

SECTION 5.01. For so long as, and only during such time as, the Certificate Insurance Policy is in effect and the Certificate Insurer is not in default thereunder, the following provisions shall be in effect, and any conflict between the provisions of this Article V and the provisions of any other Section hereof shall be governed by the provisions of this Article V.

SECTION 5.02. For purposes of investing and valuing amounts in the Electric Fund and the Debt Service Fund, "Permitted Investments" shall have the meaning ascribed to such term in the Trust Agreement.

SECTION 5.03. The City shall provide the Certificate Insurer with the following information, such notice to be delivered at the address for the Certificate Insurer set forth in the Trust Agreement:

(a) as soon as practicable after the filing thereof with the Corporation, a copy of any financial statement of the City and a copy of any audit and annual report of the City delivered by the City pursuant to Section 7.10(b)(1) hereof and a copy of any report or notice required to be filed with a National Repository and/or State Repository pursuant to the Continuing Disclosure

Certificate to be delivered by the City in connection with the execution and delivery of the Certificates (and as such terms are defined in such Continuing Disclosure Certificate); and

(b) such additional information as the Certificate Insurer it may reasonably request in writing.

SECTION 5.04. As long as any Payments remain unpaid, the City will permit the Certificate Insurer to discuss the affairs, finances and accounts of the City or any information the Certificate Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the City, and the City will permit the Certificate Insurer to have access to and to make copies of all books and records relating to accounting for and payment of the Payments at any reasonable time during normal business hours.

SECTION 5.05. Any acceleration of the unpaid Payments pursuant to Section 8.01 hereof or any annulment thereof shall be subject to the prior written consent of the Certificate Insurer.

SECTION 5.06. Notwithstanding anything contained herein to the contrary, in the event that any Interest Installments and/or Principal Installments of the Payments evidenced and represented by the Certificates shall be paid by the Certificate Insurer pursuant to the Certificate Insurance Policy, the Payments evidenced and represented by such Certificates shall remain unpaid hereunder for all purposes, shall not be discharged or otherwise satisfied and shall not be considered paid by the City, and the assignment and pledge thereof and all agreements, covenants and other obligations of the City hereunder with respect thereto shall continue to exist and shall run to the benefit of the Certificate Insurer.

ARTICLE VI

PARITY OBLIGATIONS AND SUBORDINATE OBLIGATIONS

SECTION 6.01. Conditions for the Execution of Parity Obligations. The City may at any time execute and deliver any Parity Obligation, the payment of which is payable from and secured by a lien and charge on the Net Revenues on a parity with the lien and charges on Net Revenues securing the Payments due under this Contract, provided:

(a) Either -

(1) during any twelve (12) consecutive calendar months out of the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Net Revenues were at least equal to one hundred ten percent (110%) of the Maximum Annual Debt Service for all unpaid Payments and all existing Parity Obligations plus the Parity Obligation proposed to be executed; or

(2) as evidenced by an Engineer's Report on file with the City, the projected Adjusted Annual Net Revenues during the succeeding five (5) complete Fiscal Years beginning with the first Fiscal Year following issuance of such Parity Obligations in which interest is not capitalized in whole from the proceeds of Parity Obligations, is at

least equal to one hundred ten percent (110%) of the Maximum Annual Debt Service for all unpaid Payments and all existing Parity Obligations plus the Parity Obligations proposed to be executed;

(b) If the Parity Obligation proposed to be executed is not a Parity Payment Agreement to be entered in connection with any then existing Parity Obligations, the proceeds of such Parity Obligation proposed to be executed shall be used solely to finance or refinance (including reimbursement to the City of amounts advanced for such costs) one or more additions, betterments or improvement to the Electric System as designated by the City and to pay any incidental costs and expenses related thereto (including the costs of issuance, execution or delivery of such proposed Parity Obligation);

(c) With respect to any Parity Obligation to be executed in connection with a Payment Agreement, there shall have been delivered to the City evidence that the incurrence of such Parity Obligation and Payment Agreement will not in and of itself cause a downgrade of the rating issued by the Rating Agencies then rating the Certificates or any Parity Obligation;

(d) There shall have been delivered to the City an Opinion of Counsel substantially to the effect that (1) the City has the right and power under applicable law to execute and deliver the Parity Obligation, and the Parity Obligation has been duly and lawfully executed and delivered by the City, is in full force and effect and is a valid and binding special obligation of the City and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy, moratorium, insolvency, reorganization, fraudulent conveyance and other similar laws relating to the enforcement of creditors' rights), and (2) such Parity Obligation has been duly and validly authorized and issued in accordance herewith; and

(e) If required by the terms of such Parity Obligation, a separate reserve has been established for such Parity Obligation and that provision has been made to fund such reserve.

Notwithstanding the foregoing provisions, neither clause (a) nor clause (b) above shall not limit the ability of the City to execute any Parity Obligations at any time to refund any Outstanding Parity Obligations which results in a net present value savings to the City, inclusive of all costs of such refunding.

SECTION 6.02. Subordinate Obligations. The City may incur Subordinate Obligations without meeting any of the tests set forth in Section 6.01.

ARTICLE VII

COVENANTS OF THE CITY

SECTION 7.01. Compliance with Contracts. The City will punctually pay the Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Contract or fail to make any Payment required by this Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the

Projects or the Electric System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained in this Contract required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with this Contract or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

SECTION 7.02. Use of Proceeds. The Corporation and the City agree that the proceeds of this Contract will be used by the City, as agent for the Corporation, to pay the Costs of the Existing Facilities and the 1999 Projects (including the reimbursement to the City of amounts advanced for such Costs).

SECTION 7.03. Tax Covenants. (a) The City hereby covenants it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the portion of the Payments constituting interest under Section 103 of the Code. Without limiting the generality of the foregoing, the City shall comply with the requirements of the Tax Certificate, which is incorporated herein as if fully set forth herein. This covenant shall survive payment in full or prepayment of the Payments and the Certificates.

(b) In the event that at any time the City is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys in any of the funds or accounts held by the Trustee pursuant to the Trust Agreement, the City shall so instruct the Trustee in writing, and cause the Trustee to take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of this Section, if the City shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest the portion of the Payments constituting interest under Section 103 of the Code, the City and the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

(d) The covenants in this Section shall survive payment in full or discharge of the Certificates and the Payments.

SECTION 7.04. Against Encumbrances. The City will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the City in, upon, about or relating to the Electric System and will keep the Electric System free of any and all liens against any portion of the Electric System. In the event any such lien attaches to or is filed against any portion of the Electric System, the City will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien

matures or becomes due, except that if the City desires to contest any such lien it may do so if contesting such lien will not materially impair operation of the Electric System. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City will forthwith pay or cause to be paid and discharged such judgment. The City will, to the maximum extent permitted by law, indemnify and hold the Corporation harmless from, and defend it against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against any portion of the Electric System.

SECTION 7.05. Sale or Other Disposition of Property. The City will not sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part or rights of the Electric System or any real or personal property comprising a part of the Electric System if such sale, transfer or disposition would cause the City to be unable to satisfy the requirements of Section 7.13 hereof.

SECTION 7.06. Prompt Acquisition and Construction of the 1999 Projects. The City will take all necessary and appropriate steps in conformity with law to acquire and construct the 1999 Projects to be acquired or constructed in a timely fashion, unforeseeable delays beyond the reasonable control of the City only excepted.

SECTION 7.07. Maintenance and Operation of the Electric System; Budgets. The City will maintain and preserve the Electric System in good repair and working order at all times and will operate the Electric System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable. The City will adopt and file with the Corporation, not later than [October 1] of each year, a budget approved by the City Council setting forth the estimated Maintenance and Operation Costs for the then current Fiscal Year and will take such action as may be necessary to include all Payments required to be made hereunder and all payments coming due in such Fiscal Year with respect to Parity Obligations and Subordinate Obligations in its annual budget; provided, that any such budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the City with the Corporation.

SECTION 7.08. Compliance with Contracts for Use of the Electric System. The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Electric System and all other contracts affecting or involving the Electric System to the extent that the City is a party thereto.

SECTION 7.09. Insurance. The City will procure and maintain such insurance relating to the Electric System which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with public electric utility systems similar to the Electric System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner as is, in the opinion of an accredited actuary, actuarially sound. All policies of insurance required to be maintained herein shall provide that the Corporation shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

SECTION 7.10. Accounting Records; Financial Statements and Other Reports.

(a) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Electric System, which records shall be available for inspection by the Corporation at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Corporation annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1999):

(1) financial statements of the City for such Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon [Check with City Auditors: and a special report prepared by the Independent Certified Public Accountant who examined such financial statements stating that nothing came to its attention in connection with such examination that caused it to believe that the City was not in compliance with any of the agreements or covenants contained herein]; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the City with respect to the Electric System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

SECTION 7.11. Protection of Security and Rights of the Corporation. The City will preserve and protect the security of the Payments under this Contract and the rights of the Corporation to the Payments under this Contract and will warrant and defend such rights against all claims and demands of all persons.

SECTION 7.12. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Electric System or any part thereof when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Electric System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith and contesting such validity or application will not materially impair the operations or financial condition of the Electric System.

SECTION 7.13. Amount of Rates and Charges. The City will at all times fix, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which will be at least sufficient to yield: (a) Adjusted Annual Revenues for such Fiscal Year at least equal to the sum of the following for such Fiscal Year: (i) Adjusted Maintenance and Operation Costs; (ii) Adjusted Annual Debt Service, and (iii) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from the Electric Fund; and (b) Adjusted Annual Net Revenues for such Fiscal Year equal to at least one hundred ten percent (110%) of Adjusted Annual Debt Service for such Fiscal Year. The City may make adjustments from time to time in such fees and

charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Adjusted Annual Revenues and the Adjusted Annual Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this Section.

SECTION 7.14. Collection of Rates and Charges. The City will have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the Electric System to pay the rates and charges applicable to the Electric Service provided to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The City will not permit any part of the Electric System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof). Nothing herein shall prevent the City, in its sole and exclusive discretion, from permitting other parties from selling electricity to retail customers within the service area of the Electric System; provided, however, that permitting such sales shall not relieve the City of its obligations hereunder.

SECTION 7.15. Eminent Domain and Insurance Proceeds. If all or any part of the Electric System shall be taken by eminent domain proceedings, or if the City receives any insurance proceeds resulting from a casualty loss to the Electric System, the Net Proceeds thereof, at the option of the City, shall be applied either to the proportional prepayment of unpaid Payments hereunder or outstanding Parity Obligations or shall be used to substitute other components for the condemned or destroyed components of the Electric System.

SECTION 7.16. Further Assurances. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Contract and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it in this Contract.

SECTION 7.17. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be delivered by the City in connection with the execution and delivery of the Certificates. Notwithstanding any other provision hereof, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default hereunder.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

SECTION 8.01. Events of Default and Acceleration of Principal. If one or more of the following Events of Default shall happen, that is to say:

(a) if default shall be made in the due and punctual payment of any Payment or on any Parity Obligation when and as the same shall become due and payable;

(b) if default shall be made by the City in the performance of any of the agreements or covenants contained herein required to be performed by it, other transfers set forth in (a) above, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Corporation;

(c) if default shall be made by the City in the performance of any of the agreements or covenants contained in any Parity Obligation required to be performed by it, other than as set forth in (a) above, and such default shall have continued after any notice and grace period provided by such Parity Obligation; or

(d) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default specified in clause (a) or (d) above, the Corporation shall, and for any other such Event of Default the Corporation may, by notice in writing to the City, declare the entire amount of the unpaid Principal Installments and those Interest Installments coming due to and including the date of such declaration to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This Section is subject to the condition, however, that if at any time after the entire amount of the unpaid Principal Installments and Interest Installments coming due to and including the date of such declaration shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, the City shall deposit in the Debt Service Fund a sum sufficient to pay the unpaid amount of the Principal Installments and Interest Installment due otherwise then as a result of such declaration and in the applicable debt service fund(s) the unpaid principal amount of any payments due under any Parity Obligation referred to in clause (1) above due and payable prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable to such unpaid Payments if paid in accordance with their terms and on the Parity Obligations in accordance with their terms, and the City shall have paid the reasonable expenses of the Corporation, the Trustee and any fiduciaries for Parity Obligations resulting from such declaration, and any and all other defaults known to the Corporation (other than in the payment of the entire amount of the unpaid Principal Installments and Interest Installments due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be adequate shall have been made therefor, then and in every such case the Corporation, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

SECTION 8.02. Application of Net Revenues upon Acceleration. All Net Revenues upon the date of the declaration of acceleration by the Corporation as provided in Section 8.01 above and all Net Revenues thereafter received shall be applied in the following order:

First, to the payment of the costs and expenses of the Corporation, if any, in carrying out the provisions of this Article, including reasonable compensation to its agents, accountants and counsel and including any indemnification expenses;

Second, to the payment of the Interest Installments and interest then due and payable on the entire principal amount of the unpaid Parity Obligations, and the unpaid Principal Installments and the principal amount of the Parity Obligations which has become due and payable, whether on the original due date or upon acceleration, with interest on the overdue Principal Installment at the rate or rates applicable to the Payments and the principal and interest amounts of the unpaid Parity Obligations at the rate or rates of interest then applicable to such Parity Obligations if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Payments and the Parity Obligations, together with such Interest Installments and interest on Parity Obligations, then to the payment thereof ratably, according to the principal and interest due, without any discrimination or preference.

Net Revenues may also be applied to make payments required under any Parity Payment Agreement on a parity with the payments under paragraph Second above, to the extent and in the manner provided by the terms of such Parity Obligation relating to such Parity Payment Agreement.

SECTION 8.03. Other Remedies. The Corporation shall also have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any officer or employee thereof, and to compel the City or any such officer or employee to perform and carry out its or his or her duties under the law and the agreements and covenants required to be performed by it or him or her contained in this Contract;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Corporation; or

(c) by suit in equity upon the happening of an Event of Default to require the City and its officers and employees to account as the trustee of an express trust.

SECTION 8.04. Non-Waiver. Nothing in this Article or in any other provision hereof shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Payments from the Net Revenues to the Corporation at the respective due dates or upon acceleration or prepayment, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in this Contract.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation, the City and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

SECTION 8.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

ARTICLE IX

DISCHARGE OF OBLIGATIONS

SECTION 9.01. Discharge of Obligations.

(a) If the City shall pay or cause to be paid all the Payments at the times and in the manner provided herein, the right, title and interest of the Corporation herein and the obligations of the City under this Contract shall cease, terminate, become void and be completely discharged and satisfied.

(b) Any unpaid Principal Installment shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this Section if the City makes payment of such Principal Installment and the prepayment premium, if applicable, in the manner provided herein.

(c) All or any portion of unpaid Principal Installment shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this Section if (i) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Federal Securities which are not subject to redemption except by the holder thereof prior to maturity (including any such securities issued or held in book-entry form) or municipal obligations which have been defeased under irrevocable escrow instructions with Federal Securities and which are rated in the highest rating category by the Rating Agencies, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant regarding such sufficiency) to pay when due the Principal Installment or such portion thereof on their payment

dates or their dates of prepayment, as the case may be, the Interest Installments on any Schedule A Payments due on and prior to such payment dates or dates of prepayment, and the prepayment premiums, if any, applicable thereto, and (ii) an Opinion of Counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the Interest Installments of the Schedule A Payments or any portion of the Principal Installment of Schedule B Payments so paid to be includable in gross income under the Code for federal income tax purposes.

(d) After the payment of all Payments and prepayment premiums, if any, as provided in this Section, and payment in full of all fees and expenses of the Corporation, the Corporation, upon request of the City, shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and the Corporation and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of this Contract, and the Corporation shall pay over and deliver to the City, as an overpayment of Payments, all such money or investments held by it pursuant hereto other than such money and such investments as are required for the payment or prepayment of the Payments and the prepayment premiums, if any, applicable thereto, which money and investments shall continue to be held in trust for the payment thereof.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Liability of City Limited to Net Revenues. Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the Payments is a special obligation of the City payable solely from the Net Revenues as provided herein. The general fund of the City is not liable, and neither the faith and credit nor the taxing power of the City is pledged, for the payment of the Payments or the performance or satisfaction of any other obligations of the City hereunder.

SECTION 10.02. Assignment of Contract. The City hereby acknowledges that the Corporation, for good and valuable consideration, has transferred, assigned and sent over to the Trustee, pursuant to the provisions of the Trust Agreement, all of the Payments and any and all rights and privileges it has hereunder and references to the Corporation herein (except as to the obligations of the Corporation hereunder it being understood that the Trustee shall not assume any responsibility for any duties or covenants or warranties of the Corporation hereunder) shall be construed to be references to the Trustee.

SECTION 10.03. Benefits of Contracts Limited to Parties. Nothing contained in any Contract, expressed or implied, is intended to give to any person other than the Corporation (and the Trustee, as the assignee of the Corporation's rights hereunder) or the City any right, remedy

or claim under or pursuant thereto, and any agreement or covenant required herein to be performed by or on behalf of the Corporation (and the Trustee, as the assignee of the Corporation's rights hereunder) or the City shall be for the sole and exclusive benefit of the other party.

SECTION 10.04. Successor Is Deemed Included in all References to Predecessor. Whenever either the Corporation or the City is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Corporation or the City, and all agreements and covenants required hereby to be performed by or on behalf of the Corporation or the City shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 10.05. Waiver of Personal Liability. No director, officer or employee of the City shall be individually or personally liable for the payment of the Payments or the performance or satisfaction of any other obligation of the City hereunder, but nothing contained herein shall relieve any director, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or by the terms of this Contract.

SECTION 10.06. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections," "Exhibits" and other subdivisions or clauses are to the corresponding articles, sections, exhibits, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to this Contract as a whole and not to any particular article, section, exhibit, subdivision or clause hereof.

SECTION 10.07. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Corporation or the City shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The Corporation and the City hereby declare that they would have executed this Contract, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 10.08. Net Contract. This Contract shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the Payments and all other payments required under this Contract, free of any deductions and without abatement, diminution or set-off whatsoever.

SECTION 10.09. California Law. This Contract shall be construed and governed in accordance with the laws of the State of California.

SECTION 10.10. Indemnification. The City shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Corporation and the Trustee and their directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of (i) the entering into of this Contract, the acquisition, construction, installation and use of any of the Substation Facilities, Existing Facilities or the 1999 Projects and each portion thereof or any accident in connection with the operation, use, condition or possession of any of the Substation Facilities, Existing Facilities or the 1999 Projects or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the City or the Corporation, (ii) any claim for patent, trademark or copyright infringement, (iii) any claim arising out of strict liability in tort, (iv) without negligence or willful misconduct, the Trustee's acceptance or administration of the trust under the Trust Agreement, or the exercise or performance of any of its powers or duties thereunder or hereunder; or (v) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of any Certificates executed and delivered under the Trust Agreement. The indemnification arising under this Section shall continue in full force and effect notwithstanding the full payment of all obligations hereunder or the termination hereof for any reason. The City agrees not to withhold or abate any portion of the payments required pursuant hereto by reason of any defects, malfunctions, breakdowns or infirmities of any of the Substation Facilities, Existing Facilities or the 1999 Projects. The City and the Corporation mutually agree to promptly give notice to each other of any claim or liability hereby indemnified against following either's learning thereof. The rights to indemnification from the City hereunder shall survive the termination hereof or the resignation or removal of the Trustee.

SECTION 10.11. Funds. Any fund required to be established and maintained herein by the City may be established and maintained in the accounting records of the City either as an account or a fund and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to any such fund shall at all times be maintained in accordance with sound accounting practice.

SECTION 10.12. Notices. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the City:

City of Lodi
212 West Pine Street
Lodi, CA 95241-1910
Attention: _____

If to the Corporation:

Lodi Public Improvement Corporation
c/o City of Lodi
12 West Pine Street
Lodi, CA 95241-1910

Attention: _____

SECTION 10.13. Effective Date. This Contract shall become effective upon its execution and delivery, and shall terminate when the Payments provided herein shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Article IX hereof).

SECTION 10.14. Execution in Counterpart. This Contract may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

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

CITY OF LODI

By _____
H. Dixon Flynn
City Manager

Attest:

Alice M. Reimche
City Clerk

Approve as to Form:

Randall A. Hays
City Attorney

LODI PUBLIC IMPROVEMENT
CORPORATION

By _____
Keith Land
Chairman

Attest:

Alice M. Reimche
Secretary for the Corporation

Approve as to Form:

Randall A. Hays
Attorney for the Corporation

SCHEDULE A

Schedule A Payments

<u>Payment Date</u>	<u>Principal Installment</u>	<u>Interest Installment</u>	<u>Total Payments</u>
-------------------------	----------------------------------	---------------------------------	---------------------------

SCHEDULE B

Schedule B Payments

<u>Payment Date</u>	<u>Initial Amount</u>	<u>Final Compounded Amount on Payment Date</u>	<u>Yield to Payment Date</u>
-------------------------	---------------------------	--	----------------------------------

Due to size,
this document
is on file in
City Clerk's contract
Files

PRELIMINARY OFFICIAL STATEMENT DATED _____, 1999

FULL BOOK-ENTRY ONLY

**Electric System Revenue Certificates of Participation,
Series 1999
Evidencing and Representing the Proportionate Interests of the Owners Thereof
in 1999 Payments to be Made by the
CITY OF LODI, CALIFORNIA
Pursuant to an Installment Contract with the Lodi Public Improvement Corporation**

\$ _____ * \$ _____ *
1999 Series A 1999 Series B
Current Interest Certificates Capital Appreciation Certificates

Dated, Priced and Due as set forth on the inside front cover

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Electric System Revenue Certificates of Participation, 1999 Series A Current Interest Certificates (the "1999A Current Interest Certificates") and 1999 Series B Capital Appreciation Certificates (the "1999B Capital Appreciation Certificates" and, collectively with the 1999A Current Interest Certificates, the "1999 Certificates") evidence and represent the proportionate interests of the Owners thereof in the 1999A Payments and the 1999B Payments, respectively, to be made by the City of Lodi, California (the "City"), under the terms of a 1999 Installment Purchase Contract, dated as of August 1, 1999 (the "1999 Contract"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the Contract, the City will make the 1999A Payments and the 1999B Payments (collectively, the "1999 Payments") to the Corporation from Net Revenues of the City's Electric System.

The 1999 Certificates will be delivered in fully registered form and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 1999 Certificates. Purchasers of interests in the 1999 Certificates will not receive securities certificates representing their interests in the 1999 Certificates purchased. Principal, premium, if any, and interest represented by the 1999 Certificates are payable by _____, as Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 1999 Certificates, as described herein.

The 1999A Current Interest Certificates initially will be delivered in denominations of \$5,000 principal amount or any integral multiple thereof. Interest represented by the 1999A Current Interest Certificates is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2000. The 1999B Capital Appreciation Certificates will be delivered in denominations such that the Accreted Value of each such 1999B Capital Appreciation Certificate on the stated maturity date thereof will be \$5,000 or an integral multiple thereof. No payments are due to the owners of the 1999B Capital Appreciation Certificates until the maturity dates of the respective 1999B Capital Appreciation Certificates or the earlier prepayment thereof.

The 1999A Current Interest Certificates are being sold to provide funds (i) to finance the costs of certain improvements to the distribution facilities of the City's Electric System; (ii) to fund a deposit to the Reserve Fund for the 1999 Certificates; and (iii) to pay costs of delivery of the 1999A Current Interest Certificates, as more fully described herein. The 1999B Capital Appreciation Certificates are being sold to provide funds (i) to finance the costs of certain improvements to the transmission facilities of the City's Electric System; (ii) to fund a deposit to the Reserve Fund for the 1999 Certificates; and (iii) to pay costs of delivery of the 1999B Capital Appreciation Certificates, as more fully described herein.

The 1999 Certificates are subject to prepayment prior to maturity as described herein.

Payment of the principal and interest represented by the 1999 Certificates when due will be insured by a municipal bond insurance policy for each series of the 1999 Certificates, which policy will be issued simultaneously with the delivery of the 1999 Certificates.

[logo]

The obligation of the City to make the 1999 Payments is a special obligation of the City payable solely from Net Revenues of the City's Electric System and moneys deposited in the Electric Fund, as provided in the 1999 Contract. The general fund of the City is not liable for and neither the faith and credit nor the taxing power of the City is pledged to the payment of the 1999 Payments. The City may incur other obligations payable from Net Revenues or from moneys in the Electric Fund on a parity with the 1999 Payments in accordance with the 1999 Contract, as described herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other things, compliance with certain covenants, the interest component of each 1999 Payment paid by the City under the 1999 Contract and received by the Owners of the 1999 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, such interest component is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest component is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of the 1999 Certificates or the accrual or receipt of the interest with respect to the 1999 Certificates. See "TAX MATTERS" herein.

Maturity Schedule*
(see Inside Cover)

The 1999 Certificates are offered when, as and if executed and delivered to the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Brown & Wood LLP, San Francisco, California, and for the City by the City Attorney of the City of Lodi. It is expected that the 1999 Certificates in definitive form will be available for delivery in New York, New York through the DTC book-entry system on or about _____, 1999.

Dated: _____, 1999

SALOMON SMITH BARNEY

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification in any such jurisdiction.

Due to size,
this document
is on file in
City Clerk's contract
Files

Brown & Wood LLP
Draft of
April 15, 1999

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Lodi, California (the "City") and _____, as trustee (the "Trustee"), in connection with the execution and delivery of \$_____ aggregate initial principal amount of City of Lodi Electric System Revenue Certificates of Participation, Series 1999, comprised of \$_____ aggregate principal amount of 1999 Series A Current Interest Certificates and \$_____ aggregate initial principal amount of 1999 Series B Capital Appreciation Certificates (collectively, the "1999 Certificates"). The 1999 Certificates are being issued pursuant to a Trust Agreement dated as of _____, 1999 (the "Trust Agreement"), by and among the City, the Lodi Public Improvement Corporation (the "Corporation") and the Trustee. The City and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Trustee for the benefit of the Owners and Beneficial Owners of the 1999 Certificates 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 Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement 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 Agreement.

"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 1999 Certificates (including persons holding 1999 Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 1999 Certificates for federal income tax purposes.

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

"Fiscal Year" shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

"Owner" shall mean either the registered owners of the 1999 Certificates, or, if the 1999 Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.