



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Review of PCE/TCE Financing

MEETING DATE: October 17, 2001

PREPARED BY: Randall A. Hays, City Attorney

RECOMMENDATION: That the City Council discuss as they deem appropriate.

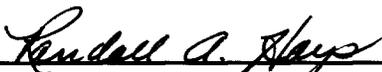
BACKGROUND: The City Council at its regular meeting of November 3, 1999 acting in its capacity as the City Council as well as acting in its capacity as the Lodi Financing Corporation approved documents which put into place monies upon which the City could draw to continue its activities relative to the City's enforcement activities involving the PCE/TCE groundwater and soil contamination within the City of Lodi.

The transaction is reasonably simple in its construction. Basically, the City has pledged as a revenue stream to pay off the borrowing, future recoveries anticipated from its enforcement activities against responsible parties for the groundwater and soil contamination in the City. In return for that pledge of revenues, Lehman Brothers has agreed to make available to the City funding to proceed with those enforcement activities. The cap on that funding is \$16 million dollars. Since the revenue stream is contingent upon successful enforcement activities, which is not as secure a revenue stream as rates charged for utility usage, the interest rate is greater than normally seen in a municipal borrowing. The base rate was tied to a money rate index known as the London Interbank Offered Rate (LIBOR). The Wall Street Journal reported on Monday, October 8, 2001 that the LIBOR 3-month rate was 2.44%. The borrowing rate for this borrowing is the LIBOR 3-month rate plus 20%.

Included with this memo are the basic documents of the transaction that resulted in the borrowing, as well as minutes of the meeting indicating the discussion surrounding the actions taken by the Council and the Lodi Financing Corporation.

FUNDING: N/A

Respectfully submitted,



 Randall A. Hays, City Attorney

APPROVED: _____
 H. Dixon Flynn -- City Manager

Program Receipts Sale and Repurchase Agreement

PROGRAM RECEIPTS SALE AND
REPURCHASE AGREEMENT

Dated as of June 1, 2000

Between the

THE CITY OF LODI,

As Seller and Repurchaser, and

LODI FINANCING CORPORATION,
as Purchaser

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PROGRAM RECEIPTS SALE AND REPURCHASE AGREEMENT

THIS PROGRAM RECEIPTS SALE AND REPURCHASE AGREEMENT, dated as of June 1, 2000 (the "Agreement"), is hereby entered into by and between the CITY OF LODI, a municipal corporation organized and existing under the laws of the State of California, as seller and assignor (the "City") and the LODI FINANCING CORPORATION, a nonprofit corporation organized and existing under the laws of the State of California, as purchaser and assignee (the "Corporation");

WITNESSETH:

WHEREAS, there exists in the City a significant water contamination problem threatening the City's water supply and the health and safety of the City's inhabitants;

WHEREAS, in May 1997, the City executed a Comprehensive Joint Cooperative Agreement (Including Related Delegation and Settlement Agreements) with the California Environmental Protection Agency, Department of Toxic Substances Control ("DTSC") Relating to the Investigation and Abatement of the Hazardous Substance Contamination In and Affecting the City (the "Cooperative Agreement");

WHEREAS, under the Cooperative Agreement, the City is committed to act as lead agency in initiating and prosecuting environmental enforcement actions (the "Program") to compel responsible parties to investigate and clean up all actual or potential dangers to public health and the environment arising from or related to hazardous substance contamination of portions of the City's groundwater and soil located within an area of approximately 600 acres and encompassing the City's central business area (the "Lodi Area of Contamination"), as described in the Cooperative Agreement;

WHEREAS, the Cooperative Agreement fully resolved the City's liability, if any, for contamination arising, in whole or in part, from the design, construction, operation or maintenance of the City's sewer systems;

WHEREAS, it is in the public interest and welfare of the City's inhabitants that the City find a means of financing the costs of the Program in order to fulfill the City's obligations under the Cooperative Agreement, and to enforce laws and ordinances which compel responsible parties to assume the cost and responsibility for the necessary remediation work to clean up the City's water supply and preserve and enhance the City's water system;

WHEREAS, the costs of environmental litigation under the Program may be significant;

WHEREAS, the City has determined that the most feasible means of financing Program costs is through the implementation of a certificate of participation financing, which financing will facilitate the effective and expeditious abatement of an existing or threatened Environmental Nuisance (as defined in the City's Comprehensive Municipal Environmental Response and Liability Ordinance, described below) within or affecting the City;

WHEREAS, pursuant to Sections 37350 and 7158 of the California Government Code, Section 17 of the California Code of Civil Procedure, and Sections 953 and 954 of the California

Civil Code, the City may sell all or a portion of its right to receive recoveries arising from the Program;

WHEREAS, pursuant to Sections 37350 and 7158 of the California Government Code, Section 17 of the California Code of Civil Procedure, and Sections 953 and 954 of the California Civil Code, the City may purchase all or a portion of its right to receive recoveries arising from the Program;

WHEREAS, to implement this certificate of participation financing, the City proposes to irrevocably sell and convey to the Corporation its right to receive Program Receipts (as defined herein), and simultaneously therewith the Corporation desires to resell and reconvey such Program Receipts back to the City in consideration of receipt of the Repurchase Payments (as defined herein), all pursuant to this Agreement;

WHEREAS, the Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"), will enter into a Trust Agreement, dated as of the date hereof (the "Trust Agreement"), pursuant to which (i) the Corporation will assign and pledge to the Trustee its interests in and to the Repurchase Payments and (ii) the Trustee will agree to execute and deliver, from time to time, a principal amount not to exceed \$16,000,000 of certificates of participation (the "Certificates");

WHEREAS, each Certificate will evidence an undivided, proportionate interest in Repurchase Payments, consisting of a principal component and an interest component, to be made by the City, as provided herein and in the Trust Agreement;

WHEREAS, the purchase price to be paid by the Corporation for each portion of Program Receipts purchased from the City pursuant to this Agreement will be payable solely from proceeds from the sale of the Certificates;

WHEREAS, the City's obligation to make Repurchase Payments (and certain other payments under this Agreement) will be a special obligation of the City payable solely from Program Receipts;

WHEREAS, the City adopted its Comprehensive Municipal Environmental Response and Liability Ordinance, Ordinance No. 1684, on November 17, 1999, effective December 17, 1999 (the "Ordinance") pursuant to which the City, among other things, has created in favor of Certificate Holders a first lien on the Program Receipts, and the City acknowledges that such first lien is superior to all other uses of Program Receipts, except with regard to certain Permitted Deductions as provided herein;

WHEREAS, the Program Receipts may be pledged to and deposited in the Municipal Fund (as defined herein) created under the Ordinance as proceeds of the City's environmental abatement program;

WHEREAS, being payable solely from Program Receipts, the receipt by Certificate Holders of any amounts hereunder and under the Trust Agreement is unpredictable and uncertain, and accordingly there is significant risk inherent in purchasing and holding the Certificates;

WHEREAS, in view of the risks and uncertainties associated with the Certificates, the City acknowledges that the interest cost of the Certificates is significantly higher than in traditional municipal finance transactions;

WHEREAS, pursuant to Section 5900, et seq. of the California Government Code, the City, through the Corporation, is authorized to issue Certificates the interest component of which is subject to federal income taxation, and the City has determined that the interest component of the Repurchase Payments made hereunder and represented by the Certificates will be subject to federal income taxation;

WHEREAS, pursuant to Section 5906 of the California Government Code, the Certificates and the purchasers thereof will be exempt from the usury provisions of Section 1 of Article XV of the California Constitution;

WHEREAS, the City and the Corporation propose to execute and deliver a Certificate Purchase Contract (the "Certificate Purchase Contract") with Lehman Brothers Inc. (the "Original Purchaser"), pursuant to which the Original Purchaser agrees to purchase, from time to time, the Certificates in an amount up to an aggregate principal amount not to exceed \$16,000,000;

WHEREAS, Lehman Brothers Inc. has acted as Placement Agent for the Certificates;

WHEREAS, the DTSC has provided in writing that the financing described in this Sale and Repurchase Agreement, the Trust Agreement and the Certificate Purchase Contract and evidenced by the execution and delivery of the Certificates does not violate the Cooperative Agreement;

WHEREAS, the City and the Corporation have determined that all acts and proceedings required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Agreement and 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 and the Corporation are now duly authorized and empowered to execute and enter into this Agreement and to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Agreement, the Trust Agreement and of any agreement supplemental hereto and of any statement, opinion or other document herein mentioned, have the

meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Words of any gender shall be deemed and construed to include all genders.

Accreted Value

"Accreted Value" means Outstanding Principal and all unpaid Compounded Interest thereon, calculated in accordance with Section 2.04 of the Trust Agreement.

Additional Payments

"Additional Payments" means all amounts payable by the City as Additional Payments pursuant to Section 6.7(b) hereof.

Agreement or Sale and Repurchase Agreement

"Agreement" or "Sale and Repurchase Agreement" means this Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000, between the City and the Corporation, as originally executed and as it may from time to time be supplemented, modified, or amended in accordance with the terms hereof or of the Trust Agreement.

Authorized Representative

"Authorized Representative" means, (1) with respect to the Corporation, the President of the Corporation or the Secretary of the Corporation or any other person designated as an Authorized Representative of the Corporation by a Statement of the Corporation signed by said President and filed with the Trustee, and (2) with respect to the City, the Mayor, the City Manager, or the City Attorney of the City or any other person designated as an Authorized Representative of the City by a Statement of the City signed by said Mayor, said City Manager, or said City Attorney and filed with the Trustee.

Budgeted Program Costs

"Budgeted Program Costs" means those fees, expenses, and costs as allocated and described in the Program Budget as shown in Exhibit A to this Agreement.

Business Day

"Business Day" means a day of the year on which banks located in the city where the Corporate Trust Office is located are not required or authorized to be closed.

Calculation and Verification Agent

"Calculation and Verification Agent" means a financial institution, investment banking firm or accounting firm with a national reputation and capable of performing the functions assigned to the Calculation and Verification Agent herein and in the Trust Agreement, as selected or consented to by the Original Purchaser, together with such other Certificate Holders as are necessary to constitute, in the aggregate, at least 51% of outstanding Accreted Value.

Certificate Holder or Holder

"Certificate Holder" or "Holder," whenever used herein with respect to a registered Certificate, means the Person in whose name such Certificate is registered.

Certificate Purchase Contract

"Certificate Purchase Contract" means that certain Certificate Purchase Contract, dated as of June 28, 2000, between the Original Purchaser, the City and the Corporation regarding the purchase of the Certificates by the Original Purchaser.

Certificates

"Certificates" means the certificates of participation evidencing the undivided, proportionate interests of the Holders thereof in Program Receipts to be sold and Repurchase Payments to be made by the City pursuant to this Agreement.

City

"City" means the City of Lodi, a municipal corporation organized and existing under the laws of the State of California.

Closing Date

"Closing Date" means June 29, 2000.

Commitment Period

"Commitment Period" means the period beginning on the date of the Certificate Purchase Contract and ending on the Commitment Period Ending Date or the earlier occurrence of a Commitment Termination Event.

Commitment Period Ending Date

"Commitment Period Ending Date" means that date which is four years after the Closing Date.

Commitment Termination Event

"Commitment Termination Event" means the occurrence, prior to the Commitment Period Ending Date, of (a) the City's delivery of a Termination Notice to the Trustee and the Original Purchaser, stating that it will make no further Issuance Requests; (b) the reduction of the Purchase Commitment to zero as described in the Certificate Purchase Contract; (c) the Original Purchaser's decision to terminate the Purchase Commitment in the event the City substitutes its Outside Counsel or modifies the terms of engagement of its Outside Counsel in a manner which, in the sole determination of the Original Purchaser, results in a materially prejudicial change; or (d) in the sole discretion of the Original Purchaser, an uncured Event of Default hereunder or under the Trust Agreement, or a violation by the City or the Corporation of any covenant,

representation or warranty made herein or in the Certificate Purchase Contract or in the Trust Agreement, including but not limited to the occurrence of any of the proceedings or actions described in Section 9.1(e) hereof relating to bankruptcy or insolvency of the City or the Corporation or other actions described therein.

Compounded Interest

"Compounded Interest" means all unpaid and accrued interest with respect to the Certificates which has been added to Accreted Value. On the day before the first Business Day of each January, all Current Interest will become Compounded Interest and will be added to Accreted Value in accordance with Section 2.04 of the Trust Agreement.

Cooperative Agreement

"Cooperative Agreement" means the Comprehensive Joint Cooperative Agreement, executed in May 1997, between DTSC and the City regarding the investigation of and remediation of contamination in the Lodi Area of Contamination.

Corporation

"Corporation" means the Lodi Financing Corporation, a California nonprofit corporation.

Corporate Trust Office

"Corporate Trust Office" or "corporate trust office" means the corporate trust office of the Trustee in San Francisco, California, provided that, with regard to execution, delivery, transfer, exchange, registration, surrender and payment of Certificates, "Corporate Trust Office" means the corporate trust office of U.S. Bank Trust National Association in St. Paul, Minnesota, or such other or additional offices as may be designated by the Trustee.

Covered Subject

"Covered Subject" means a single potentially responsible party or tortfeasor that is or may be liable for the abatement of environmental conditions within the Lodi Area of Contamination as a result of that party's ownership or operation, for a certain period of time, of a facility or that party's contribution to the environmental conditions requiring abatement.

Current Interest

"Current Interest" means all unpaid interest with respect to the Certificates which has accrued but has not yet been compounded in accordance with Section 2.04 of the Trust Agreement.

Deferred Commitment Fee

"Deferred Commitment Fee" means \$2.25 million, or such lesser amount as may be payable by the City to the Original Purchaser from time to time in accordance with the terms of the Certificate Purchase Contract and the Trust Agreement.

Deferred Commitment Fee Reserve Account

"Deferred Commitment Fee Reserve Account" means the account by that name under the Revenue Fund established by Section 5.03 of the Trust Agreement.

Delivery Date

"Delivery Date," when used with respect to a particular Series of Certificates, means the date of delivery of such Series of Certificates to the Original Purchaser (as defined below) thereof. The Delivery Date for the first Series of Certificates shall be the Closing Date. The Delivery Date for each subsequent Series of Certificates shall be the first Business Day of any January, April, July, or October on or before the Commitment Period Ending Date as specified by the City in the applicable Issuance Request.

Distribution Date

"Distribution Date" means the first Business Day following each Repurchase Payment Date on which it is reasonably practicable for the Trustee to send payments of Accreted Value and Current Interest to Certificate Holders.

DTSC

"DTSC" means the California Environmental Protection Agency, Department of Toxic Substances Control, which entered into the Cooperative Agreement with the City.

DTSC Settlement Payments

"DTSC Settlement Payments" means those amounts used to reimburse the City for settlement payments it has previously made to DTSC for certain previously incurred response costs pursuant to Section 4.a of the Cooperative Agreement.

Event of Default

"Event of Default" means any of the events specified in Section 9.1 hereof.

Final Payment Date

"Final Payment Date" means, with respect to all Certificates, January 1, 2029.

Independent Accountant

"Independent Accountant" means a certified public accountant or firm of certified public accountants specializing in providing financial statements and audits for business and governmental entities and who has acted as such an accountant in California for at least three years.

Independent Consultant

"Independent Consultant " means a reputable specialist or firm of specialists, including but not limited to an environmental consultant or an insurance consultant, qualified to evaluate a particular aspect of the Program.

Interest Period

"Interest Period" means the 3-month period beginning on each Rate Adjustment Date to but excluding the next Rate Adjustment Date; provided that the first Interest Period shall be from and including the Closing Date to but excluding the next Rate Adjustment Date.

Investment Securities

"Investment Securities" means investments in a money market fund rated "AAAm" or "AAAM-G" or better by S&P or a money market fund collateralized by direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America. Such money market funds may include funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services. The Trustee shall be entitled to rely upon any written investment direction from the City or the Corporation as a certification that such investment constitutes an Investment Security.

Issuance Request

"Issuance Request" means a written Request and Certificate of the City, in substantially the form set forth in Exhibit B hereto, for the Trustee to execute and deliver a Series of Certificates in accordance with the provisions of Section 2.01 of the Trust Agreement.

Legal Disbursements

"Legal Disbursements" means those amounts invoiced by Outside Counsel for out-of-pocket direct expenses at the actual cost charged by the provider of such materials or services, including postage, copying, overnight delivery services, messengers, long-distance telephone, expert witness fees and costs, and reasonable and customary travel expenses.

Legal Fees

"Legal Fees" means those amounts invoiced by Outside Counsel for professional legal services rendered on an hourly basis, in accordance with the Retainer and Fee Agreement in connection with the Program, and as further limited and described under Exhibit A hereto.

LIBOR and 3-month LIBOR Rate

"LIBOR" means, as of the second London banking day immediately preceding the beginning of an Interest Period (the "LIBOR Determination Date"), the rate for deposits in United States dollars for a period equal to the relevant Interest Period which appears on Telerate Page 3750 as of 11:00 a.m. , London time, on such date. If such rate does not appear on Telerate page 3750, the rate for that LIBOR Determination Date will be determined by the Calculation

and Verification Agent on the basis of the rates at which deposits in United States dollars are offered by the Reference Banks at approximately 11:00 a.m., London time, on that day to prime banks in the London interbank market for a period equal to the relevant Interest Period. For purposes of this definition, "Telerate Page 3750" means the display page currently so designated on the Dow Jones Market Service or any successor service (or such other page as may replace that page on that service or any successor service for the purpose of displaying comparable rates or prices), and "Reference Banks" means four major banks in the London interbank market selected by the Calculation and Verification Agent.

"3-month LIBOR Rate" means the LIBOR Rate in effect for the 3-month period beginning on each Rate Adjustment Date.

Lien

"Lien" means a security interest, lien, charge, pledge or encumbrance of any kind.

Lodi Area of Contamination

"Lodi Area of Contamination" means an area of approximately 600 acres encompassing the City's central business area, which is the area described in the Cooperative Agreement as the area of the City located within the county of San Joaquin, California bordered approximately by the Mokelumne River to the north, Beckman Road to the east, Harney Lane to the south, and Mills Avenue to the west and the surrounding commercial and residential area from which hazardous substances have been, or are threatened to be, released or where hazardous substances have or may come to be located.

Municipal Fund

"Municipal Fund" means the Lodi Area of Contamination Environmental Nuisance Abatement Fund, which is a restricted account within the Comprehensive Municipal Environmental Response Fund created under the Ordinance, or a successor or alternate fund created for substantially the same or similar purposes. Such Municipal Fund will contain two separate accounts, the Program Account and the Recovery Account, monies in which will be segregated, held and invested separately from other assets of the City.

Moody's

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

Notice of Reallocation

"Notice of Reallocation" means the City's written notice to the Trustee, in the form of Exhibit D hereto, with regard to reallocation among items and categories in the Program Budget.

Ongoing Obligations

"Ongoing Obligations" when used in connection with the Program Budget, refers to a category of funds to be expended by the City for obligations arising out of, and limited to, DTSC Settlement Payments, computer document management, technical activities, project management activities, and Legal Disbursements (but not including any Legal Fees) as further described in Exhibit A hereto.

Opinion of Counsel

"Opinion of Counsel" means a written opinion of counsel (who may be counsel for the City) selected by the City. If and to the extent required by the provisions of Sections 2.1 and 2.2 of this Agreement and Section 1.03 of the Trust Agreement, each Opinion of Counsel shall include the statements provided for in Sections 2.1 and 2.2 of this Agreement and Section 1.03 of the Trust Agreement.

Optional Payment Date

"Optional Payment Date" means each date of transfer of funds, other than Program Receipts, by the City to the Trustee for deposit into the Revenue Fund in accordance with Section 6.7(a)(v) hereof.

Ordinance

"Ordinance" means Ordinance No. 1684, adopted November 17, 1999 and effective December 17, 1999, repealing and reenacting the City's Comprehensive Municipal Environmental Response and Liability Ordinance, Chapter 8.24 (Health and Sanitation) of Title 8 (Health and Safety) of the Lodi Municipal Code, as it may be amended from time to time in accordance with Section 6.18 hereof.

Original Purchaser

"Original Purchaser" means Lehman Brothers Inc. and its successors and assigns.

Outside Counsel

"Outside Counsel" means Envision Law Group LLP, Lafayette, California, which has been selected by the City to represent the City for all matters relating to the Program, in accordance with the Retainer and Fee Agreement.

Outstanding

"Outstanding," when used as of any particular time with reference to Certificates, (subject to the provisions of Section 11.09 of the Trust Agreement) means all Certificates theretofore, or thereupon being, executed and delivered by the Trustee under the Trust Agreement except (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Certificates with respect to which all liability shall have been discharged in accordance with Section 10.01 of the Trust Agreement, including Certificates (or portions of

Certificates) referred to in Section 11.10 of the Trust Agreement; and (3) Certificates for the transfer or exchange of or in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Outstanding Certificate Obligations

"Outstanding Certificate Obligations" means, as of any date, the sum of the Accreted Value and Current Interest components of the Certificates.

Outstanding Principal

"Outstanding Principal" means the sum of principal amounts of all Series of Certificates issued, less any amounts representing the principal component of such Certificates which have been repaid to Certificate Holders.

Permitted Deductions

"Permitted Deductions" are amounts which the City may deduct from Program Receipts, up to 25% of Program Receipts collected at any time, as described in Section 6.4 hereof, prior to remittance of such Program Receipts to the Trustee and includes (a) first, certain payments to DTSC for oversight costs pursuant to Section 4.b of the Cooperative Agreement and amounts to create a reserve balance for such payments in an amount up to \$300,000 and (b) second, reimbursement to the City, up to \$2,000,000 in the aggregate over the term of this Agreement, for expenditures that were incurred by the City in connection with the Program in an amount up to \$1,000,000 prior to November 3, 1999 and in an amount up to an additional \$1,000,000 for expenditures incurred by the City on or after November 3, 1999.

Person

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Placement Agent

"Placement Agent" means Lehman Brothers Inc. and its successors and assigns.

Placement Fee

"Placement Fee" means the amount of \$1,000,000 payable to the Placement Agent on the Closing Date.

Program

"Program" means the City's environmental abatement program for the Lodi Area of Contamination, including all Abatement Actions (as defined in the Ordinance,) undertaken in connection therewith, which include but are not limited to study, investigation, abatement, removal, remediation or response to an Environmental Nuisance (as defined in the Ordinance) or

threat of Environmental Nuisance, monitoring and assessment or evaluation of an Environmental Nuisance, prevention or mitigation of an Environmental Nuisance and enforcement activity in response to an Environmental Nuisance, including litigation and other actions against potentially responsible parties, their indemnitors or insurers, and shall also include all activities related thereto, whether or not expressly described in the Ordinance, including litigation and other actions against potential tortfeasors, their indemnitors or insurers.

Program Account

"Program Account" means the account by that name established under the Municipal Fund.

Program Budget

"Program Budget" means the authorized disbursements of the City from the Program Account, as described in Exhibit A hereto.

Program Receipts

"Program Receipts" means all amounts, proceeds and recoveries from, or in contemplation of, or in connection with, the potential liability of responsible parties or potentially responsible parties, their insurers or indemnitors, or of tortfeasors or potential tortfeasors, their insurers or indemnitors, received by the City (or by any other Person on its behalf) on or after July 30, 1999, or received by the City's Outside Counsel after the Closing Date, in connection with the Program, whether in cash or non-cash form and regardless of how such amounts, proceeds, or recoveries may be characterized, labeled or allocated in any judgment, award, settlement or other agreement or payment, including but not limited to all amounts, proceeds or recoveries characterized or labeled as legal fees or disbursements or as tort claim recoveries, proceeds or settlements.

Purchase Commitment

"Purchase Commitment" means the total sum of up to \$16,000,000 for the purchase of various series of Certificates by the Original Purchaser or by any successor, or lesser amount as provided herein or in the Certificate Purchase Contract.

Quarterly Budget Reporting Form

"Quarterly Budget Reporting Form" means that report, a form of which appears in Appendix A hereto, which the City is required to submit to the Calculation and Verification Agent within 20 Business Days after the beginning of each calendar quarter (except the first quarter) to reconcile the prior quarter's expenditures with the Program Budget and to demonstrate the City's compliance with the Program Budget for the prior quarter.

Rate Adjustment Date

"Rate Adjustment Date" means the first Business Day of each January, April, July and October.

Record Date

"Record Date" means, with respect to any Distribution Date, the Business Day immediately preceding such Distribution Date.

Recovery Account

"Recovery Account" means the account by that name established under the Municipal Fund.

Remittance Report

"Remittance Report" means the City's written report to the Trustee, in the form of Exhibit C hereto, required to be delivered as provided under Section 6.4(b) of this Agreement.

Repurchase Payment Date

"Repurchase Payment Date" means 1) each date of transfer of Program Receipts by the City to the Trustee (net of Permitted Deductions) for deposit into the Revenue Fund in accordance with Section 6.4 hereof and 2) the Final Payment Date.

Repurchase Payments

"Repurchase Payments" means all amounts payable by the City as Repurchase Payments pursuant to Section 6.7(a) hereof.

Repurchase Price

"Repurchase Price" means the sum of (i) the principal amount of all Certificates, together with all interest (whether Current Interest or Compounded Interest) on the Certificates, (ii) the amount required to pay or fund the Deferred Commitment Fee, and (iii) all Additional Payments required to be made by the City pursuant to Section 6.7(b) hereof.

Retainer and Fee Agreement

"Retainer and Fee Agreement" means the Professional Services Agreement and Scope of Services Statement, dated December 1, 1999, between Outside Counsel and the City, in which the terms of Outside Counsel's engagement in connection with the Program are set forth.

Revenue Fund

"Revenue Fund" means the fund by that name established under the Trust Agreement, Section 5.02.

S&P

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the state of New York, its successors and assigns.

Series

"Series" means each series of the Certificates executed and delivered pursuant to the Trust Agreement, as often as on a quarterly basis until the Commitment Period Ending Date.

State

"State" means the State of California.

Statement, Request, Requisition, or Order

"Statement," "Request," "Requisition," and "Order" of the City, the Corporation, the Trustee or the Calculation and Verification Agent mean, respectively, a written statement, request, requisition, certificate, or order signed in the name of the City, the Corporation the Trustee or the Calculation and Verification Agent by an Authorized Representative of the City, the Corporation, the Trustee or the Calculation and Verification Agent, respectively. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion, or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Article II of this Agreement, each such instrument shall include the statements provided for in Article II of this Agreement.

Supplemental Agreement

"Supplemental Agreement" means any agreement hereafter duly authorized and entered into between the Corporation and the City supplementing, modifying, or amending this Agreement; but only if and to the extent that such Supplemental Agreement is specifically authorized hereunder.

Supplemental Trust Agreement

"Supplemental Trust Agreement" means any trust agreement hereafter duly authorized and entered into between the Corporation and the Trustee supplementing, modifying, or amending the Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

Termination Notice

"Termination Notice" means that written notice from the City to the Trustee and the Original Purchaser, a form of which is attached hereto as Exhibit F, as provided under the Certificate Purchase Contract and the Trust Agreement, that the City has permanently and irrevocably discontinued making Issuance Requests.

Trust Agreement

"Trust Agreement" means that certain trust agreement, dated as of June 1, 2000, between the Corporation and the Trustee, as originally executed and as it may from time to time be supplemented, modified, or amended in accordance with the terms thereof.

Trustee

"Trustee" means U.S. Bank Trust National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee hereunder as provided in Section 8.01 of the Trust Agreement.

Variable Rate

"Variable Rate" means the variable interest rate evidenced by the Certificates and determined from time to time in accordance with Section 2.04 of the Trust Agreement.

ARTICLE II

CONTENT OF CERTIFICATES AND OPINIONS

Section 2.1. Content of Statements and Opinions. Every statement or opinion provided for in this Agreement with respect to compliance with any provision hereof shall include (1) a statement that the individual making or giving such statement or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion is based; (3) a statement that, in the opinion of such individual, he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; and (4) a statement as to whether, in the opinion of such individual, such provision has been complied with.

Section 2.2. Reasonable Basis for Statements and Opinions. Any such statement or opinion made or given by an officer of the City may be based, insofar as it relates to legal, accounting, or environmental matters, upon a statement or opinion of or representation by counsel, an Independent Accountant or an Independent Consultant selected by the City, unless such officer knows, or in the exercise of reasonable care should have known, that the statement, opinion or representation regarding the matters upon which such statement or opinion may be based, as aforesaid, is erroneous. Any such statement or opinion made or given by such counsel, Independent Accountant or Independent Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a statement or opinion of or representation by an officer of the City, unless such counsel, Independent Accountant or Independent Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation regarding the matters upon which such individual's statement or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the City, or the same counsel, Independent Accountant or Independent Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Agreement, but different officers, counsel, Independent Accountants or Independent Consultants may certify to different matters, respectively.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1. Representations and Warranties of the City. The City makes the following representations and warranties to the Corporation as of the date of the execution of this Agreement and as of the Closing Date (such representations and warranties to remain operative and in full force and effect regardless of delivery of the Certificates or any investigations by or on behalf of the Corporation or the results thereof):

(a) The City is a municipal corporation duly organized and existing under the laws of the State, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated by this Agreement.

(b) This Agreement has been duly authorized, executed, and delivered by the City and constitutes the legal, valid and binding agreement of the City, enforceable against the City in accordance with its terms; except as enforcement may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and by the application of such equitable principles as the court having jurisdiction may impose, regardless of whether such enforceability is considered in a proceeding in equity or at law.

(c) The execution and delivery of this Agreement, the consummation of the transactions herein contemplated, and the fulfillment of or compliance with the terms and conditions hereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any indenture, mortgage, deed of trust, agreement, lease, contract, the Cooperative Agreement, or other agreement or instrument to which the City is a party or by which it or its properties are otherwise subject or bound, or, to the knowledge of the City, after reasonable inquiry and investigation, any applicable law or administrative rule or regulation, the Ordinance or any other applicable ordinance, or any applicable court or administrative decree or order, or result in the creation or imposition of any prohibited Lien, charge, or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge, or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement. The first lien on and pledge of Program Receipts under this Agreement and the Trust Agreement, as permitted by the Ordinance, are valid and enforceable and are prior to any other lien or claim on Program Receipts, and all other provisions of the Ordinance, insofar as they affect the rights of the Original Purchaser and the Certificate Holders and the transactions herein contemplated, are valid and enforceable.

(d) No consent or approval of any trustee or holder of any indebtedness of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Agreement, the consummation of any transaction herein

contemplated, or the fulfillment of or compliance with the terms and conditions hereof except as have been obtained or made and as are in full force and effect.

(e) There is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other governmental authority, pending, or to the knowledge of the City after reasonable inquiry and investigation, threatened, against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, could have a material adverse effect upon the consummation of the transactions contemplated by or the fulfillment of or compliance with the terms and conditions of or the validity of this Agreement, and the City is not in material default (and no event has occurred and is continuing which, with the giving of notice or the passage of time or both, could constitute a material default) with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement.

(f) No representation made, nor any information, exhibit or report furnished to, the Corporation by the City in connection with the negotiation of this Agreement or the Trust Agreement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. There is no fact that the City has not disclosed to the Corporation or the Trustee in writing that materially and adversely affects or in the future may (so far as the City can now reasonably foresee) materially and adversely affect the ability of the City to perform its obligations under this Agreement or any documents or transactions contemplated hereby.

(g) The Program Receipts are free and clear of all Liens and encumbrances, other than Permitted Deductions and may be deposited in the Municipal Fund created under the Ordinance as proceeds of the City's environmental abatement program.

ARTICLE IV

CONVEYANCE OF PROGRAM RECEIPTS

Section 4.1. Sale and Repurchase of Program Receipts. Effective on the Closing Date, (a) the City does hereby and irrevocably sell and convey to the Corporation, without recourse, all Program Receipts in consideration of the receipt from the Corporation of the proceeds of the Certificates executed and delivered on the Closing Date and on each subsequent Delivery Date and the Corporation's agreement hereunder to deliver the same, and (b) the Corporation hereby resells and reconveys to the City all Program Receipts in consideration of the City's agreement hereunder to make payment of the Repurchase Price. The delivery of the proceeds of the Certificates (less, in the case of the initial Series of Certificates, an amount equal to the Placement Fee) by the Corporation shall constitute full consideration for the sale of the Program Receipts by the City.

The parties acknowledge that the City constitutes both the seller of Program Receipts and the purchaser of Program Receipts under this Agreement. The obligation of the City to sell Program Receipts to the Corporation and the obligation of the City to repurchase Program Receipts from the Corporation represent, and in all respects of any nature whatsoever shall always represent, be interpreted as, and constitute separate and distinct obligations. Under no circumstances whatsoever shall a merger of the roles or obligations of the City as seller of Program Receipts and as purchaser of Program Receipts under this Agreement occur or be deemed to occur.

Section 4.2. Sale Effected Without Further Action. The City and the Corporation agree that, effective on the Closing Date, the Corporation will acquire, upon delivery of the proceeds of the initial Series of Certificates executed and delivered on the Closing Date, a perfected ownership interest in the Program Receipts, and simultaneously therewith the City will reacquire such ownership interest, subject, however, to the lien and pledge on the Program Receipts created pursuant to this Agreement and the Trust Agreement, and that no further action will be required by either party hereto (other than the transfer of the proceeds of the Certificates) to effect the absolute sale and conveyance of the Program Receipts to the Corporation and the resale and reconveyance of the Program Receipts to the City.

Section 4.3. Protective Filings. The City shall take all necessary actions to execute and deliver, or cause to be executed and delivered, to the Corporation and the Trustee all such other and further instruments, documents, and assurances, including the filing of any financing statements under the Uniform Commercial Code as of each Delivery Date and as of each date of settlement or other receipt of Program Receipts, as may be necessary or reasonably required by the Corporation in order to perfect and protect the Corporation's or the Trustee's security interest in the Program Receipts created pursuant to this Agreement and the Trust Agreement. Upon such execution and delivery, the City shall deliver, or cause to be delivered, a copy of all such instruments and documents to the Original Purchaser.

ARTICLE V

TERM OF THE AGREEMENT

Section 5.1. Term. This Agreement shall commence on the Closing Date, and shall terminate upon the payment or discharge by the Corporation of all Certificates in accordance with Article X of the Trust Agreement and the payment in full of the Deferred Commitment Fee and any other amounts authorized or required to be paid by the City hereunder or under the Certificate Purchase Contract and, if full payment of such amounts is made or provided for prior to the Commitment Period Ending Date, the delivery by the City to the Trustee of a Termination Notice pursuant to the Certificate Purchase Contract.

ARTICLE VI

COVENANTS AND SECURITY PROVISIONS REGARDING PROGRAM RECEIPTS

Section 6.1. Pledge of Program Receipts. In order to secure its obligation to make payment in full of the Repurchase Price of all Program Receipts, the City hereby grants, pledges and assigns to the Corporation a first, prior and perfected security interest in all Program Receipts received by the City (or any other Person on its behalf) or received by the City's Outside Counsel, subject only to the right of the City to make Permitted Deductions from such Program Receipts. Accordingly, the City shall not be entitled to retain any Program Receipts, other than Permitted Deductions, until the Repurchase Price for all Program Receipts has been paid in full.

Section 6.2. No Liens. Except for the conveyances hereunder or any Lien for the benefit of the Corporation, the City will not sell, pledge, assign or transfer, or grant, create, or incur any Lien on, any of the Program Receipts, or any interest therein, and the City shall defend the right, title and interest of the Corporation and the Trustee in, to and under the Program Receipts against all claims of third parties claiming through or under the City.

Section 6.3. Notice of Liens. The City will notify the Corporation and the Trustee promptly after becoming aware of any Lien on any of the Program Receipts, other than the conveyances hereunder. In the event any Lien attaches to or is filed against the Program Receipts, the City, at its own expense, shall cause each such Lien to be fully discharged and released.

Section 6.4. Collection and Remittance of Program Receipts.

(a) The City will deposit all Program Receipts upon receipt thereof in the Recovery Account and, within two Business Days after receipt thereof, will transfer such Program Receipts, net of Permitted Deductions, to the Trustee for deposit into the Revenue Fund held by the Trustee under Section 5.02 of the Trust Agreement. In no event will the City be obligated to transfer Program Receipts to the Trustee in excess of amounts necessary to pay the Outstanding Certificate Obligations, deposits to the Deferred Commitment Fee Reserve Account, and any other payments due hereunder. The City hereby covenants that it will maintain the Recovery Account as a separate account under the Municipal Fund and that amounts in the Recovery Account will be segregated, held and invested separately from other assets of the City.

(b) The City shall accompany each remittance of Program Receipts to the Trustee with a Remittance Report in the form of Exhibit C hereto, detailing the source(s) of the total Program Receipts received, the date the Program Receipts were received, their total amount, and the City's calculation of any Permitted Deductions and deposits to the Deferred Commitment Fee Reserve Account. Simultaneously with the City's delivery of each Remittance Report to the Trustee, the City shall deliver a copy of the Remittance Report to the Calculation and Verification Agent. In accordance with such Remittance Report, the City shall direct the Trustee to return to the City any amounts which the

Calculation and Verification Agent determines to be in excess of the amounts required to be transferred to the Trustee under Section 6.4(a) above.

(c) The City covenants, represents and agrees that it will use its best efforts to give the Trustee and the Calculation and Verification Agent, as soon as practicable, notice of the date that any recoveries, payments settlements or judgments are anticipated to be received in the Recovery Account, together with the approximate amount of any such receipts. The City agrees that the duty to deposit Program Receipts into the Recovery Account and to transfer Program Receipts to the Trustee is a ministerial obligation that can be enforced against the City in a suit by mandamus.

(d) The City agrees that the amount of Program Receipts transferred to the Trustee hereunder shall include the amount necessary, as calculated by the Calculation and Verification Agent, to fund the Deferred Commitment Fee Reserve Account created under Section 5.03 of the Trust Agreement, which amount shall be the then outstanding balance of the Deferred Commitment Fee as calculated in accordance with Section 3 of the Certificate Purchase Contract.

(e) Notwithstanding the foregoing, if, on or before the Commitment Period Ending Date, there are no Certificates Outstanding, the Deferred Commitment Fee Reserve Account is fully funded, and no Commitment Termination Event has occurred, then the City may retain all Program Receipts and, subject to payment of Permitted Deductions, may deposit such Program Receipts into the Program Account. All amounts so retained pursuant to this subsection (e), will reduce, dollar for dollar, the amount of any Purchase Commitment under the Certificate Purchase Contract, unless the Original Purchaser (which may withhold its approval in its sole discretion) agrees that no reduction of the Purchase Commitment will occur. Program Receipts deposited to the Program Account in accordance with this subsection (e) may then be used to pay (1) Budgeted Program Costs and (2) the remainder, if any, of Permitted Deductions. When there are no Certificates outstanding, and all other obligations under this Agreement have been fully satisfied and the Purchase Commitment has been terminated, all of the foregoing limitations will be of no further force and effect.

Section 6.5. Subordination of Claims under Retainer and Fee Agreement. The City covenants, represents and warrants that it has entered into the Retainer and Fee Agreement with Outside Counsel whereby Outside Counsel agrees that any claims it might have against the Program Receipts and any other amounts payable in connection with the Program are fully subordinate to any and all claims of the Original Purchaser and any other Certificate Holders, including the right of the Original Purchaser to receive the Deferred Commitment Fee. The City hereby assigns all rights under any subordination agreement with Outside Counsel to the Original Purchaser and any other Certificate Holders, as well as, to the extent permitted by law, the City's rights to any claims which the City could raise against such counsel as a result of any error or omission in connection with services rendered by such counsel to the City. If the City substitutes its Outside Counsel or modifies the terms of engagement of its Outside Counsel, it shall promptly notify the Original Purchaser and, if such substitution or modification, in the sole determination of the Original Purchaser, results in a materially prejudicial change, the Original Purchaser may terminate the Purchase Commitment. The City covenants that all fees and

disbursements incurred by Outside Counsel and any other law firms that have provided services to the City in connection with the Program prior to the date hereof have either been paid in full or are subordinated in accordance with this Section 6.5.

Section 6.6. Settlements.

(a) The City may, in its sole discretion, accept cash or non-cash settlements of legal actions under the Program, including but not limited to administrative orders and proceedings and judicial proceedings, in accordance with subparagraphs (i) and (ii) below when a defendant, potentially responsible party, potential tortfeasor, indemnitor or insurer wishes to settle, make payment or otherwise resolve its liabilities in connection with the Program.

(i) If the City accepts a non-cash settlement when any Certificates are Outstanding, the City will deposit into the Recovery Account, as Program Receipts, from any available funds of the City, an amount sufficient to pay Certificates with an Accreted Value equivalent to the dollar value of the non-cash settlement, as determined and certified to by an Independent Consultant; and

(ii) If there is any remaining dollar value after the payment under subparagraph (i) above (i.e., the dollar value of the non-cash settlement is greater than the Accreted Value of the Outstanding Certificates) or if there are no Outstanding Certificates, the City's acceptance of a non-cash settlement will reduce the Purchase Commitment by the remaining dollar value of the non-cash settlement, as determined by an Independent Consultant.

(b) Provisions (i) and (ii) of paragraph (a) above do not apply with respect to a maximum of two Covered Subjects for which the City accepts non-cash settlements that resolve or release the defendants' or potentially responsible parties' or potential tortfeasors' insurers' duty to defend, if:

(i) Policy or coverage limits are not reduced, eroded, or otherwise affected by the settlement; and

(ii) With respect to each defendant, potentially responsible party or potential tortfeasor, there remains at least one "highly rated insurer," with a duty to defend, with which the City has not settled such duty to defend on a non-cash basis. A "highly rated insurer" means an insurer with a claims paying ability rating of A3 or greater by Moody's or A- or greater by S&P at the date of the settlement in question.

(c) The Trustee may waive in writing provisions (i) and (ii) under paragraph (a) above in advance of a settlement upon the written direction of the Original Purchaser, together with such other Certificate Holders as are necessary to constitute, in the aggregate, at least 51% of the Outstanding Accreted Value. The Original Purchaser and Certificate Holders shall be reasonable in considering a request for such a waiver.

(d) Prior to the finalization of any settlement under this Section 6.6, the City will provide detailed reports to the Trustee, the Original Purchaser and all Certificate Holders regarding all cash and non-cash settlements, including information sufficient to demonstrate that the requirements of this Section 6.6 have been met and including information requested by the Independent Consultant in order to establish the dollar value of the settlement.

Section 6.7. Payments.

(a) Repurchase Payments. The Accreted Value component and the Current Interest component of Repurchase Payments made hereunder shall be assigned to the Trustee and shall constitute the source of payment with respect to the Certificates issued under the Trust Agreement. For each Series of Certificates issued as of any Delivery Date pursuant to the Trust Agreement, the City shall make Repurchase Payments at the time and in the amounts set forth below.

(i) Mandatory Payment of Repurchase Payments. The Accreted Value and Current Interest components of the Repurchase Payment with respect to any Series of Certificates will be due and payable on each Repurchase Payment Date, in an amount which totals the amount of Program Receipts transferred to the Revenue Fund (rounded to the nearest \$1,000 denomination), to be applied as provided in Section 6.7(a)(vi) below.

(ii) Calculation and Accrual of Current Interest. The Current Interest component of the Repurchase Payment for each Interest Period or portion thereof preceding a Repurchase Payment Date shall equal the sum of interest accruing at the Variable Rate in effect during each such Interest Period on the outstanding Accreted Value of such Series of Certificate on each day during such Interest Period, as provided in Section 2.04 of the Trust Agreement. In no event shall the Variable Rate exceed 30 percent per annum. The sum of all unpaid Current Interest for all Interest Periods or portions thereof during any calendar year shall be added to Accreted Value of the Certificates as of the day before the first Business Day of each January, after which date such Accreted Value will bear interest at the Variable Rate.

(iii) Cessation of Interest Accrual. If as a result of one or more final judgments of a court, including courts of appeal and the California and United States supreme courts, the City concludes and informs the Original Purchaser and the Trustee in writing that it will no longer engage in activities in pursuit of Program Receipts, then the Original Purchaser will enter into a written agreement (the "Cessation Agreement") thereby causing interest to cease to accrue on the Certificates thirty-six months after the date of such Cessation Agreement. The Cessation Agreement shall be null and void if the City for any reason continues to engage in activities in pursuit of Program Receipts subsequent to the date of the Cessation Agreement.

(iv) Source and Use of Repurchase Payments. As provided in Article VI hereof, the City and the Corporation agree that all Repurchase Payments required to be made hereunder shall be paid by the City exclusively from Program Receipts, shall be secured by a first and prior lien on all Program Receipts, and shall be used to pay Outstanding Certificate Obligations.

(v) Optional Payment From Other Funds. In addition to its obligation to pay Repurchase Payments from Program Receipts as provided herein, the City shall have the option, at any time and from time to time, to make Repurchase Payments from any other legally available funds. To exercise such option, the City shall transfer such other funds to the Trustee, as assignee of the Corporation, and provide the Trustee with an Order of the City directing that such funds be applied to the payment of Outstanding Certificate Obligations in accordance with Section 4.02 of the Trust Agreement. Amounts transferred to the Trustee pursuant to this Section shall be deposited in the Revenue Fund and will be credited against the Outstanding Certificate Obligations in accordance with Section 6.4 hereof.

(vi) Application of Payments. All Program Receipts deposited into the Revenue Fund shall be applied: first, to the costs of indemnification of the Placement Agent, the Calculation and Verification Agent, the Original Purchaser and Certificate Holders under Section 8.2 hereof; second, to the Current Interest component of the Repurchase Payments due hereunder; third, to the Compounded Interest portion of the Accreted Value component of the Repurchase Payments due hereunder; fourth, to the Outstanding Principal portion of the Accreted Value component of the Repurchase Payments due hereunder; fifth, to fully fund the Deferred Commitment Fee Reserve Account; and sixth, to pay any portion of the Deferred Commitment Fee, if and when due, to the Original Purchaser. Any Repurchase Payment not paid when due shall bear interest from the date such payment is first due at the Variable Rate, as adjusted from time to time and as compounded in accordance with the terms hereof and of the Trust Agreement. Any interest paid on the Certificates (either Current Interest or Compounded Interest) will reduce the Deferred Commitment Fee, and the required balance in the Deferred Commitment Fee Reserve Account, dollar for dollar.

(b) Additional Payments. The City will pay, within 10 Business Days after receipt of an invoice therefor, (i) all taxes and assessments of any type or character charged to the Corporation or the Trustee as a result of the sale or repurchase of Program Receipts or in any way arising due to the transactions contemplated hereby, (ii) all costs and expenses incurred by the Corporation, the Trustee and the Calculation and Verification Agent in connection with the execution, performance or enforcement of this Agreement and of the Trust Agreement, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Corporation, the Trustee and the Calculation and Verification Agent in connection with the execution and delivery of each Series of Certificates and collection and distribution of the Program Receipts, together with all salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Corporation under the Trust Agreement,

fees of auditors, accountants, attorneys or taxes and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or the Trust Agreement, (iii) all costs of indemnification of the Corporation and the Trustee under Section 8.2 hereof, (iv) the Deferred Commitment Fee (including required deposits to the Deferred Commitment Fee Reserve Account) and (v) all costs of indemnification of the Placement Agent, the Calculation and Verification Agent, the Original Purchaser and Certificate Holders under Section 8.2 hereof. The City reserves the right to audit billings for such Additional Payments although exercise of such right shall in no way affect the duty of the City to make full and timely payment for all such Additional Payments.

The City will make payments described in the preceding paragraph (except for payments under clauses (iv) or (v) above) from any lawfully available moneys of the City. The City will make payments described in clause (iv) solely from Program Receipts. The City will make payments described in clause (v) from Program Receipts and any proceeds of insurance or self-insurance programs in which the City has participated or will participate.

Section 6.8. Obligations of the City Unconditional. Except as otherwise provided herein, the obligation of the City to make payments hereunder and to perform and observe other agreements on its part contained herein is absolute and unconditional, and shall not be abated, rebated, setoff, reduced, abrogated, terminated, waived, diminished, postponed, or otherwise modified in any manner or to any extent whatsoever while any Certificates remain Outstanding or any other payments required hereunder remain unpaid, regardless of any acts or circumstances that may constitute failure of consideration, commercial frustration of purpose, any change in the laws of the United States of America or of the State or any political subdivision thereof or in the rules or regulations of any governmental authority, or any failure of the Corporation to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with this Agreement or the Trust Agreement. The City shall pay over and transfer all Program Receipts and all other payments required hereunder, regardless of any rights of set-off, recoupment, abatement, or counterclaim that the City might otherwise have against the Corporation or any other party or parties.

Notwithstanding the above, the obligations of the City to pay Repurchase Payments, the Deferred Commitment Fee and the indemnity obligations to the Special Indemnified Parties described in Section 8.2 hereof are special obligations of the City payable solely from the Program Receipts (or insurance proceeds or self-insurance as described in Section 6.7(b) above) as provided herein and in the Trust Agreement. Neither the general fund nor any enterprise fund of the City is liable (except to the extent that Program Receipts are credited thereto), and neither the credit nor the taxing power of the City is pledged for the payment of the Repurchase Payments or the Deferred Commitment Fee. To the extent that the City is unsuccessful in recovering sufficient amounts to make the Repurchase Payments required to be made hereunder (representing the Accreted Value and Current Interest components of the Certificates) from Program Receipts designated as Abatement Action Costs (as defined in the Ordinance) or "clean up costs" from responsible parties or tortfeasors, Certificate Holders will be entitled to be paid from any Program Receipts, notwithstanding the manner in which such receipts are labeled or described in any judgment, settlement agreement or insurance payment.

Section 6.9. Payment of the Deferred Commitment Fee. If on any date all Certificates have been paid or discharged in accordance with the Trust Agreement and, if such date is prior to the Commitment Period Ending Date, either (i) the maximum aggregate principal amount of Certificates, subject to certain reductions as permitted by the Certificate Purchase Contract and the Trust Agreement, has been issued and delivered under the Trust Agreement, or (ii) any other Commitment Termination Event has occurred, then the City shall direct the Trustee to apply all amounts in the Deferred Commitment Fee Reserve Account and all other Program Receipts to the payment of the Deferred Commitment Fee, as provided under Sections 5.03 and 5.04 of the Trust Agreement.

Section 6.10. Taxes, Other Governmental Charges. The City covenants, warrants and agrees that the Program Receipts will be exempt from all taxes of any kind, and if the Program Receipts are subject to taxation in any form, the City will pay, as the same become due and in accordance with Section 6.7(b), all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Program.

Section 6.11. Application of Moneys in the Program Account. The City will deposit all proceeds of the Certificates, upon receipt, into the Program Account and will invest all such amounts, until they are applied to the payment of Budgeted Program Costs, in Investment Securities which mature by the date they are expected to be used. The City hereby covenants that it will maintain the Program Account as a separate account under the Municipal Fund and that amounts in the Program Account will be segregated, held and invested separately from other assets of the City.

The City will apply moneys in the Program Account for the sole purpose of paying Budgeted Program Costs in accordance with the Program Budget, attached hereto as Exhibit A, and will comply with all expenditure limitations by category (Legal Fees and Ongoing Obligations) and applicable sub-categories (Legal Fees by tier and Ongoing Obligations consisting of DTSC Settlement Payments, computer document management, technical activities, project management and Legal Disbursements), except as such limitations are modified pursuant to Section 6.12 below. Within 20 Business Days after the end of each calendar quarter during the Commitment Period, or thereafter while any Certificates are Outstanding and the Deferred Commitment Fee has not been paid in full, the City shall prepare and transmit to the Calculation and Verification Agent a Quarterly Budget Reporting Form, in the form attached to Exhibit A, and will submit an amended Quarterly Budget Reporting Form to the Calculation and Verification Agent when invoices for services rendered during a quarter are received or paid after the filing of the Quarterly Budget Reporting Form for that quarter. The Calculation and Verification Agent, as directed in the Quarterly Budget Reporting Form, shall verify the City's calculations, shall determine whether the application of amounts in the Program Account is in compliance with the Program Budget, and shall promptly transmit a report describing the result of its review to the City, the Original Purchaser, other Certificate Holders and the Trustee. Upon receipt of notice that the City's calculations were erroneous or that any disbursements were not in compliance with the Program Budget, the City shall, as applicable, promptly correct its calculations and take all necessary actions to comply with the Program Budget. The City shall promptly transmit to the Calculation and Verification Agent an amended Quarterly Budget Reporting form showing all recalculations and any actions taken to comply with the Program Budget, and the Calculation and Verification Agent shall follow the procedures described above

with respect to the initial submission of the applicable Quarterly Budget Form. The Trustee shall receive copies of all Quarterly Budget Reporting Forms, amendments thereto and reports issued thereunder and shall transmit copies to the Original Purchaser and Certificate Holders but shall have no duty to review such reports filed with it hereunder and shall not be responsible for the application of or allocation of amounts in the Program Account.

Section 6.12. Program Budget; Reallocation of Certain Amounts. The City may reallocate funds in the Program Account subject to the guidelines and limitations provided in the Program Budget, attached hereto as Exhibit A. In the event that the City elects to reallocate amounts deposited into the Program Account from Ongoing Obligations to Legal Fees or from Legal Fees to Ongoing Obligations, then the City, prior to such reallocation and expenditure, will file a Reallocation Notice Regarding Amounts in Program Account with the Trustee in the form of Exhibit D hereto and will certify that such reallocation is consistent with the provisions of this Section and the Program Budget. Within 5 Business Days after the receipt thereof, the Trustee shall transmit a copy of any Reallocation Notice to the Original Purchaser, other Certificate Holders, and the Calculation and Verification Agent.

Any request for an increase to the Ongoing Obligation Payment Limits set forth in Exhibit A hereto must be delivered by the City to the Trustee in the form of the Ongoing Obligation Payment Limit Increase Approval Form, attached hereto as Exhibit E, for transmittal to the Original Purchaser and Certificate Holders within 5 Business Days after the Trustee's receipt thereof and must be approved by the Original Purchaser and Certificate Holders within 5 Business Days after the Original Purchaser's and Certified Holders' receipt thereof. If such approval is not received by the Trustee within 5 Business Days, the request shall be deemed denied. In accordance with the Ongoing Obligation Payment Limit Increase Approval Form, the Trustee shall send a report of the Original Purchaser's and other Certificate Holders' response to the City, the Calculation and Verification Agent, and the Original Purchaser and other Certificate Holders. The Trustee shall deliver to the Original Purchaser, the Certificate Holders, the City and the Calculation and Verification Agent, as the case may be, but shall have no duty to review, such notices, reports, requests or certifications filed with it under this Section 6.12 and shall not be responsible for the application or allocation of amounts in the Program Account.

Section 6.13. Delivery of Reports and Records. The City agrees to deliver, or to cause to be delivered, reports to the Trustee, to the Calculation and Verification Agent, to the Corporation and to the Original Purchaser and any other Certificate Holder on a quarterly basis, or more often as reasonably requested, regarding the application of amounts in the Program Account, including statements of Legal Fees, classified by individual attorney, task performed and time devoted to task, and a detailed report of Ongoing Obligations, including Legal Disbursements, subject to the assertion of any privilege or protection of any nature, including but not limited to the attorney-client privilege and the attorney work-product protection, available to the City or its attorneys. Subject to the assertion of any such privilege or protection, the City will allow the Trustee (who will have no duty to review or inspect such records and documents), the Calculation and Verification Agent, the Original Purchaser, any Certificate Holder and any auditor on behalf of the Corporation, access to all records and documents detailing receipt of amounts into the Program Account and disbursements from the Program Account. Reports and records required by this Section 6.13 will include the information required by Sections 6.4(b), 6.6(d), 6.11 and 6.12 hereof.

Section 6.14. Annual Certification and Audit. As soon as practicable but in no event later than April 30 of each year, the City shall file with the Trustee and the Calculation and Verification Agent a written statement of an Independent Accountant and a certificate from an Authorized Representative of the City, having reviewed the City's records and the provisions of this Agreement, including but not limited to Section 6.13 and Exhibit A, Exhibit D, and Exhibit E hereof, stating that nothing has come to the attention of such Independent Accountant or Authorized Representative that would lead such Independent Accountant or Authorized Representative to believe that (i) amounts in the Program Account have been applied in violation of this Agreement, such as moneys being expended for Legal Fees and Ongoing Obligations in violation of the Program Budget, moneys being reallocated in a manner violating the Program Budget, or any budget cap or limitation being exceeded, (ii) the receipt and remittance of Program Receipts or the calculation, retention and payment of Permitted Deductions are in violation of the terms of this Agreement or the Program Budget, or (iii) any settlement entered or proposed to be entered is not in accordance with the terms of Section 6.6 hereof, or (iv) any other Event of Default hereunder shall have occurred and be continuing.

Section 6.15. Diligent Pursuit of Program Receipts; Engagement of Outside Counsel. The City hereby covenants that, until all Outstanding Certificates and the Deferred Commitment Fee have been fully paid and the Purchase Commitment has been reduced to zero, it will diligently pursue collection of Program Receipts, will at all times have engaged competent legal counsel with recognized expertise in matters involving environmental litigation, and will not terminate the Cooperative Agreement or cause the Cooperative Agreement to be terminated.

Section 6.16. Single Purpose Corporation. The City hereby covenants that it will not use the Corporation for, and the Corporation hereby covenants that it will not participate in, any other financing or other arrangement in addition to the sale and repurchase of Program Receipts and issuance of the Certificates hereunder and under the Trust Agreement.

Section 6.17. Cooperation With Removal or Replacement of Trustee. The City hereby covenants that it will cooperate with the Corporation as needed in connection with the removal or replacement of the Trustee in accordance with Section 8.01(d) of the Trust Agreement.

Section 6.18. No Impairment of Certificate Holders' Rights. The City hereby covenants that it will not repeal the Ordinance or amend any provision of the Ordinance in a manner which would adversely affect the rights of the Certificate Holders until the Certificates are fully paid and discharged and the Purchase Commitment has terminated. The City will provide reasonable notice to the Original Purchaser, the Certificate Holders and the Trustee in the event the City anticipates any amendment to or repeal of the Ordinance.

ARTICLE VII

ASSIGNMENT OF AGREEMENT TO TRUSTEE

Section 7.1. Assignment by City and Corporation. The parties understand that this Agreement and certain rights of the Corporation hereunder will be assigned to the Trustee pursuant to an assignment provision in the Trust Agreement. The City hereby transfers in trust,

grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Certificates and for the benefit of the Original Purchaser (to the extent of its interest in the Deferred Commitment Fee) all of its right, title, and interest in this Agreement and all of its interest in the Program Receipts, net of Permitted Deductions. The City agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements that may be reasonably requested by the Corporation, the Trustee, the Original Purchaser or any Holder to protect their interests in the Program Receipts during the term hereof, and to provide copies thereof to the Corporation, the Trustee, the Calculation and Verification Agent, the Original Purchaser, and upon request therefor, to any Certificate Holder so requesting.

ARTICLE VIII

NON-LIABILITY OF CORPORATION; INDEMNIFICATION

Section 8.1. Non-Liability of Corporation. The Corporation shall not be obligated to pay Repurchase Payments or the Deferred Commitment Fee or to make any other payments or advance any moneys or be liable for any other costs or expenses hereunder.

Section 8.2. Indemnification.

(a) General Indemnity. The City shall, to the extent permitted by law, defend, indemnify and hold harmless the Corporation, the Trustee (as the assignee of the Corporation's rights hereunder), the Placement Agent, the Calculation and Verification Agent, the Original Purchaser, each Certificate Holder and their members, directors, officers, employees, and agents from and against any and all losses, claims, damages, liabilities, or expenses of every kind, character, and nature whatsoever (excepting therefrom only such losses, claims, damages, liabilities, or expenses arising from the negligence of the Corporation, with respect to the Corporation, or the Trustee, with respect to the Trustee), including, but not limited to, losses, claims, damages, liabilities, or expenses arising out of, resulting from, or in any way connected with (1) the City's interest in, or use of, the Program Receipts or any portion thereof; (2) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates, the Certificate Purchase Contract, the Trust Agreement, this Agreement or any related document; (3) the carrying out of the Program; or (4) the acceptance of and administration by the Trustee of the Trustee's duties under the Trust Agreement. The City shall, to the extent permitted by law and, with respect to the indemnification of the Placement Agent, the Calculation and Verification Agent, the Original Purchaser and each Certificate Holder, (each a "Special Indemnified Party"), to the extent permitted by clause (b) below, pay or reimburse the Corporation, the Trustee, the Special Indemnified Parties and their members, directors, officers, employees and agents for any and all costs, reasonable attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions. Notwithstanding anything to the contrary in this Agreement or the Trust Agreement, the Trustee and the Corporation shall not be entitled to payment, reimbursement or indemnification for actions involving willful misconduct, default or negligence on the part of the Trustee or the Corporation, respectively.

(b) Limited Source Indemnity. The obligation of the City to defend, indemnify, and hold harmless the Special Indemnified Parties for any suits or claims arising from the sale of the Certificates or the City's pursuit of the Program (as described in the preceding paragraph), shall be payable solely from (i) Program Receipts, and (ii) any proceeds of insurance or self-insurance programs in which the City has participated or will participate. With regard to item (i), if currently available Program Receipts are insufficient to pay attorney fees and expenses and other litigation related costs at the time they are incurred, the Special Indemnified Parties may fund the excess of such fees and expenses, and any future Program Receipts will be used to reimburse the Special Indemnified Parties for such amounts. With regard to item (ii), the City agrees to cooperate fully with the Special Indemnified Parties in submitting and pursuing claims against such City insurers, although the City will have no obligation to maintain any insurance coverage.

(c) Special Conditions. The City's indemnity obligation to the Special Indemnified Parties under section (b) above is subject to the following conditions:

(1) The City will pay attorneys' fees and costs of a single law firm chosen by the Special Indemnified Parties to collectively represent the Special Indemnified Parties, and such counsel shall, to the extent consistent with the Special Indemnified Parties' interests, cooperate with the City and avoid duplication and wastefulness in the assertion of defenses;

(2) The City will pay attorneys' fees and costs of additional law firms to represent an individual Special Indemnified Party where (i) the counsel retained under (c)(1) above could not, as a result of applicable law or code of professional responsibility, assert a defense on behalf of such an individual Special Indemnified Party while simultaneously representing the other Special Indemnified Parties for reasons including, but not limited to, a situation in which the use of counsel chosen by the Special Indemnified Parties to represent the Special Indemnified Party or Parties would present such counsel with a conflict of interest, or in which the actual or potential defendants in, or targets of, any such action include the Special Indemnified Party or Parties, and the City and the Special Indemnified Party or Parties shall have reasonably concluded that there may be legal defenses available to it and/or other Special Indemnified Parties that are different from or additional to those available to the City; or (ii) the City otherwise authorizes the Special Indemnified Parties to employ separate counsel at the expense of the City; and

(3) The City will not, without the prior written consent of the Special Indemnified Parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in which indemnification or contribution may be sought hereunder (whether or not the Special Indemnified Parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each Special Indemnified Party from all liability arising out of such claim, action, suit or proceeding.

The provisions of this Article VIII shall survive the discharge of the City's obligations hereunder and under the Trust Agreement.

ARTICLE IX

EVENTS OF DEFAULT AND REMEDIES

Section 9.1. Events of Default. The following events shall be "Events of Default":

(a) Failure of the City to remit Program Receipts to the Trustee when required hereunder;

(b) Failure by the City to pay or cause to be paid in full any payment required hereunder when due, on a Repurchase Payment Date, on the Final Payment Date, or otherwise pursuant to the terms hereof; provided, however it shall not be a default hereunder if there is a failure to make such payments on a timely basis if such failure is caused solely by the insufficiency of Program Receipts so long as the City is not otherwise in default hereunder and any such payment is required to be made solely from Program Receipts;

(c) If any material representation or warranty made by the City herein or in the Certificate Purchase Agreement Contract or made by the City in any other document, instrument, or certificate furnished to the Trustee or the Corporation in connection with the execution and delivery of any Series of the Certificates shall at any time be shown to have been incorrect in any respect as of the time made;

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

(e) Any proceeding under the United States Bankruptcy Code or any federal or state bankruptcy, insolvency, or similar law or any law providing for the appointment of a receiver, liquidator, trustee or similar official of the City or the Corporation or of all or substantially all of either the City's or the Corporation's assets, is instituted by or with the consent of the City or the Corporation, or is instituted without the City's or the Corporation's consent and is not permanently stayed or dismissed within sixty (60) days, or if the City or the Corporation offers to the City's or the Corporation's creditors to effect a composition or extension of time to pay the City's or the Corporation's debts or asks,

seeks or prays for a reorganization or to effect a plan of reorganization, or for a readjustment of the City's or the Corporation's debts, or if the City or Corporation shall make a general or any assignment for the benefit of the City's or the Corporation's creditors;

(f) Any assertion in any proceeding, forum or action by the City or on its behalf to the effect that performance of the City's obligations under this Agreement are unlawful or of the City's intention to disavow or repudiate any such obligations;

(g) If an Event of Default occurs under the Trust Agreement; or

(h) Any repeal or amendment of the Ordinance in violation of Section 6.18 hereof.

Section 9.2. Remedies on Default. In each and every such case during the continuance of such an Event of Default, the Corporation and the Trustee may, at their option, take whatever action, at law or in equity, as may appear necessary or desirable to collect the Program Receipts and to cause to be paid any other payments then due and thereafter to become due under this Agreement or to enforce the performance and observance of any obligation, covenant, agreement, or provision contained in this Agreement to be observed or performed by the City; it being understood that amounts payable by the City upon an Event of Default caused by the City shall not be limited to Program Receipts. The Original Purchaser may, in its sole discretion and without any liability for liquidated damages, terminate the Purchase Commitment upon the occurrence of an Event of Default.

Section 9.3. Remedies Not Exclusive; No Waiver of Rights. No remedy herein conferred upon or reserved to the Corporation or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy, to the extent permitted by law, shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or otherwise. In order to entitle the Corporation and the Trustee to exercise any remedy, to the extent permitted by law, reserved to it in this Agreement, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given to the Corporation hereunder shall also extend to the Trustee, and the Trustee may exercise any rights and will be charged with the obligations of the Corporation under this Agreement, and the Trustee and the Certificate Holders shall be deemed third party beneficiaries of all covenants and conditions herein contained.

No delay in exercising or omitting to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 9.4. Expenses on Default. In the event the City should default under any of the provisions of this Agreement and the Corporation or the Trustee should employ attorneys or incur other expenses of the collection of the payments due hereunder, the City agrees that it will

on demand therefor pay to the Corporation or the Trustee the reasonable fee of such attorneys and such other expenses so incurred by the Corporation or the Trustee.

Section 9.5. Notice of Default. The City agrees that as soon as is practicable, and in any event within 10 days after such event, the City will furnish the Trustee and the Corporation notice of any event that is an Event of Default, or that with the giving of notice or the passage of time or both could constitute an Event of Default, that has occurred and is continuing on the date of such notice, which notice shall set forth the nature of such event and the action that the City proposes to take with respect thereto. Upon having actual notice of the existence of an Event of Default, the Trustee shall serve written notice thereof upon the City (unless the City has expressly acknowledged the existence of such Event of Default in a writing delivered by the City to the Trustee or filed by the City in any court).

Section 9.6. Survival of Obligations. The City covenants and agrees with the Corporation that, until all obligations hereunder have been met and all obligations have been discharged in accordance with the Trust Agreement, its obligations hereunder shall survive the cancellation and termination of this Agreement, for any cause, and that the City shall continue to make all payments, and perform all other obligations provided for in this Agreement, all at the time or times provided in this Agreement. Notwithstanding the above, the provisions of Section 8.2 hereof shall survive the discharge of the City's obligations under the Trust Agreement.

ARTICLE X

MISCELLANEOUS

Section 10.1. Notices. All notices or communications herein required or permitted to be given shall be in writing mailed or delivered to it as follows:

- (i) If to the Corporation:

Lodi Financing Corporation
c/o City of Lodi
221 West Pine Street
Lodi, California 95240
Attention: President

- (ii) If to the City:

City of Lodi
221 West Pine Street
Lodi, California 95240
Attention: City Attorney

(iii) If to the Trustee:

U.S. Bank Trust National Association
One California Street, Suite 2550
San Francisco, California 94111
Attention: Corporate Trust Services
Reference: Lodi Financing Corporation

(iv) If to the Calculation and Verification Agent:

Lehman Brothers Inc.
3 World Financial Center
Seventh Floor
New York, New York 10285
Attention: James Hraska

The Corporation, the City, the Trustee and the Calculation and Verification Agent may, by notice given hereunder, designate any further or different address to which subsequent notices, certificates and other communications shall be sent.

Section 10.2. Governing Law. This Agreement shall be construed in accordance with and governed by the Constitution and laws of the State of California.

Section 10.3. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Corporation, the City and their respective successors and assigns, including the Original Purchaser and any subsequent Certificate Holders subject, however, to the limitations contained herein.

Section 10.4. Severability of Invalid Provisions. If any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Agreement and such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein. The Corporation and the City each hereby declares that they would have entered into this Agreement and each and every other section, paragraph, sentence, clause, or phrase hereof irrespective of the fact that any one or more sections, paragraphs, sentences, clauses, or phrases of this Agreement may be held illegal, invalid, or unenforceable.

Section 10.5. Article and Section Headings and References. The headings or titles of the several articles and sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction, or effect of this Agreement. All references herein to "Articles," "Sections," and other subsections are to the corresponding articles, sections, or subsections of this Agreement; the words "herein," "hereof," "hereby," "hereunder," and other words of similar import refer to this Agreement as a whole and not to any particular article, section, or subsection hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 10.6. Agreement Represents Complete Agreement; Amendments. This Agreement represents the entire contract between the parties hereto. This Agreement may not be effectively amended, changed, modified, altered, or terminated except by the written agreement of the Corporation and the City, given in accordance with the provisions of the Trust Agreement.

Section 10.7. Trustee Third Party Beneficiary. The Trustee is hereby designated a third party beneficiary hereunder for the purpose of enforcing any of the rights hereunder assigned to the Trustee. In accordance with Section 9.3 hereof, the Trustee and the Certificate Holders shall be deemed third party beneficiaries of all covenants and conditions contained herein.

Section 10.8. Waiver of Personal Liability. No governing body member, officer, agent, or employee of the Corporation or of the City shall be individually or personally liable for the payment of Repurchase Payments or any other sum hereunder or be subject to any personal liability or accountability by reason of the execution and delivery of this Agreement; but nothing herein contained shall relieve any such governing body member, officer, agent, or employee from the performance of any official duty provided by law or by this Agreement.

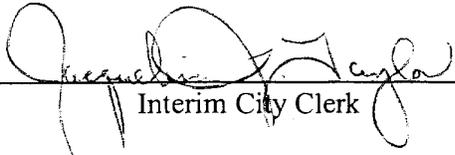
Section 10.9. Execution of Counterparts. This Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the City and the Corporation have caused this Agreement to be executed in their respective corporate names, all as of the date first above written.

CITY OF LODI

By: 
City Manager

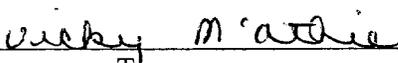
ATTEST:


Interim City Clerk

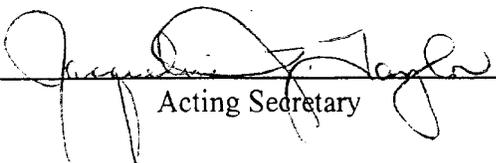
APPROVED AS TO FORM:


City Attorney

LODI FINANCING CORPORATION

By: 
Treasurer

ATTEST:


Acting Secretary

APPROVED AS TO FORM:


Corporation Counsel

EXHIBIT A

PROGRAM DISBURSEMENT BUDGET

The Program Disbursement Budget sets out the amount, timing and limitations for amounts to be deposited into the Program Account and consists of: (a) caps on disbursements for (i) professional fees of Outside Counsel ("Legal Fees") and (ii) "Ongoing Obligations," consisting of City reimbursement payments for previously made DTSC settlement payments for certain previously incurred response costs pursuant to Section 4.a of the Cooperative Agreement ("DTSC Settlement Payments"), computer document management, technical activities, project management and amounts invoiced by Outside Counsel for out-of-pocket direct expenses ("Legal Disbursements"), (b) a methodology for paying Legal Fees, (c) a methodology for reallocating budget items to provide flexibility for unforeseen events and (d) a methodology for handling Purchase Commitment reductions. Legal fees, Legal Disbursements, and all other costs incurred in connection with the Program prior to the Closing Date, except up to \$610,899 in DTSC Settlement Payments, are not included within this Program Disbursement Budget and shall not be paid from Certificate proceeds, Program Receipts or any other source until no Certificates are outstanding, the Purchase Commitment has ended or has been terminated and all other obligations under the Sale and Repurchase Agreement have been fully satisfied.

The City is required to submit the attached Quarterly Budget Reporting Form ("QBRF") to the Calculation and Verification Agent within 20 Business Days after the beginning of each calendar quarter (except the first quarter) to reconcile the prior quarter's expenditures with this Program Disbursement Budget and to demonstrate the City's compliance with this Program Disbursement Budget for the prior quarter. The City must submit an amended QBRF when invoices for services rendered during a quarter are received or paid after the filing of the QBRF for that quarter or when the Calculation and Verification Agent, in accordance with Section 6.11 of the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000, (the "Sale and Repurchase Agreement") between the City of Lodi and the Lodi Financing Corporation, determines that the City's calculations were erroneous or that any disbursements were not in compliance with the Program Budget. If there are any ambiguities or discrepancies between the description of the Program Disbursement Budget in this Exhibit A and the QBRF, the latter will govern.

All capitalized terms used herein that are not otherwise defined shall have the meanings as set forth in the Sale and Repurchase Agreement.

(a) Disbursement Caps

Table I: Cumulative Disbursement Cap

<u>Beginning of Quarter</u>	<u>Cumulative Disbursement Cap</u>
1	\$ 1,500,000 <i>pd. at closing 6-29-00</i>
2	3,000,000
3	4,500,000
4	6,000,000
5	7,125,000
6	8,250,000
7	9,375,000
8	10,500,000
9	11,250,000
10	12,000,000
11	12,750,000
12	13,500,000
13	13,875,000
14	14,250,000
15	14,625,000
16	15,000,000

The maximum amount that may be transferred to the Program Account within the Municipal Fund from Certificate proceeds in each quarter is (x) the Cumulative Disbursement Cap for that quarter (from Table I) less (y) all amounts transferred previously.

Table II: Program Budget for Ongoing Obligations

<u>Beginning of Quarter</u>	<u>Cumulative Ongoing Obligations Cap</u>
1	\$922,250
2	1,842,600
3	2,761,100
4	3,679,600
5	4,250,150
6	4,820,700
7	5,384,800
8	5,948,900
9	6,203,000
10	6,457,100
11	6,711,200
12	6,968,350
13	7,096,950
14	7,225,550
15	7,354,150
16	7,482,750

The maximum amount that may be disbursed for Ongoing Obligations at any time is (x) the Cumulative Ongoing Obligations Cap for the quarter (from Table II) less (y) all amounts previously disbursed for Ongoing Obligations. However, additional funds may be reallocated from the Program Budget for Legal Fees in a given quarter to pay Ongoing Obligations in accordance with the reallocation provisions of this Exhibit A.

Table III: Ongoing Obligations Payment Limits

<u>Beginning of Quarter</u>	<u>DTSC Settlement</u>	<u>Computer Document Management</u>	<u>Technical Activities</u>	<u>Project Management</u>	<u>Legal Disbursements</u>
1	\$ 250,000	\$ 310,596	\$ 386,010	\$ 52,519	\$ 124,800
2	500,000	619,899	712,227	163,654	249,600
3	610,899	839,714	1,357,095	224,052	374,400
4	610,899	1,143,710	2,077,371	269,030	499,200
5	610,899	1,361,125	2,388,443	315,858	665,600
6	610,899	1,601,766	2,678,692	360,283	832,000
7	610,899	1,872,326	2,941,761	393,584	998,400
8	610,899	2,181,475	3,151,981	441,145	1,164,800
9	610,899	2,277,991	3,207,516	453,024	1,331,200
10	610,899	2,380,448	3,256,379	465,634	1,497,600
11	610,899	2,487,003	3,300,640	478,748	1,664,000
12	610,899	2,596,134	3,342,615	495,538	1,830,400
13	610,899	2,650,266	3,378,421	507,780	1,895,400
14	610,899	2,709,352	3,411,493	517,802	1,960,400
15	610,899	2,770,851	3,445,220	524,755	2,025,400
16	610,899	2,832,772	3,478,478	531,757	2,090,400

The amount disbursed for Ongoing Obligations may be used to pay for expenses in any of the sub-categories of Ongoing Obligations. However, each sub-category will have a maximum cumulative expenditure cap per quarter (from Table III), and Program monies may not be expended in excess of these sub-category caps unless (a) the City reallocates the difference from the Program Budget for Legal Fees in accordance with the reallocation provisions of this Exhibit A and; (b) the City, prior to exceeding the maximum cap in any quarter, provides written notice to the Trustee and receives approval from the Original Purchaser and the Certificate Holders of the change in the Ongoing Obligation sub-category maximum cumulative expenditure cap, as provided in Exhibit E. The DTSC Settlement Payments amounts may not be exceeded under any circumstances, however.

Table IV: Program Budget for Legal Fees

Beginning of Quarter	Cumulative Legal Fee Cap
1	\$ 577,750
2	1,157,400
3	1,738,900
4	2,320,400
5	2,874,850
6	3,429,300
7	3,990,200
8	4,551,100
9	5,047,000
10	5,542,900
11	6,038,800
12	6,531,650
13	6,778,050
14	7,024,450
15	7,270,850
16	7,517,250

The maximum amount that may be disbursed at any time to pay Legal Fees is (x) the amount specified in the Program Budget for Legal Fees for that quarter (from Table IV), less (y) all amounts previously disbursed for Legal Fees. However, additional funds may be reallocated from the Program Budget for Ongoing Obligations for a given quarter to pay Legal Fees in accordance with the reallocation provisions of this Exhibit A.

(b) Legal Fee Payment Methodology

Legal professional fees billed for services performed during a quarter will be paid subject to a three-tier methodology. As discussed more fully below, payments under Tier 1 and Tier 2 are made quarterly and are based on a percentage (90% and 30% respectively) of legal billings in a quarter subject to quarterly caps. Payments under Tier 3 are based on billings which exceed the amounts payable under Tier 1 and Tier 2 and are accumulated quarterly but paid only when and to the extent that excess funds are available. Invoices received after a quarter for services performed during that quarter must be compared to the caps in place for the quarter when services were performed. The Tiers are as follows:

TIER 1 Fees billed for services performed in a quarter ("Quarterly Billings") subject to the Tier 1 Billings Cap (from Table V) for the quarter in which the services were performed, will be paid at 90% of the amounts billed.

TIER 2 Quarterly Billings in excess of the Tier 1 Billings Cap (from Table V) subject to the Tier 2 Billings Cap (from Table V), for the quarter in which the services were performed will be paid at 30% of the amounts billed in excess of the Tier 1 Billings Cap.

TIER 3 Certain Quarterly Billings which are not paid will qualify for accumulation under Tier 3. Tier 3 accumulated billings, as described below, will be paid only from either (a) amounts reallocated from Ongoing Obligations in accordance with the reallocation provisions of this Exhibit A, (b) amounts not utilized in the Legal Fee budget for payment of Tier 1 and Tier 2 billings, or (c) Program Receipts retained by the City as described in Section 6.4(e) of the Sale and Repurchase Agreement. Tier 3 accumulated billings are comprised of the following:

- (a) Quarterly Billings in excess of the Tier 1 Billings Cap (from Table V) subject to the Tier 2 Billings Cap (from Table V), for the quarter in which the services were performed which will be paid at 50% of the amounts billed in excess of the Tier 1 Billings Cap.
- (b) Quarterly Billings in excess of the Tier 2 Billings Cap (from Table V) for the quarter in which the services were performed which will be paid at 80% of the amounts billed in excess of the Tier 2 Billings Cap.
- (c) Quarterly Billings which qualify for payment under Tier 1 or Tier 2 (as described above) but are not paid due to insufficient funds within the Program Account.

Table V: Legal Fee Tiers

<u>Beginning of Quarter</u>	<u>Tier 1 Billings Cap⁽¹⁾</u>	<u>Tier 2 Billings Cap⁽²⁾</u>
1	\$544,444	\$836,944
2	544,445	843,278
3	544,444	849,444
4	544,445	849,445
5	516,666	814,833
6	516,667	814,834
7	516,667	836,333
8	516,666	836,333
9	450,000	753,000
10	450,000	753,000
11	450,000	753,000
12	450,000	742,833
13	227,778	365,778
14	227,778	365,778
15	227,778	365,778
16	227,778	365,778

⁽¹⁾ As explained above, up to 90% of this amount may be paid.

⁽²⁾ As explained above, up to 30% of the difference between the Tier 2 Billings Cap and the Tier 1 Billings Cap may be paid, and up to an additional 50% of that difference may accumulate in Tier 3.

(c) Reallocation Between Legal Fees and Ongoing Obligations

The City may choose to reallocate up to \$1.3 million from Legal Fees to Ongoing Obligations or vice versa in order to exceed the maximum disbursement limits within each of these categories or within the Ongoing Obligations sub-categories. The reallocation can take place during any quarter.

The reallocation of funds to the Legal Fee budget can only be used to pay the unpaid portion of Legal Fees accrued under Tier 3.

(d) Purchase Commitment Reductions

Under certain circumstances discussed in sections 6.4 and 6.5 of the Sale and Repurchase Agreement, the remaining Purchase Commitment of the Original Purchaser can be decreased. In these circumstances, the Disbursement Caps for all future quarters will be reduced by the amount of the Purchase Commitment decrease.

Quarterly Budget Reporting Form

Filing Date: _____, _____
 Quarter Number: _____
 Quarter Beginning _____, _____
 and Ending _____, _____ (the "Reporting Period")

Definitions:

The "Next Period" means the three-month period beginning on the day following the ending date of the Reporting Period.

The "Previous Period" means the three-month period (or part thereof in the case of the first period) ending on the day before the beginning date of the Reporting Period.

Other capitalized terms used below are defined either by the instructions and formulas to which they refer, or in the Program Receipts Sale and Repurchase Agreement dated as of [Dated Date] between the City of Lodi, as Seller and Repurchaser, and the Lodi Financing Corporation, as Purchaser (the "Sale and Repurchase Agreement").

Note regarding Line References: Numbers in parentheses refer to line numbers on this Quarterly Budget Reporting Form, except where numbers are followed by "P." A number followed by "P" refers to the line of the same number on the Quarterly Budget Reporting Form for the Previous Period. (e.g. (17P) refers to Line 17 of the Quarterly Budget Reporting Form for the Previous Period.)

Calculation and Verification Agent Instructions: Instructions for the Calculation and Verification Agent's use of this Form are specified by the letter code to the right of each line below. The actions corresponding to the letter codes are as follows:

L	No action on the part of the Calculation and Verification Agent is necessary; City of Lodi is responsible for accuracy of reported numbers.
M	The Calculation and Verification Agent should check correctness of mathematical calculations.
C	The Calculation and Verification Agent should check compliance according to italicized instructions.
V	The Calculation and Verification Agent should refer to appropriate table to check correctness of numbers.
F	If an Ongoing Obligation Payment Limit Increase Approval Form (an "Approval Form") has been submitted and approved, the Calculation and Verification Agent should compare each amount given on this form with its respective approved increase on the most recent Approval Form.

In accordance with Section 6.11 of the Sale and Repurchase Agreement, if this form contains any errors in calculation (Calculation and Verification Agent Instructions M, V, and F), the Calculation and Verification Agent must immediately notify the City of any corrections needed. The Calculation and Verification Agent must immediately notify the City, the Original Purchaser, other Certificate Holders and the Trustee if the City fails to comply with the Program Budget (Calculation and Verification Agent Instruction C).

	<u>Line</u>	<u>Instructions</u>
A. <u>Reporting Period Expenditures</u>		
(1) Amount of Certificates issued during Reporting Period.	<u>(1)</u>	L
(2) Amount of Certificates issued during Next Period	<u>(2)</u>	L
<i>Lines (3) through (7) and Line (9) – Record the amounts expended for services performed during the Reporting Period for the following budget categories:</i>		
(3) DTSC Settlement Payments	<u>(3)</u>	L
(4) Computer Document Management	<u>(4)</u>	L
(5) Technical Activities	<u>(5)</u>	L
(6) Project Management	<u>(6)</u>	L
(7) Legal Disbursements	<u>(7)</u>	L
(8) Total Ongoing Obligations = Sum of Lines (3) through (7)	<u>(8)</u>	M
(9) Legal Fees	<u>(9)</u>	L
(10) Legal Fees expended for services performed before the Reporting Period (For first quarter, use 0)	<u>(10)</u>	L
(11) Total Legal Fees = (9) + (10)	<u>(11)</u>	M
B. <u>Cumulative Expenditures</u>		
<i>Lines (12) through (16) and Line (18) – Compute the new Cumulative Expenditures by adding Reporting Period Expenditures to Previous Period's Cumulative Expenditures. For the first quarter, copy the Reporting Period Expenditures from Lines (3) through (9):</i>		
(12) DTSC Settlement = (3) + (12P)	<u>(12)</u>	M
(13) Computer Document Management = (4) + (13P)	<u>(13)</u>	M
(14) Technical Activities = (5) + (14P)	<u>(14)</u>	M
(15) Project Management = (6) + (15P)	<u>(15)</u>	M
(16) Legal Disbursements = (7) + (16P)	<u>(16)</u>	M
(17) Total Ongoing Obligations = Sum of Lines (12) through (16)	<u>(17)</u>	M
(18) Legal Fees = (11) + (18P)	<u>(18)</u>	M

	<u>Line</u>	<u>Instructions</u>
C. <u>Purchase Commitment Reduction</u>		
(19)	Program Receipts deposited into the Program Account during the Reporting Period	(19) _____ L
(20)	Record the cash value, as determined by an Independent Consultant, of all non-cash settlements received during the Reporting Period in excess of the limits set forth in §6.6 of the Sale and Repurchase Agreement.	(20) _____ L
(21)	Record the amount of any Certificate payment by the City during the Reporting Period as a result of non-cash settlements pursuant to §6.6 (a) (i).	(21) _____ L
(22)	[(19) + (20) – (21)] <i>This is the Purchase Commitment Reduction for the Reporting Period.</i>	(22) _____ M
(23)	[(23P) – (1) – (22)] (For the first quarter, use \$15,000,000 in place of (23P).) <i>This is the Purchase Commitment for the Next Period</i>	(23) _____ M
(24)	[(1) + (24P)] (For the first quarter, use 0 in place of (24P).) <i>Total Certificate purchases through Reporting Period</i>	(24) _____ M
(25)	Referring to Table I, copy the Cumulative Disbursement Cap for the Next Period.	(25) _____ M
(26)	[(25) – (22) – (24)] <i>This is the maximum Certificate issuance amount for the Next Period. Line (2) must be less than or equal to this amount.</i>	(26) _____ M, C
D. <u>Reallocation from Legal Fees to Ongoing Obligations:</u>		
(27)	Referring to Table II, copy the Cumulative Ongoing Obligations Cap for the Reporting Period.	(27) _____ V
(28)	[(17) – (27)] <i>If positive, this is the total amount reallocated to Ongoing Obligations. In accordance with Exhibit A of the Sale and Repurchase Agreement, this amount must be less than or equal to \$1,300,000.</i>	(28) _____ M, C
E. <u>Reallocation from Ongoing Obligations to Legal Fees:</u>		
(29)	Referring to Table IV, copy the Cumulative Legal Fee Cap for the Reporting Period.	(29) _____ V
(30)	[(18) – (29)] <i>If positive, this is the total amount reallocated to Legal Fees. In accordance with Exhibit A of the Sale and Repurchase Agreement, this amount must be less than or equal to \$1,300,000.</i>	(30) _____ M, C

	<u>Line</u>	<u>Instructions</u>
F. <u>Ongoing Obligation Subcategory Limits</u>		
<i>Lines (31) through (35) – Ongoing Obligation Payment Limits – Referring to Table III, copy the Ongoing Obligation Payment Limits for the following subcategories for the Reporting Period:</i>		
(31) DTSC Settlement Payment	<u>(31)</u>	V
(32) Computer Document Management	<u>(32)</u>	V
(33) Technical Activities	<u>(33)</u>	V
(34) Project Management	<u>(34)</u>	V
(35) Legal Disbursements	<u>(35)</u>	V
(36) Sum Lines (31) through (35).	<u>(36)</u>	M
<i>Lines (37) through (40) – Approved Increases in Subcategory Ongoing Obligation Payment Limits – Record any Ongoing Obligation Payment Limit increases that have been approved in writing by the Original Purchaser and Certificate Holders, and that are in effect as of the end of the Reporting Period:</i>		
(37) Computer Document Management	<u>(37)</u>	F
(38) Technical Activities	<u>(38)</u>	F
(39) Project Management	<u>(39)</u>	F
(40) Legal Disbursements	<u>(40)</u>	F
<i>Lines (41) through (44) – Revised Ongoing Obligation Payment Limits – Add each Ongoing Obligation Payment Limit increase from Lines (37) through (40) to its respective Ongoing Obligation Payment Limit, recorded in Lines (31) through (35):</i>		
(41) Computer Document Management: [(32) + (37)]	<u>(41)</u>	M
(42) Technical Activities: [(33) + (38)]	<u>(42)</u>	M
(43) Project Management: [(34) + (39)]	<u>(43)</u>	M
(44) Legal Disbursements: [(35) + (40)]	<u>(44)</u>	M
<i>Lines (45) through (49) – Payment in excess of Revised Ongoing Obligation Payment Limits:</i>		
(45) DTSC Settlement Payment: Greater of [(12) – (31)] or 0	<u>(45)</u>	M
(46) Computer Document Management: Greater of [(13) – (41)] or 0	<u>(46)</u>	M
(47) Technical Activities: Greater of [(14) – (42)] or 0	<u>(47)</u>	M
(48) Project Management: Greater of [(15) – (43)] or 0	<u>(48)</u>	M
(49) Legal Disbursements: Greater of [(16) – (44)] or 0	<u>(49)</u>	M
(50) Sum (45) through (49). <i>In accordance with Exhibit A of the Sale and Repurchase Agreement, Line (50) must be zero.</i>	<u>(50)</u>	M, C

	<u>Line</u>	<u>Instructions</u>
G. <u>Legal Tier Structure</u>		
(51)	<u>(51)</u>	M
(52)		
	<u>(52)</u>	C
(53)	<u>[(51) – (52)]</u>	M
(54)	<u>(54)</u>	L
 <i>Lines (55) and (56) – Referring to Table V, copy the following items for the Reporting Period:</i>		
(55)	<u>(55)</u>	V
(56)	<u>(56)</u>	V
(57)	<u>[(56) – (55)]</u>	M
(58)	<u>(58)</u>	M
(59)	<u>[(58) x 90%] <i>This is the Tier 1 expenditure.</i></u>	M
(60)	<u>(60)</u>	M
(61)	<u>(61)</u>	M
(62)	<u>[(61) x 30%] <i>This is the Tier 2 expenditure.</i></u>	M
 <u>Tier 3 Accrual:</u>		
(63)	<u>[(61) x 50%]</u>	M
(64)	<u>Greater of [(54) – (56)] or 0</u>	M
(65)	<u>[(64) x 80%]</u>	M
(66)	<u>[(59) + (62) + (63) + (65) – (53)] <i>This is the change in Tier 3 balance for the Reporting Period.</i></u>	M
(67)	<u>[(67P) + (66)] (For the first quarter, use 0 in place of (67P).) <i>This is the Tier 3 balance.</i></u>	M
 H. <u>Permitted Deductions</u>		
DTSC Reserve		
(68)	<u>[(71P)] (For the first quarter, use 0 in place of (71P).)</u>	M
(69)	<u>(69)</u>	L
(70)	<u>(70)</u>	L

	<u>Line</u>	<u>Instructions</u>
(71) [(68) + (69) – (70)] <i>DTSC Reserve balance at end of Reporting Period. By the definition of Permitted Deductions in the Sale and Repurchase Agreement, Line (71) must be less than or equal to \$300,000.</i>	<u>(71)</u>	M, C
City Reimbursement		
(72) [(74P)] (For the first quarter, use 0 in place of (74P).)	<u>(72)</u>	M
(73) Amount paid to City during Reporting Period to reimburse for prior expenditures	<u>(73)</u>	L
(74) [(72) + (73)] <i>By the definition of Permitted Deductions in the Sale and Repurchase Agreement, Line (74) must be less than or equal to \$2,000,000.</i>	<u>(74)</u>	M, C

Quarterly Budget Reporting Form – Table I

Cumulative Disbursement Caps

<u>Quarter</u>	<u>Cumulative Disbursement Cap</u>
1	\$ 1,500,000
2	3,000,000
3	4,500,000
4	6,000,000
5	7,125,000
6	8,250,000
7	9,375,000
8	10,500,000
9	11,250,000
10	12,000,000
11	12,750,000
12	13,500,000
13	13,875,000
14	14,250,000
15	14,625,000
16	15,000,000

Quarterly Budget Reporting Form – Table II

Cumulative Ongoing Obligations Caps

<u>Quarter</u>	<u>Cumulative Ongoing Obligations Cap</u>
1	\$ 922,250
2	1,842,600
3	2,761,100
4	3,679,600
5	4,250,150
6	4,820,700
7	5,384,800
8	5,948,900
9	6,203,000
10	6,457,100
11	6,711,200
12	6,968,350
13	7,096,950
14	7,225,550
15	7,354,150
16	7,482,750

Quarterly Budget Reporting Form – Table III

Ongoing Obligation Payment Limits

<u>Quarter</u>	<u>DTSC Settlement</u>	<u>Computer Document Management</u>	<u>Technical Activities</u>	<u>Project Management</u>	<u>Legal Disbursements</u>
1	\$250,000	\$ 310,596	\$ 386,010	\$ 52,519	\$ 124,800
2	500,000	619,899	712,227	163,654	249,600
3	610,899	839,714	1,357,095	224,052	374,400
4	610,899	1,143,710	2,077,371	269,030	499,200
5	610,899	1,361,125	2,388,443	315,858	665,600
6	610,899	1,601,766	2,678,692	360,283	832,000
7	610,899	1,872,326	2,941,761	393,584	998,400
8	610,899	2,181,475	3,151,981	441,145	1,164,800
9	610,899	2,277,991	3,207,516	453,024	1,331,200
10	610,899	2,380,448	3,256,379	465,634	1,497,600
11	610,899	2,487,003	3,300,640	478,748	1,664,000
12	610,899	2,596,134	3,342,615	495,538	1,830,400
13	610,899	2,650,266	3,378,421	507,780	1,895,400
14	610,899	2,709,352	3,411,493	517,802	1,960,400
15	610,899	2,770,851	3,445,220	524,755	2,025,400
16	610,899	2,832,772	3,478,478	531,757	2,090,400

Quarterly Budget Reporting Form – Table IV

Cumulative Legal Fee Caps

<u>Quarter</u>	<u>Cumulative Legal Fee Cap</u>
1	\$ 577,750
2	1,157,400
3	1,738,900
4	2,320,400
5	2,874,850
6	3,429,300
7	3,990,200
8	4,551,100
9	5,047,000
10	5,542,900
11	6,038,800
12	6,531,650
13	6,778,050
14	7,024,450
15	7,270,850
16	7,517,250

Quarterly Budget Reporting Form – Table V

Legal Fee Tiers

<u>Quarter</u>	<u>Tier 1 Billings Cap</u>	<u>Tier 2 Billings Cap</u>
1	\$544,444	\$836,944
2	544,445	843,278
3	544,444	849,444
4	544,445	849,445
5	516,666	814,833
6	516,667	814,834
7	516,667	836,333
8	516,666	836,333
9	450,000	753,000
10	450,000	753,000
11	450,000	753,000
12	450,000	742,833
13	227,778	365,778
14	227,778	365,778
15	227,778	365,778
16	227,778	365,778

EXHIBIT B

[FORM OF ISSUANCE REQUEST]

REQUEST AND CERTIFICATE OF THE CITY

LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION

To: U.S. Bank Trust National Association
Corporate Trust Services
One California Street, Suite 2550
San Francisco, CA 94111

Attention: _____
Relationship Specialist

The City of Lodi, California (the "City") hereby requests and directs the Trustee, on behalf of the Lodi Financing Corporation (the "Corporation"), to execute and deliver \$_____ of the Corporation's Variable Rate Certificates of Participation ("Certificates") (Environmental Abatement Program), Series ____ to **[Purchaser]** on _____ **[Delivery Date]**.

We, the City Attorney and Finance Director **[City Manager]**, respectively, of the City, hereby certify as follows:

1. The representations and warranties of the City contained in (a) the Certificate Purchase Contract, dated June 28, 2000 (the "Certificate Purchase Contract"), among the City, the Corporation and Lehman Brothers Inc. with respect to the sale, execution, and delivery of not to exceed \$16,000,000 aggregate principal amount of the Certificates and (b) the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement") between the City and the Corporation are true and correct in all material respects on and as of the date hereof as if made on this date.

2. There is no action, suit, proceeding, inquiry, or investigation, at law or in equity before or by any court, government agency, public board, or body, pending or, to the best of our knowledge, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain, or enjoin the sale, execution, or delivery of the Certificates or the collection of the Program Receipts (as defined in the Sale and Repurchase Agreement) to be used to pay the principal and interest components of the Certificates, or the pledge of funds and accounts pursuant to the Trust Agreement (as defined in the Sale and Repurchase Agreement), or contesting the powers of the Trustee thereunder with respect to the execution of the Certificates; nor are we aware of any circumstance not disclosed in writing to the Purchaser prior to the date of this Request and Certificate that would form a basis for any such action, suit, proceeding, inquiry, or investigation, wherein an unfavorable decision, ruling, or finding would materially adversely affect the authorization, execution,

EXHIBIT C

[FORM OF REMITTANCE REPORT]

NOTICE OF REMITTANCE OF PROGRAM RECEIPTS

U.S. Bank Trust National Association
Corporate Trust Services
One California Street, Suite 2550
San Francisco, CA 94111

Attention: _____
Relationship Specialist

Pursuant to Sections 6.4 and 6.11 of the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement") between the City of Lodi, California (the "City") and the Lodi Financing Corporation (the "Corporation"), the City hereby notifies, certifies and warrants to you, as Trustee, that it has received Program Receipts (in the amounts and from the sources described below) and is remitting such moneys (net of deductions described below) to you in compliance with said Sections 6.4 and 6.11:

Total amount of Program Receipts received: \$ _____

Date received: _____ ("Receipt Date")

Source(s) of Program Receipts (including caption of action and moneys received from insurers or other payors; riders attached as necessary):

Caption: _____

Payor: _____

- | | |
|--|-----------|
| (1) Total amount of Program Receipts received: | (1) _____ |
| (2) Amount of Program Receipts available for Permitted Deductions: (1) x 25% | (2) _____ |
| (3) DTSC Reserve balance as of Receipt Date: | (3) _____ |
| (4) Amount of Program Receipts applied to DTSC Reserve: Lesser of (2) or [\$300,000 – (3)] | (4) _____ |
| (5) Amount of Program Receipts available for City reimbursement: (2) – (4) | (5) _____ |
| (6) Total City reimbursement as of Receipt Date: | (6) _____ |

- (7) Amount of Program Receipts applied to City reimbursement:
Lesser of (5) or [\$2,000,000 – (6)] (7)
- (8) Total amount of Program Receipts applied to Permitted
Deductions: (4) + (7) (8)
- (9) Amount of Program Receipts remaining after Permitted
Deductions: (1) – (8) (9)
- (10) Deferred Commitment Fee Reserve Account Balance as of
the Receipt Date (Obtain from Calculation and Verification
Agent) (10)
- (11) Amount required to pay Accreted Value and Current Interest
on Certificates as of the Receipt Date: (11)
- (12) Amount required to pay Current Interest and Compounded
Interest on Certificates as of the Receipt Date: (12)
- (13) Payment of Current Interest and Compounded Interest from
funds in Deferred Commitment Fee Reserve Account:
Lesser of (10) or (11) (13)
- (14) Amount required to pay Accreted Value and Current Interest
after payment from funds in Deferred commitment Fee
Reserve Account: (11) – (13) (14)
- (15) Amount of Program Receipts remitted to Trustee from
Recovery Account to pay Accreted Value and Current
Interest on Certificates: Lesser of (9) or (14) (15)
- (16) Amount required to fund Deferred Commitment Fee Reserve
Account after payment of Current and Compounded Interest
under (15): (16)
- (17) Amount of Program Receipts remitted to Trustee from
Recovery Account to fund Deferred Commitment Fee
Reserve Account: Lesser of [(9) – (15)] or (16) (17)
- (18) Total Amount of Program Receipts remitted to Trustee from
Recovery Account: (15) + (17) (18)
- (19) Amount of Program Receipts permitted to be transferred
from the Recovery Account to the Program Account:
(9) - (18) (19)

The undersigned hereby certifies that this remittance is in compliance with Sections 6.4 and 6.11 of the Sale and Repurchase Agreement. The Trustee is hereby directed to return to the undersigned any amounts which the Calculation and Verification Agent determines to be in excess

of the amounts required to be transmitted to the Trustee under Section 6.4(a) of the Sale and Repurchase Agreement.

All capitalized terms used herein that are not otherwise defined shall have the same meanings as in the Sale and Repurchase Agreement.

CITY OF LODI

By: _____
[Name]
[Title]

cc: Calculation and Verification Agent
Original Purchaser

EXHIBIT D

[FORM OF NOTICE OF REALLOCATION]

**REALLOCATION NOTICE
REGARDING AMOUNTS IN PROGRAM ACCOUNT**

U.S. Bank Trust National Association
Corporate Trust Services
One California Street, Suite 2550
San Francisco, CA 94111

Attention: _____
Relationship Specialist

Dear _____:

Pursuant to Section 6.12 of the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement") between the City of Lodi, California (the "City") and the Lodi Financing Corporation (the "Corporation"), the City hereby notifies you of the following reallocation of moneys in the Program Account.

Reallocation as of _____

Total amount reallocated by budget category (Legal Fees or Ongoing Obligations) in current quarter:

\$_____ reallocated from _____ to _____
(budget category)

If moneys reallocated from Ongoing Obligations to Legal Fees, total percentage of accrued billings after closing in comparison to total billings after closing:

Accrued billings to date: \$_____

Total billings to date: \$_____

_____ %

If moneys reallocated from Legal Fees to Ongoing Obligations, total percentage of cumulative expenditures in comparison with the Ongoing Obligation Payment Limit for the applicable quarter (from Table III of the Quarterly Budget Reporting Form) for the subcategory to which moneys would be reallocated (i.e., Computer Document Management, Technical Activities, Project Management, or Legal Disbursements):

Ongoing obligation category: _____

Subcategory expenditures to date: \$_____

Ongoing Obligation Payment Limit for subcategory: \$ _____

_____ %

A written explanation of the reason for this reallocation is attached to this Reallocation Notice.

The undersigned hereby certifies that this notice of reallocation is in conformance with Section 6.11 and Exhibit A (the Program Budget) of the Sale and Repurchase Agreement, and that any moneys so reallocated will be used exclusively for purposes permitted under the Sale and Repurchase Agreement and Program Budget.

You are hereby instructed to deliver a copy of this Reallocation Notice to the Original Purchaser, all other Certificate Holders, and the Calculation and Verification Agent within 5 Business Days after your receipt hereof.

Capitalized terms used herein not otherwise defined shall have the meaning set forth in the Sale and Repurchase Agreement.

CITY OF LODI

By: _____
[Name]
[Title]

EXHIBIT E

ONGOING OBLIGATION PAYMENT LIMIT INCREASE APPROVAL FORM

Filing Date: _____, _____

Limit Increase to Take Effect the Quarter Beginning _____, _____

U.S. Bank Trust National Association
Corporate Trust Services
One California Street, Suite 2550
San Francisco, CA 94111

Attention: _____
Relationship Specialist

Pursuant to Section 6.12 of the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement") between the City of Lodi, California (the "City") and the Lodi Financing Corporation, the City hereby requests the following increase(s) to the Ongoing Obligation Payment Limits set forth in Exhibit A of the Sale and Repurchase Agreement, and instructs you, as Trustee, to forward a copy of this Ongoing Obligation Payment Limit Increase Approval Form (the "Approval Form") to the Original Purchaser (as defined in the Sale and Repurchase Agreement) and all other Certificate Holders within 5 Business Days after your receipt hereof and to ascertain within 5 Business Days after the receipt of such transmittal whether the Original Purchaser, together with such other Certificate Holders as are necessary to constitute, in the aggregate, at least 51% of outstanding Accreted Value, approves or denies this request. Upon such determination, you are instructed to inform the City, the Calculation and Verification Agent, the Original Purchaser and the other Certificate Holders of the response.

Subcategory	Cumulative Maximum for Quarter	Expected Expenditure	Amount Exceeding Maximum
Computer Document Management			
Technical Activities			
Project Management			
Legal Disbursements			

Explanation

CITY OF LODI

By: _____
[Name]
[Title]

TRUSTEE'S REPORT TO THE CITY

We have forwarded a copy of the Approval Form to the Original Purchaser and Certificate Holders on _____, and the Original Purchaser and Certificate Holders have responded to this request as follows:

_____ The Original Purchaser, together with such other Certificate Holders as are necessary to constitute, in the aggregate, at least 51% of outstanding Accreted Value, approves the Ongoing Obligation Payment Limit increase(s) requested on the Approval Form.

_____ The Original Purchaser, together with such other Certificate Holders as are necessary to constitute, in the aggregate, at least 51% of outstanding Accreted Value, approves the Ongoing Obligation Payment Limit increase(s) requested on the Approval Form, with the following exceptions:

_____ The Original Purchaser, together with such other Certificate Holders as are necessary to constitute, in the aggregate, at least 51% of outstanding Accreted Value, does not approve any Ongoing Obligation Payment Limit increase(s) requested on the Approval Form.

EXHIBIT F

[FORM OF TERMINATION NOTICE]

**LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION**

U.S. Bank Trust National Association
Corporate Trust Services
One California Street, Suite 2550
San Francisco, CA 94111

Attention: _____
Relationship Specialist

1. Pursuant to the Certificate Purchase Contract, dated June 28, 2000 (the "Certificate Purchase Contract"), among the City of Lodi, California (the "City"), the Lodi Financing Corporation (the "Corporation") and Lehman Brothers Inc., the City hereby certifies, represents and warrants that it will make no additional Issuance Requests to the Trustee and is hereby irrevocably and permanently discontinuing all Issuance Requests.

Last Issuance Request made on: _____

Last Issuance Request amount: _____

Date of Delivery of Certificates under last Issuance Request:

2. The undersigned hereby certifies that this Notice is in compliance with the Certificate Purchase Agreement and the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000, between the City and the Corporation (the "Sale and Repurchase Agreement").

3. All capitalized terms used herein that are not otherwise defined shall have the same meanings as in the Certificate Purchase Contract and the Sale and Repurchase Agreement.

4. The City has delivered a copy of this Termination Notice to the Purchaser under the Certificate Purchase Contract and to the Calculation and Verification Agent.

CITY OF LODI

By: _____
[Name]
[Title]

cc: Original Purchaser
Calculation and Verification Agent

Certificate Purchase Contract

Part # 2

Lodi Financing Corporation
Not to Exceed \$16,000,000
Aggregate Principal Amount of
Variable Rate Certificates of Participation
(Environmental Abatement Program)

CERTIFICATE PURCHASE CONTRACT

June 28, 2000

City of Lodi
221 West Pine Street
Lodi, California 95240

Lodi Financing Corporation
221 West Pine Street
Lodi, California 95240

Ladies and Gentlemen:

The undersigned (the "Purchaser") offers to enter into this Certificate Purchase Contract (the "Purchase Contract") with the City of Lodi, California (the "City") and the Lodi Financing Corporation (the "Corporation") which, upon the City's and the Corporation's acceptance of this offer, will be binding upon the City and the Corporation and upon the Purchaser. This offer is made subject to the City's and the Corporation's written acceptance hereof on or before 5:00 P.M., San Francisco time, on the date hereof or such other time as the parties hereto mutually agree upon and, if not so accepted, will be subject to withdrawal by the Purchaser upon written notice (by facsimile or otherwise) delivered to the City and the Corporation at any time prior to the acceptance hereof by the City and the Corporation.

Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Sale and Repurchase Agreement (hereinafter defined).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties, and agreements set forth herein, the Purchaser hereby agrees to purchase, and the City and the Corporation hereby agree to cause the sale, execution, and delivery to the Purchaser of, not to exceed \$16,000,000 aggregate principal amount (the

"Purchase Commitment") of Variable Rate Certificates of Participation (Environmental Abatement Program) (the "Certificates") evidencing and representing interests of the owners thereof in the Repurchase Payments to be made by the City under the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement"), by and between the City and the Corporation.

Under the provisions of the Sale and Repurchase Agreement, the City will irrevocably sell and convey to the Corporation its right to receive amounts, proceeds and recoveries from, or in contemplation of, or in connection with, the potential liability of responsible parties or potentially responsible parties, their insurers or indemnitors, or of tortfeasors or potential tortfeasors, their insurers or indemnitors ("Program Receipts") received by the City in connection with its Environmental Abatement Program (the "Program"), as described in the Sale and Repurchase Agreement and in the City's Ordinance No. 1684 (the "Ordinance"), adopted November 17, 1999 and effective December 17, 1999, repealing and reenacting its Comprehensive Municipal Environmental Response and Liability Ordinance, Title 8, Chapter 8.24 of the Lodi Municipal Code, and the Corporation will irrevocably resell and reconvey undivided interests in the Program Receipts in consideration of the payment by the City of the Repurchase Payments under the Sale and Repurchase Agreement.

The Certificates shall be executed and delivered in Series from time to time pursuant to a Trust Agreement, dated as of June 1, 2000 (the "Trust Agreement"), by and among the Corporation and U.S. Bank National Trust Association, as trustee (the "Trustee"), and shall represent undivided proportionate interests in the Corporation's right to receive Repurchase Payments under the Sale and Repurchase Agreement. The City's obligation to make Repurchase Payments under the Sale and Repurchase Agreement is a limited obligation of the City, payable solely from Program Receipts. The City has authorized the execution of this Purchase Contract, the Sale and Repurchase Agreement, and a Placement Agent Agreement, dated June 28, 2000 (the "Placement Agent Agreement") between the City and Lehman Brothers Inc., as Placement Agent, as well as related matters, pursuant to the terms of Resolution No. 99-180, adopted by the City Council of the City on November 3, 1999 (the "City Resolution"). The Corporation has authorized the execution of this Purchase Contract, the Sale and Repurchase Agreement, the Trust Agreement and the Placement Agent Agreement, as well as related matters, pursuant to the terms of Resolution No. LFC-4 adopted by the Board of Directors of the Corporation on November 3, 1999 (the "Corporation Resolution").

The City is committed to act as lead agency in initiating and prosecuting environmental enforcement actions constituting the Program pursuant to a Comprehensive Joint Cooperative Agreement executed in May 1997 (the "Cooperative Agreement") by and between the City and the California Environmental Protection Agency, Department of Toxic Substances Control ("DTSC"). In connection with its pursuit of the Program, the City has entered into a Professional Services Agreement and Scope of Services Statement, dated December 1, 1999 (the "Professional Services Agreement") with Envision Law Group (the "Outside Counsel").

This Purchase Contract, the Sale and Repurchase Agreement, the Trust Agreement, the Placement Agent Agreement and the Professional Services Agreement are collectively referred to herein as the "Legal Documents." The Legal Documents, together with the Cooperative

Agreement, the Ordinance, the City Resolution and the Corporation Resolution, are herein referred to as the "Program Documents."

The initial Series of the Certificates shall be executed and delivered on June 29, 2000 in the aggregate principal amount of \$2,500,000. Each subsequent Series of the Certificates shall be executed and delivered on the applicable Delivery Date (as defined in the Sale and Repurchase Agreement) and in the aggregate principal amount specified by the City in an Issuance Request (as defined in the Sale and Repurchase Agreement and in substantially the form attached hereto as Exhibit F) submitted by the City in accordance with the terms of the Trust Agreement. The maximum principal amount of Certificates that may be executed and delivered on any Delivery Date is an amount equal to the Cumulative Disbursement Cap for the immediately succeeding calendar quarter (as set forth in Exhibit A to the Sale and Repurchase Agreement), less any principal amount of Certificates previously executed and delivered. The purchase price for each Series of the Certificates shall be equal to the aggregate principal amount of such Series of the Certificates, and no Series of Certificates will be executed and delivered in an aggregate amount of less than \$250,000. No Delivery Date shall occur after the "Commitment Period Ending Date," which shall be four years after the initial Closing Date.

If the City has determined to permanently and irrevocably discontinue Issuance Requests, it shall deliver to the Trustee a Termination Notice (as defined in the Sale and Repurchase Agreement and in substantially the form attached hereto as Exhibit E) in accordance with the terms of the Trust Agreement.

2. Purchase Commitment and Commitment Period. On the first Business Day of each January, April, July and October, beginning October 2000, and prior to the Commitment Period Ending Date, the Purchaser shall purchase a Series of Certificates in an amount, if any, specified by the Trustee upon acceptance of an Issuance Request received from the City as provided in the Trust Agreement. The Purchase Commitment shall be reduced, dollar for dollar, without further action on the part of the Purchaser, by 1) the principal amount of Certificates executed and delivered under the Trust Agreement and 2) the City's receipt of Program Receipts, whether cash or non-cash, and whether or not there are any Certificates Outstanding at the time, in an amount up to the full amount of the Purchase Commitment, including but not limited to (i) the City's retention of Program Receipts as provided in Section 6.4(e) of the Sale and Repurchase Agreement and (ii) the value of non-cash settlements accepted by the City as provided in Section 6.6(a) of the Sale and Repurchase Agreement.

The Purchase Commitment shall terminate on the earlier of the Commitment Period Ending Date or the occurrence of any of the following "Commitment Termination Events:" 1) the City's delivery of a Termination Notice to the Trustee and the Original Purchaser, in substantially the form attached hereto as Exhibit G, stating that it will make no further Issuance Requests, 2) the reduction of the Purchase Commitment to zero by one or more of the events described in the preceding paragraph, 3) the Original Purchaser's decision to terminate the Purchase Commitment, in accordance with Section 6.5 of the Sale and Repurchase Agreement, if the City substitutes its Outside Counsel or modifies the terms of engagement of its Outside Counsel in a manner which, in the sole determination of the Original Purchaser, results in a materially prejudicial change; or 4) in the sole discretion of the Original Purchaser, an uncured Event of Default under the Sale and Repurchase Agreement or under the Trust Agreement, or a

violation by the City or the Corporation of any covenant, representation or warranty made herein, in the Sale and Repurchase Agreement or in the Trust Agreement, including but not limited to the occurrence of any of the proceedings or actions described in Section 9.1(e) of the Sale and Repurchase Agreement relating to bankruptcy or insolvency of the City or the Corporation or other actions described therein. The City may terminate the Purchase Commitment in whole or in part, at any time, provided that such termination will in no way diminish the City's obligation to pay the Deferred Commitment Fee or the Outstanding Certificate Obligations of all Certificates.

3. Deferred Commitment Fee. The City shall pay to the Original Purchaser, in consideration for its commitment hereunder to purchase the Certificates from time to time and to assume the substantial risks attendant thereto, a deferred commitment fee equal to \$2.25 million (the "Deferred Commitment Fee"). The Deferred Commitment Fee shall be due and payable on the date on which all of the Certificates are paid in full or discharged in accordance with the Trust Agreement, and if such date is prior to the Commitment Period Ending Date, a Commitment Termination Event (as defined in Section 2 above and in the Sale and Repurchase Agreement) has occurred. The Deferred Commitment Fee shall be equal to the difference between \$2.25 million and the cumulative portion of Repurchase Payments representing interest (including Compounded Interest and Current Interest) paid with respect to the Certificates on or prior to such date as the Deferred Commitment fee is due; thus the Deferred Commitment Fee will be reduced dollar for dollar for each dollar of interest paid with respect to the Certificates. The Deferred Commitment Fee shall be payable in accordance with Sections 6.4(d) and 6.9 of the Sale and Repurchase Agreement and Sections 5.03 and 5.04 of the Trust Agreement (it being understood and agreed that the Original Purchaser shall be an express third party beneficiary of the agreements and covenants made by the Corporation under the Trust Agreement), and the sole source of payment of such Deferred Commitment Fee shall be Program Receipts.

A Deferred Commitment Fee Reserve Account shall be established and maintained by the Trustee under the Trust Agreement from Program Receipts, in an amount which, after payment of Accreted Value and Current Interest components on all Outstanding Certificates when due, equals the then current Deferred Commitment Fee.

The City acknowledges and agrees that the City's obligation to pay the Deferred Commitment Fee shall survive the payment of the Certificates or termination of the Purchase Commitment. The Deferred Commitment Fee shall be payable to the Original Purchaser executing this Purchase Contract irrespective of the fact that the Original Purchaser may have sold or transferred its ownership interest in all or a portion of the Certificates by the time the payment of the Deferred Commitment Fee so made hereunder and under the Trust Agreement.

4. Closing. At 8:00 a.m., San Francisco time, on June 29, 2000 (the "Closing Date"), and at 8:00 a.m., San Francisco time, on each Delivery Date thereafter with respect to which the City has submitted an Issuance Request, the City, subject to the terms and conditions hereof, will cause the sale and delivery of the applicable Series of the Certificates to the Purchaser, duly executed, together with the other documents hereinafter mentioned, and, subject to the terms and conditions hereof, the Purchaser will accept such delivery and pay the purchase price of such Series of the Certificates as set forth in Section 1 hereof by wire transfer of immediately available funds. Such delivery and payment on the Closing Date is referred to

herein as the "Initial Closing," such delivery and payment on each subsequent Delivery Date is referred to herein as a "Subsequent Closing," and the Initial Closing or any Subsequent Closing is referred to herein as a "Closing." Delivery and payment as aforesaid shall be made at the offices of the City, 221 West Pine Street, Lodi, California, or at such other place as shall have been mutually agreed upon by the City and the Purchaser.

5. The Certificates. The Certificates of each Series shall be dated the date of delivery thereof, shall have a Final Payment Date of January 1, 2029, and shall evidence and represent an undivided proportional interest in Repurchase Payments payable under the Sale and Repurchase Agreement. The Certificates shall be payable as provided in the Sale and Repurchase Agreement and the Trust Agreement. Current Interest payable with respect to the Certificates shall accrue at the Variable Rate determined from time to time pursuant to the Sale and Repurchase Agreement and the Trust Agreement, but in no event shall the Variable Rate exceed 30% per annum. Accreted Value and Current Interest payable with respect to the Certificates shall be payable as soon as reasonably practicable after Program Receipts are received by the City and transferred to the Trustee for deposit in the Revenue Fund, as described in the Trust Agreement. The sum of all Current Interest accruing during any calendar year shall be added to the Accreted Value of the Certificates as of the day before the first Business Day of each January, after which date such Accreted Value will bear interest at the Variable Rate.

6. Representations, Warranties and Agreements. Each of the City and the Corporation (but only to the extent of its own representations set forth below) hereby and respectively represent, warrant and agree respectively as of the Initial Closing, and by delivery of an Issuance Request and by the Trustee's execution and delivery, on behalf of the Corporation, of the Certificates so requested, will have been deemed to have represented, warranted and agreed respectively as of each Subsequent Closing as follows:

(a) The City and the Corporation have full legal right, power and authority to (i) enter into the Legal Documents to which each is a party, (ii) cause the sale, execution, and delivery of each Series of the Certificates to the Purchaser as provided herein and (iii) carry out and consummate the transactions contemplated by the Program Documents;

(b) By all necessary official action of the City and the Corporation, as the case may be, prior to or concurrently with the acceptance hereof, the City and the Corporation have duly authorized and approved the execution and delivery of, and the performance by the City and the Corporation of, the obligations on the part of each contained in, the Legal Documents, and the consummation by them of all other transactions contemplated by the Program Documents;

(c) The City and the Corporation, as the case may be, have complied and are in compliance in all material respects with the obligations on their part contained in the Program Documents;

(d) Neither the City nor the Corporation is in any material respect in breach of or default under any applicable constitutional provision, law, ordinance or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement (including the Cooperative

Agreement) or other instrument to which the City or the Corporation is a party or to which the City or the Corporation or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the execution and delivery of the Certificates and the Legal Documents, and compliance with the provisions on the City's part or the Corporation's part, as the case may be, contained therein, will not conflict with or constitute a breach of or a default under any constitutional provision, law, ordinance, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement (including the Cooperative Agreement), or other instrument to which the City or the Corporation, as this case may be, is a party or to which the City or the Corporation, as the case may be, or any of their property or assets is otherwise subject, nor will any such execution, delivery, adoption, or compliance result in the creation or imposition of any lien, charge, or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City or the Corporation, as the case may be, or under the terms of any such constitutional provision, law, ordinance, administrative regulation or instrument, except as provided in the Sale and Repurchase Agreement, the Trust Agreement or the Ordinance;

(e) All authorizations, approvals, licenses, permits, consents, and orders of any governmental authority, legislative body, board, agency, or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City or the Corporation, as the case may be, of their respective obligations in connection with the execution and delivery of the Certificates under the Trust Agreement have been duly obtained, except for such approvals, consents, and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Certificates; and all authorizations, approvals, licenses, permits, consents, and orders of any governmental authority, board, agency, or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City or the Corporation of their respective obligations under the Program Documents have been duly obtained;

(f) The lien on and pledge of Program Receipts under the Sale and Repurchase Agreement and Trust Agreement, as permitted by the Ordinance, are valid and enforceable and are prior to any other lien or claim on Program Receipts, and all other provisions of the Ordinance, insofar as they affect the rights of the Certificate Holders and the Original Purchaser and the transactions contemplated by the Sale and Repurchase Agreement and the Trust Agreement, are valid and enforceable;

(g) Between the date of this Purchase Contract and the date on which no Certificates are outstanding and no additional Series of Certificates may be executed and delivered hereunder and under the Trust Agreement, neither the City nor the Corporation will, without the prior written consent of the Purchaser, offer or issue any bonds, notes, or

other obligations for borrowed money, or incur any material liabilities, direct or contingent, payable from Program Receipts;

(h) There is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best knowledge of the City and the Corporation, as the case may be, after reasonable investigation, threatened against the City or the Corporation, as the case may be, or any of their officers in their respective capacities as such, affecting the existence of the City or the Corporation, as the case may be, or the titles of their officers to their respective offices, or affecting or seeking to prohibit, restrain, or enjoin the sale, execution, or delivery of the Certificates or the collection of the Program Receipts to be used to pay the Repurchase Payments, or the pledge of and lien on the funds and accounts established pursuant to the Trust Agreement, or contesting or affecting the validity or enforceability of the Certificates or the Program Documents, or contesting the powers of the City or the Corporation, as the case may be, or any authority of either entity for the execution and delivery of the Certificates, or in any way contesting or challenging the consummation of the transactions contemplated hereby, or which might materially adversely affect the ability of the City or the Corporation, as the case may be, to collect Program Receipts; nor is the City or the Corporation, as the case may be, aware of any circumstance not disclosed in writing to the Corporation or the City, as the case may be, and to the Purchaser prior to the date of such representation that would form a basis for any such action, suit, proceeding, inquiry, or investigation, wherein an unfavorable decision, ruling, or finding would materially adversely affect the authorization, execution, delivery, or performance by the City or the Corporation, as the case may be, of the Legal Documents, the performance by the City or the Corporation of their respective obligations under the Program Documents, or the execution by the Trustee of the Certificates;

(i) At any time prior to the date on which no Certificates are outstanding and no additional Series of Certificates may be executed and delivered hereunder and under the Trust Agreement, the City and the Corporation, as the case may be, will furnish such information, execute such instruments, and take such other action in cooperation with the Purchaser as the Purchaser may request in order (i) to qualify the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Purchaser may designate, and (ii) to determine the eligibility of the Certificates for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Certificates; provided, however, that neither the City nor the Corporation shall be required to qualify to do business or consent to service of process in connection with any such qualification or determination in any jurisdiction;

(j) No filing or other action, other than the execution of the Legal Documents, is required to create for the benefit of the Trustee and the Certificate Holders a first and perfected lien on and security interest in the Program Receipts and, upon execution of the Legal Documents, such a first lien shall exist.

(k) The City and the Corporation will apply the proceeds from the sale of the Certificates solely for the purposes specified in the Sale and Repurchase Agreement and the Trust Agreement.

(l) The City and the Corporation are aware that the Original Purchaser hereunder is the Placement Agent, and the City and the Corporation hereby consent and waive any objection thereto.

(m) The City and the Corporation will assist the Original Purchaser and the Placement Agent in preparing materials for use in any private placement of the Certificates which the Original Purchaser or the Placement Agent may determine to offer, which assistance shall include but not be limited to the preparation of a private placement memorandum. At the time of any such private placement, the City and the Corporation will represent and warrant that the information provided by each of them, respectively, is true and correct, and the City and the Corporation shall provide the same indemnification and opinions as are provided hereunder and shall be subject to the same obligations, as applicable, as hereunder. The provisions of this Section 6(m) shall survive the termination of this Purchase Contract and discharge of the City's obligations under the Trust Agreement.

7. Indemnification.

(a) General Indemnity. The City shall, to the extent permitted by law, defend, indemnify and hold harmless the Corporation, the Trustee (as the assignee of the Corporation's rights under the Sale and Repurchase Agreement), the Placement Agent, the Calculation and Verification Agent, the Original Purchaser, each Certificate Holder and their members, directors, officers, employees, and agents from and against any and all losses, claims, damages, liabilities, or expenses of every kind, character, and nature whatsoever (excepting therefrom only such losses, claims, damages, liabilities, or expenses arising from the negligence of the Corporation, with respect to indemnification of the Corporation, or the Trustee, with respect to indemnification of the Trustee), including, but not limited to, losses, claims, damages, liabilities, or expenses arising out of, resulting from, or in any way connected with (1) the City's interest in, or use of, the Program Receipts or any portion thereof; (2) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates, this Purchase Contract, the Trust Agreement, the Sale and Repurchase Agreement or any related document; (3) the carrying out of the Program; or (4) the acceptance of and administration by the Trustee of the Trustee's duties under the Trust Agreement. The City shall, to the extent permitted by law and, with respect to the indemnification of the Placement Agent, the Calculation and Verification Agent, the Original Purchaser and each Certificate Holder (each a "Special Indemnified Party"), to the extent permitted by clause (b) below, pay or reimburse the Corporation, the Trustee, the Special Indemnified Parties and their members, directors, officers, employees and agents for any and all costs, reasonable attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions. Notwithstanding anything to the contrary in the Sale and Repurchase Agreement or the Trust Agreement, the Trustee and the Corporation shall not

be entitled to payment, reimbursement or indemnification for actions involving willful misconduct, default or negligence on the part of the Trustee or the Corporation, respectively.

(b) Limited Source Indemnity. The obligation of the City to defend, indemnify, and hold harmless the Special Indemnified Parties for any suits or claims arising from the sale of the Certificates or the City's pursuit of the Program (as described in the preceding paragraph), shall be payable solely from (i) Program Receipts, and (ii) any proceeds of insurance or self-insurance programs in which the City has participated or will participate. With regard to item (i), if currently available Program Receipts are insufficient to pay attorney fees and expenses and other litigation related costs at the time they are incurred, the Special Indemnified Parties may fund the excess of such fees and expenses, and any future Program Receipts will be used to reimburse the Special Indemnified Parties for such amounts. With regard to item (ii), the City agrees to cooperate fully with the Special Indemnified Parties in submitting and pursuing claims against such City insurers, although the City will have no obligation to maintain any insurance coverage.

(c) Special Conditions. The City's indemnity obligation to the Special Indemnified Parties under section (b) above is subject to the following conditions:

(1) The City will pay attorneys' fees and costs of a single law firm chosen by the Special Indemnified Parties to collectively represent the Special Indemnified Parties, and such counsel shall, to the extent consistent with the Special Indemnified Parties' interests, cooperate with the City and avoid duplication and wastefulness in the assertion of defenses;

(2) The City will pay attorneys' fees and costs of additional law firms to represent an individual Special Indemnified Party where (i) the counsel retained under (c)(1) above could not, as a result of applicable law or code of professional responsibility, assert a defense on behalf of such an individual Special Indemnified Party while simultaneously representing the other Special Indemnified Parties for reasons including, but not limited to, a situation in which the use of counsel chosen by the Special Indemnified Parties to represent the Special Indemnified Party or Parties would present such counsel with a conflict of interest, or in which the actual or potential defendants in, or targets of, any such action include the Special Indemnified Party or Parties, and the City and the Special Indemnified Party or Parties shall have reasonably concluded that there may be legal defenses available to it and/or other Special Indemnified Parties that are different from or additional to those available to the City, or (ii) the City shall authorize the Special Indemnified Parties to employ separate counsel at the expense of the City; and

(3) The City will not, without the prior written consent of the Special Indemnified Parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in which indemnification or contribution may be sought hereunder (whether or not

the Special Indemnified Parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each Special Indemnified Party from all liability arising out of such claim, action, suit or proceeding.

The provisions of this Section 7 shall survive the termination of this Purchase Contract and the discharge of the City's obligations under the Sale and Repurchase Agreement and the Trust Agreement.

8. Closing Conditions. The Purchaser has entered into this Purchase Contract in reliance upon the representations and warranties of the City and the Corporation contained herein, upon the representations and warranties to be contained in the documents and instruments to be delivered at each Closing, and upon the performance by the City and the Corporation of their respective obligations hereunder, both as of the date hereof and as of each Delivery Date. Accordingly, the Purchaser's obligations under this Purchase Contract to purchase, to accept delivery of, and to pay for each Series of the Certificates shall be conditioned, at the option of the Purchaser, upon the performance by the City and the Corporation, as the case may be, of their respective obligations to be performed hereunder and under such documents and instruments at or prior to the applicable Closing, and shall also be subject to the following additional conditions:

(a) The representations and warranties of the City and the Corporation, as the case may be, contained herein shall be true, complete, and correct on the date hereof and on and as of the applicable Delivery Date, as if made on such Delivery Date, and the statements of the officers and other officials of the City, the Corporation, and the Trustee made in any certificate or other document furnished pursuant to the provisions hereof shall be accurate;

(b) At the time of the applicable Closing, the Sale and Repurchase Agreement and the Trust Agreement shall have been duly authorized, executed, and delivered by the respective parties thereto, all in substantially the forms heretofore submitted to the Purchaser, with only such changes as shall have been agreed to in writing by the Purchaser, and shall be in full force and effect; the Cooperative Agreement and the Ordinance shall be in full force and effect and shall not have been invalidated, repealed or amended in any manner that adversely affects the interests of the Purchaser or the Certificate Holders, and there shall be in full force and effect such resolution or resolutions of the City Council of the City and the Board of Directors of the Corporation as, in the opinion of counsel to the Purchaser ("Purchaser's Counsel"), shall be necessary or appropriate in connection with the transactions contemplated hereby;

(c) Between the date hereof and the applicable Delivery Date, the marketability of the Certificates shall not have been materially adversely affected, in the judgment of the Purchaser (evidenced by a written notice to the City, the Corporation and the Trustee terminating the obligation of the Purchaser to accept delivery of and make any payment for any additional Series of the Certificates), by reason of any of the following:

(1) the declaration of war or engagement in major military hostilities by the United States or the occurrence of any other national emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States;

(2) the declaration of a general banking moratorium by federal, New York, or California authorities, or the general suspension of trading on any national securities exchange;

(3) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Certificates or obligations of the general character of the Certificates or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Purchaser; or

(4) an order, decree, or injunction of any court of competent jurisdiction, or order, ruling, regulation, or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the issuance, offering, or sale of obligations of the general character of the Certificates, or the execution, offering, or sale of the Certificates, including any or all underlying obligations, as contemplated hereby, is or would be in violation of the federal securities laws as amended and then in effect or in violation of any other federal or state statutory or case law, regulation, order, ruling, judgment, decree or injunction.

(d) With respect to the Initial Closing, the Purchaser shall have received the following documents at or prior to the Closing Date, in each case satisfactory in form and substance to the Purchaser:

(1) Copies of the Trust Agreement, the Sale and Repurchase Agreement and the Placement Agent Agreement, each duly executed and delivered by the respective parties thereto;

(2) An opinion, dated the Closing Date and addressed to the City, the Purchaser and the Placement Agent, of Counsel to the Corporation, in substantially the form attached hereto as Exhibit A;

(3) An opinion, dated the Closing Date and addressed to the Purchaser, the Placement Agent and the Corporation, of the City Attorney of the City, in substantially the form attached hereto as Exhibit B;

(4) An opinion of Purchaser's Counsel, dated the Closing Date and addressed to the Purchaser, addressing such matters as the Purchaser shall determine;

(5) A signature and incumbency certificate of the Corporation and a certificate, dated the Closing Date, signed by an authorized officer of the Corporation, in substantially the form attached hereto as Exhibit C;

(6) A signature and incumbency certificate of the City and a certificate, dated the Closing Date, signed by an authorized officer of the City, in substantially the form attached hereto as Exhibit D;

(7) A certified copy of an extract from the Bylaws of the Trustee authorizing the execution and delivery of the Trust Agreement and the Certificates, together with a certificate to the effect that:

(i) the Trustee is a national banking association duly organized and existing under the laws of the United States of America;

(ii) the Trustee has full corporate trust powers and authority to serve as Trustee under the Trust Agreement; and

(iii) to the best knowledge of the Trustee, the Trustee's action in executing and delivering the Trust Agreement is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound;

(8) An opinion of counsel to the Trustee, dated the date of Closing and addressed to the City, the Corporation and the Purchaser, to the effect that:

(i) the Trustee has been duly incorporated and is in good standing as a national banking association under the laws of the United States, having full power and authority to enter into and to perform its duties as Trustee under the Trust Agreement;

(ii) the Trustee has duly authorized, executed and delivered the Trust Agreement;

(iii) assuming due authorization, execution and delivery by the other parties thereto, the Trust Agreement constitutes the legal, valid and binding agreement of the Trustee, enforceable in accordance with its terms, except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by the application of general principles of equity;

(iv) the Certificates have been duly executed and delivered by the Trustee;

(v) no authorization, approval, consent, or other order of any other governmental authority or agency having jurisdiction over the Trustee is required for the valid authorization, execution, delivery and performance by the Trustee of the Trust Agreement; and

(vi) the execution and delivery of the Trust Agreement and compliance by the Trustee with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Trustee a breach or default under any agreement or other instruments to which the Trustee is a part or by which it is bound or any existing law, regulation, court order or consent decree to which the Trustee is subject.

(9) A certified copy of the resolution of the Corporation authorizing the execution and delivery of the Legal Documents;

(10) A certified copy of the resolution of the City authorizing the execution and delivery of the Legal Documents;

(11) A certified copy of the Ordinance;

(12) A certified copy of the Cooperative Agreement, together with a letter from DTSC stating that the proposed financing does not violate the Cooperative Agreement;

(13) The Professional Services Agreement, including evidence that the City's Outside Counsel has subordinated its right to payment of legal fees and disbursements consistent with the terms of the Sale and Repurchase Agreement;

(14) An opinion, dated the Closing Date and addressed to the City, the Corporation and the Purchaser, of the City's Outside Counsel in substantially the form attached hereto as Exhibit E;

(15) A certification by the City (a) describing all amounts it has expended in connection with the Program to the date of Closing, describing all outstanding amounts owed to Outside Counsel or other predecessor firm, whether or not on a contingency basis, and certifying that all fees and disbursements incurred by Outside Counsel in connection with the Program prior to the Closing Date have either been paid in full or have been subordinated to the rights of the Purchaser hereunder; (b) stating the outstanding balance in the Municipal Fund, (c) stating the amount of Program Receipts received since July 30, 1999 through the date of Closing and (d) stating the amounts of DTSC Settlement Payments paid through the date of Closing;

(16) A certified copy of the Program Budget;

(17) A certificate of the Calculation and Verification Agent, stating that it is capable of performing the functions assigned to it under the Sale and

Repurchase Agreement and the Trust Agreement and stating that it accepts its duties thereunder; and

(18) A final and non-appealable court judgment in a validation action commenced under California Code of Civil Procedure Section 860, in form and substance satisfactory to the Purchaser (the "Validation Judgment");

(19) Such additional legal opinions, certificates, proceedings, instruments, and other documents as the Purchaser or Purchaser's Counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the City's or Corporation's representations and warranties contained herein and the due performance or satisfaction by the City, the Corporation, and the Trustee on or prior to the Closing Date of all material agreements then to be performed and conditions then to be satisfied by any of them in connection with the transactions contemplated hereby and by the Program Documents.

If the City, the Corporation or the Trustee shall be unable to satisfy the conditions set forth in this Purchase Contract to the obligation of the Purchaser to purchase, accept delivery of, and pay for the initial Series of the Certificates, or if the obligation of the Purchaser to purchase, accept delivery of, and pay for the initial Series of Certificates shall be terminated for any reason permitted by this Purchase Contract, then this Purchase Contract and all obligations of the Purchaser hereunder may be terminated by the Purchaser at, or at any time prior to, the Closing Date by written notice to the Trustee, the Corporation and the City, and neither the Purchaser nor the City shall have any further obligations hereunder.

(e) With respect to each Subsequent Closing, which shall occur no more often than quarterly, on the first Business Day of any January, April, July or October, beginning October 2000, on or before the Commitment Period Ending Date, the Purchaser shall have received the following documents at or prior to the applicable Delivery Date, in each case satisfactory in form and substance to the Purchaser:

(1) An Issuance Request of the City, as provided in the Trust Agreement, dated the applicable Delivery Date, signed by an authorized officer of the City, and delivered to the Purchaser and the Trustee at least 15 Business Days prior to such Subsequent Closing Date, in substantially the form attached hereto as Exhibit F, requesting the Trustee to execute and deliver and requesting the Purchaser to purchase an amount of Certificates with a minimum principal component of \$250,000 and specifying the Delivery Date;

(2) Certificates of authorized officers of the City and the Corporation, respectively, dated the applicable Delivery Date, stating that, after investigation and review of the Program Documents, no event of default, nor any event which, after the passage of time or the giving of notice would constitute an event of default under a Program Document, has occurred and is continuing;

(3) An opinion, dated the Delivery Date and addressed to the Purchaser and the City, of Counsel to the Corporation, in substantially the form attached hereto as Exhibit A;

(4) An opinion, dated the Delivery Date and addressed to the Purchaser and the Corporation, of the City Attorney of the City, in substantially the form attached hereto as Exhibit B;

(5) An opinion of Purchaser's counsel, dated the Delivery Date and addressed to the Purchaser, addressing such matters as the Purchaser shall determine;

(6) An opinion of counsel to the Trustee, dated the Delivery Date and addressed to the City, the Purchaser and the Corporation, to the effect that the Certificates have been duly executed and delivered by the Trustee;

(7) An opinion, dated the Delivery Date and addressed to the City, the Corporation and the Purchaser, of the City's Outside Counsel in substantially the form attached hereto as Exhibit E;

(8) A certified copy of a revised Program Budget; and

(9) Such additional legal opinions, certificates, proceedings, instruments, and other documents as the Purchaser or Purchaser's Counsel may reasonably request to evidence the truth and accuracy, as of the date of the applicable Delivery Date, of the City's or Corporation's representations and warranties contained herein and the due performance or satisfaction by the City, the Corporation, and the Trustee on or prior to the applicable Delivery Date of all material agreements then to be performed and conditions then to be satisfied by any of them in connection with the transactions contemplated hereby and by the Program Documents.

If the City, the Corporation or the Trustee shall be unable to satisfy the conditions set forth in this Purchase Contract to the obligation of the Purchaser to purchase, accept delivery of, and pay for any subsequent Series of the Certificates, or if the obligation of the Purchaser to purchase, accept delivery of, and pay for any subsequent Series of Certificates shall be terminated for any reason permitted by this Purchase Contract, then this Purchase Contract and all obligations of the Purchaser hereunder may be terminated by the Purchaser at, or at any time prior to, the Delivery Date applicable to such subsequent Series of Certificates by written notice to the Trustee, to the Corporation and to the City, and neither the Purchaser nor the City shall have any further obligations hereunder.

9. City Reporting Obligations.

(a) So long as the Purchase Commitment is in effect, the City shall inform the Purchaser, in writing, to the extent permitted by law and in a manner that would preserve any applicable privilege, regarding significant events and developments not previously reported to the Purchaser, including but not limited to: (1) the "Core Action" undertaken

by the City in pursuit of the Program, other actions in which the City seeks Program Receipts, actions or proceedings challenging or threatening the City's engagement of its Outside Counsel; and all other significant actions or proceedings which involve the Program; (2) actions or proceedings involving the Program Documents or the performance of the City's obligations thereunder; (3) actions or proceedings involving the Ordinance, whether or not related to the Program; and (4) changes in laws, precedents, case law and other developments in any statute, common law or principle pursuant to which the City seeks Program Receipts.

(b) Prior to each Subsequent Closing, or three months after the previous closing, whichever occurs sooner, the City shall provide to the Purchaser a brief written summary of developments in actions and proceedings within the scope of subsection (a) above. Notwithstanding the above, notice of settlements, recoveries, court decisions (whether favorable or adverse), and the filing of substantive motions shall be given within two business days following such event.

10. Liquidated Damages. In the event that the Purchaser fails (other than for a reason permitted by this Purchase Contract) to accept and pay for any Series of Certificates on the applicable Delivery Date, the amount of ten percent (10%) of the aggregate principal amount of the Certificates authorized to be executed and delivered under the Trust Agreement but which have not yet been issued shall constitute liquidated damages for such failure and for any and all defaults hereunder on the part of the Purchaser, and the Purchaser's payment of such amount to the City shall constitute a full release and discharge of all claims and rights of the City against the Purchaser.

11. Expenses.

(a) The Purchaser shall be under no obligation to pay, and the City shall pay, any expenses incident to the performance of the City's obligations hereunder including, but not limited to: (i) the cost of preparation and printing of each Series of Certificates; (ii) the fees and expenses of counsel to the City and the Corporation; (iii) all legal fees, court costs, and all other expenses in connection with any validation action conducted under California Code of Civil Procedure Sections 860 through 870 with respect to the Certificates or any actions contemplated by the Program Documents; (iv) all fees and expenses of the Trustee and the Calculation and Verification Agent and (v) the fees and disbursements of any engineers, accountants, and other experts, consultants, or advisors retained by the City.

(b) The Purchaser shall pay (i) fees, if any, payable to the California Debt and Investment Advisory Commission in connection with the execution and delivery of each Series of Certificates; and (ii) all other expenses incurred by the Purchaser in connection with the sale, execution, and delivery of each Series of Certificates, including the fees and disbursements of Purchaser's Counsel.

12. Notices. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing at the City's address set forth above, Attention: City Attorney, and to the Purchaser under this Purchase Contract may given by

delivering the same in writing to Lehman Brothers Inc., 3 World Financial Center, Seventh Floor, New York, New York 10285, Attention: James Hraska.

13. Parties in Interest. This Purchase Contract is made solely for the benefit of the City, the Corporation, the Purchaser (including the successors or assigns of the Purchaser), and the Placement Agent (with respect to opinions which are to be addressed to the Placement Agent), and no other person shall acquire or have any right hereunder or by virtue hereof. All of the City's and the Corporation's representations, warranties, and agreements contained in this Purchase Contract shall remain operative and in full force and effect regardless of (i) any investigations made by or on behalf of the Purchaser; (ii) delivery of and payment for any Series of Certificates pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

14. Effectiveness and Counterpart Signatures. This Purchase Contract shall become effective upon the execution of the acceptance by authorized officers of the City and the Corporation and shall be valid and enforceable at the time of such acceptance. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

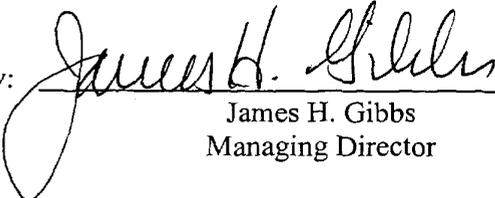
15. Headings. The headings of the sections of this Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

16. Severability of Invalid Provisions. If any one or more of the provisions contained in this Purchase Contract shall for any reason be held to be invalid, illegal, or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Purchase Contract and such invalidity, illegality, or unenforceability shall not affect any other provision of this Purchase Contract, and this Purchase Contract shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein. The City, the Corporation and the Purchaser each hereby declares that they would have entered into this Purchase Contract and each and every other section, paragraph, sentence, clause, or phrase hereof irrespective of the fact that any one or more sections, paragraphs, sentences, clauses, or phrases of this Purchase Contract may be held illegal, invalid, or unenforceable.

17. Governing Law. This Purchase Contract shall be construed in accordance with the laws of the State of California.

Very truly yours,

LEHMAN BROTHERS INC.

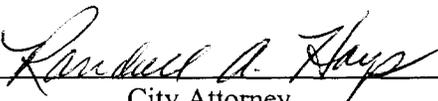
By: 
James H. Gibbs
Managing Director

Accepted:

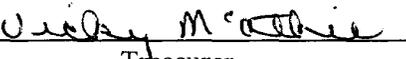
CITY OF LODI

By: 
City Manager

Approved as to Form


City Attorney

LODI FINANCING CORPORATION

By: 
Treasurer

Approved as to Form


Corporation Counsel

FORM OF OPINION OF COUNSEL TO THE CORPORATION

[Date]

Lehman Brothers Inc.
555 California Street, 30th Floor
San Francisco, California 94104

City of Lodi
221 West Pine Street
Lodi, California 95240

U.S. Bank Trust National Association
Corporate Trust Services
One California Street, Suite 2250
San Francisco, California 94111

LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION

Ladies and Gentlemen:

I have acted as counsel to the Lodi Financing Corporation, a California non-profit public benefit corporation (the "Corporation"), in connection with the execution, delivery and sale of \$_____ aggregate principal amount of Lodi Financing Corporation (Environmental Abatement Program) Variable Rate Certificates of Participation, Series __ (the "Certificates") pursuant to the terms of a Certificate Purchase Contract dated as of June 28, 2000 (the "Purchase Contract") among the Corporation, the City of Lodi (the "City") and Lehman Brothers Inc. The Certificates represent undivided proportionate interests in payments made pursuant to a Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement"), between the City and the Corporation and are executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2000 (the "Trust Agreement"), between the Corporation and U.S. Bank Trust National Association, as trustee thereunder (the "Trustee"). Unless otherwise defined herein, the terms defined in the Sale and Repurchase Agreement have the same meanings when used in this opinion.

In connection with the foregoing, I have examined originals, or copies certified or otherwise identified to my satisfaction, of such documents, corporate records, and other instruments as I have deemed necessary or appropriate for the purposes of this opinion, including (a) the Purchase Contract, (b) the Sale and Repurchase Agreement, (c) the Placement Agent Agreement, dated as of June 28, 2000, by and among the City, the Corporation and Lehman Brothers Inc.,

(d) the Trust Agreement (collectively, the "Legal Documents"), (e) the Articles of Incorporation and Bylaws of the Corporation, and (f) Resolution No. LFC-4 (the "Corporation Resolution"), adopted on November 3, 1999 authorizing the execution and delivery of the Certificates and the Legal Documents. The Legal Documents, together with the Corporation Resolution, City Resolution No. 99-180, adopted on November 3, 1999, City Ordinance No. 1684, adopted November 17, 1999 and effective December 17, 1999, and the Comprehensive Joint Cooperative Agreement, dated as of May 1997, by and between the City and the California Environmental Protection Agency, Department of Toxic Substances Control, are collectively referred to herein as the "Program Documents."

Based upon such examination, I am of the opinion that:

1. The Corporation is duly organized and validly existing under the laws of the State of California.

2. The Corporation has full corporate power and authority to execute and deliver the Legal Documents and to carry out and consummate the transactions contemplated by the Program Documents.

3. The Corporation Resolution authorizing the execution and delivery of the Certificates and the execution of the Legal Documents was duly adopted at a meeting of the Board of Directors of the Corporation which was called and held pursuant to law, is in full force and effect and has not been amended, modified or rescinded.

4. The Legal Documents have each been duly authorized and delivered by the Corporation, and each constitutes a legally valid and binding obligation of the Corporation enforceable against the Corporation in accordance with its respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or other laws or equitable principles relating to or affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought.

5. No approval, consent, or authorization of any governmental or public agency, authority, or person is required for the execution and delivery by the Corporation of the Legal Documents, or the performance by the Corporation of its obligations under the Program Documents, or the execution and delivery of the Certificates.

6. The execution and delivery of the Legal Documents by the Corporation and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence, or operation of the Corporation, any commitment, agreement, or other instrument to which the Corporation is a party or by which it or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order, or decree to which the Corporation (or any of its officers in their respective capacities as such) is subject, or any provision of the laws of the State of California relating to the Corporation and its affairs.

7. There is no action, suit, proceeding, inquiry, or investigation at law or in equity, or before any court, public board, or body, pending or, to the best of my knowledge, threatened against or affecting the Corporation or any entity affiliated with the Corporation or any of its officers or directors in their respective capacities as such (nor to the best of my knowledge is

there any basis therefor), which questions the powers of the Corporation referred to in paragraphs 2 and 3 above or in connection with the transactions contemplated by, or the validity of the proceedings taken by the Corporation in connection with the authorization, execution, or delivery of, the Legal Documents; nor am I aware of any circumstance not disclosed in writing to the City and Lehman Brothers Inc. prior to the date of this opinion that would form a basis for any such action, suit, proceeding, inquiry or investigation wherein an unfavorable decision, ruling, or finding would materially adversely affect the transactions contemplated by the Program Documents, or which, in any way, would materially adversely affect the validity or enforceability of the Program Documents or, in any material respect, the ability of the Corporation to perform its obligations under the Program Documents.

Respectfully submitted,

FORM OF OPINION OF CITY ATTORNEY

[Date]

Lehman Brothers Inc.
555 California Street, 30th Floor
San Francisco, California 94104

Lodi Financing Corporation
221 West Pine Street
Lodi, California 95240

**LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION**

Ladies and Gentlemen:

I have served as counsel to the City of Lodi (the "City") in connection with the execution, delivery and sale of \$_____ aggregate principal amount of Lodi Financing Corporation (Environmental Abatement Program) Variable Rate Certificates of Participation, Series __ (the "Certificates").

In connection with the foregoing, I have examined originals, or copies certified or otherwise identified to my satisfaction, of such documents, corporate records, and other instruments as I have deemed necessary or appropriate for the purposes of this opinion, including (a) the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement"), by and between the Lodi Financing Corporation (the "Corporation") and the City, (b) the Placement Agent Agreement, dated as of June 28, 2000 by and among the City, the Corporation and Lehman Brothers Inc., (c) the Trust Agreement, dated as of June 1, 2000 (the "Trust Agreement"), by and between the Corporation and U.S. Bank Trust National Association, as trustee thereunder (the "Trustee"), and (d) the Certificate Purchase Contract, dated as of June 28, 2000 (the "Purchase Contract"), by and among the City, the Corporation and Lehman Brothers Inc.

The Sale and Repurchase Agreement, the Placement Agent Agreement, and the Purchase Contract, and the Professional Services Agreement and Scope of Services Statement, dated December 1, 1999, between Envision Law Group and the City are collectively referred to herein as the "City Legal Documents." The City Legal Documents, together with the Comprehensive Joint Cooperative Agreement, dated as of May 1997 (the "Cooperative Agreement"), by and between the City and the California Environmental Protection Agency, Department of Toxic Substance Control, the Trust Agreement, the City's Ordinance No. 1684, adopted November 17, 1999 and effective December 17, 1999 (the "Ordinance"), the City's Resolution No. 99-180,

adopted on November 3, 1999, and the Corporation's Resolution No. LFC-4, adopted on November 3, 1999, authorizing the execution and delivery of the Certificates and the related documents, are collectively referred to herein as the "Program Documents." Terms used herein that are defined in the Sale and Repurchase Agreement shall have the meanings specified therein.

Based upon such examination, I am of the opinion that:

1. The City is a general law city, duly created, organized, and existing under the laws of the State of California and duly qualified to implement and carry out the Program.

2. The City has the authority and right to execute, deliver, and perform the City Legal Documents and the City has complied with the provisions of applicable law in all matters relating to the transactions contemplated by the Program Documents.

3. The City Resolution authorizing the execution of the Legal Documents was duly adopted at a meeting of the City Council of the City which was called and held pursuant to law, is in full force and effect and has not been amended, modified or rescinded.

4. The Ordinance was duly adopted at a meeting of the City Council of the City which was called and held pursuant to law, became effective on December 17, 1999, is in full force and effect and has not been amended, modified or rescinded.

5. The City Legal Documents have been duly authorized, executed, and delivered by the City, are in full force and effect, and, assuming that the other parties thereto have all the requisite power and authority and have taken all the requisite action to execute and deliver the City Legal Documents to which they are a party, constitute the legal, valid, and binding agreements of the City enforceable against it in accordance with their respective terms, subject in each case to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought.

6. No approval, consent, or authorization of any governmental or public agency, authority, or person is required for the execution and delivery by the City of the City Legal Documents, or the performance by the City of its obligations under the Program Documents, or the execution and delivery of the Certificates.

7. The execution and delivery of the City Legal Documents by the City and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence, or operation of the City, any commitment, agreement, or other instrument to which the City is a party or by which it or its property is bound or affected (including, but not limited to, the Cooperative Agreement), or any ruling, regulation, ordinance, judgment, order, or decree to which the City (or any of its officers in their respective capacities as such) is subject, or any provision of the laws of the State of California relating to the City and its affairs.

8. The lien on and the pledge of Program Receipts under the Sale and Repurchase Agreement and Trust Agreement, as permitted by the Ordinance, are valid and enforceable and are prior to any other lien or claim on Program Receipts, and all other provisions of the

Ordinance, insofar as they affect the rights of the Certificate Holders and the Original Purchaser and the transactions contemplated by the Sale and Repurchase Agreement and the Trust Agreement, are valid and enforceable;

9. There is no action, suit, proceeding, inquiry, or investigation at law or in equity, or before any court, public board, or body, pending or, to the best of my knowledge, threatened against or affecting the City or any entity affiliated with the City or any of its officers in their respective capacities as such (nor to the best of my knowledge is there any basis therefor), which questions the powers of the City referred to in paragraphs 2 and 3 above, or which concerns the transactions contemplated by, or the validity of the proceedings taken by, the City in connection with the authorization, execution, or delivery of, the City Legal Documents or, except as described in Appendix A hereto, the validity or enforceability of the Ordinance; nor am I aware of any circumstance not disclosed in writing to the Corporation and Lehman Brothers Inc. prior to the date of this opinion that would form a basis for any such action, suit, proceeding, inquiry or investigation wherein an unfavorable decision, ruling, or finding would materially adversely affect the transactions contemplated by the Program Documents, or which, in any way, would materially adversely affect the validity or enforceability of the Program Documents or, in any material respect, the ability of the City to perform its obligations under the Program Documents.

Respectfully submitted,

FORM OF CERTIFICATE OF THE CORPORATION

LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION

CLOSING CERTIFICATE OF THE CORPORATION

I, _____, the _____ of the Lodi Financing Corporation (the "Corporation"), hereby certify as follows:

1. This certificate is provided pursuant to Section 8(d)(5) of that certain Certificate Purchase Contract, dated as of June 28, 2000 (the "Purchase Contract"), by and among the City of Lodi (the "City"), the Corporation and Lehman Brothers Inc. All capitalized terms used herein that are not otherwise defined shall have the same meanings as in such Purchase Contract.

2. The Corporation has full legal right, power, and authority (i) to enter into the Sale and Repurchase Agreement, the Trust Agreement, the Purchase Contract and the Placement Agent Agreement, dated June 28, 2000, by and among the City, the Corporation and Lehman Brothers Inc. (collectively, the "Legal Documents") and (ii) to carry out and consummate the transactions contemplated by the Program Documents.

3. By all necessary corporate action of the Corporation prior to or concurrently herewith, the Corporation has duly authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations on its part contained in, the Legal Documents, and the consummation by it of all other transactions contemplated by the Program Documents.

4. The Corporation has complied with all the agreements and satisfied all of the conditions on its part to be performed or satisfied at or prior to the date hereof pursuant to the Legal Documents.

5. The Corporation is not in any material respect in breach of or default under any applicable law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement (including, without limitation, the Trust Agreement), or other instrument to which the Corporation is a party or to which the Corporation or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the execution and delivery of the Legal Documents, and compliance with the provisions on the Corporation's part contained therein, will not conflict with or constitute a breach of or a default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement, or other instrument to which the Corporation is a party or to which the Corporation or any of its property or assets is otherwise subject, nor will

any such execution, delivery, adoption, or compliance result in the creation or imposition of any lien, charge, or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation or under the terms of any such provision, law, regulation, or instrument, except as provided in the Sale and Repurchase Agreement, the Trust Agreement or the Ordinance.

6. There is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, government agency, public board, or body, pending or, to the best knowledge of the Corporation after reasonable investigation, threatened against the Corporation, affecting the existence of the Corporation or the titles of its officers to their respective offices, or contesting or affecting, as to the Corporation, the validity or enforceability of the Program Documents; nor is the Corporation aware of any circumstance not disclosed in writing to the City and to Lehman Brothers Inc. prior to the date of this Certificate that would form a basis for any such action, suit, proceeding, inquiry, or investigation, wherein an unfavorable decision, ruling, or finding would materially adversely affect the authorization, execution, delivery, or performance by the Corporation of the Legal Documents or the performance by the Corporation of its obligations under the Program Documents.

Dated: _____

LODI FINANCING CORPORATION

By: _____
Treasurer

Approved as to Form:

Corporation Counsel

EXHIBIT D

FORM OF CERTIFICATE OF THE CITY

**LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION**

CLOSING CERTIFICATE OF THE CITY

I, _____, the _____ of the City of Lodi (the "City"), hereby certify as follows:

1. This certificate is provided pursuant to Section 8(d)(6) of that certain Certificate Purchase Contract, dated as of June 28, 2000 (the "Purchase Contract"), by and among the City, the Lodi Financing Corporation and Lehman Brothers Inc. All capitalized terms used herein that are not otherwise defined shall have the same meanings as in such Purchase Contract.

2. The City has full legal right, power, and authority (i) to enter into the Sale and Repurchase Agreement, the Purchase Contract, the Placement Agent Agreement, dated June 28, 2000, by and among the City, the City and Lehman Brothers Inc., and the Professional Services and Scope of Services Statement, dated December 1, 1999, by and between the City and Envision Law Group (collectively, the "City Legal Documents") and (ii) to carry out and consummate the transactions contemplated by the Program Documents.

3. The City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in, the City Legal Documents, and the consummation by it of all other transactions contemplated by the Program Documents.

4. The City has complied with all the agreements and satisfied all of the conditions on its part to be performed or satisfied at or prior to the date hereof pursuant to the City Legal Documents.

5. The City is not in any material respect in breach of or default under any applicable law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement (including, without limitation, the Cooperative Agreement), or other instrument to which the City is a party or to which the City or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the execution and delivery of the City Legal Documents, and compliance with the provisions on the City's part contained therein, will not conflict with or constitute a breach of or a default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement (including the Cooperative Agreement), or other instrument to which the City is a party or to which the City or any of its property or assets is

otherwise subject, nor will any such execution, delivery, adoption, or compliance result in the creation or imposition of any lien, charge, or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City or under the terms of any such provision, law, regulation, or instrument, except as provided in the Sale and Repurchase Agreement, the Trust Agreement or the Ordinance.

6. There is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, government agency, public board, or body, pending or, to the best knowledge of the City after reasonable investigation, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices, or contesting or affecting, as to the City, the validity or enforceability of the Program Documents; nor is the City aware of any circumstance not disclosed in writing to the Corporation and to Lehman Brothers Inc. prior to the date of this Certificate that would form a basis for any such action, suit, proceeding, inquiry, or investigation, wherein an unfavorable decision, ruling, or finding would materially adversely affect the authorization, execution, delivery, or performance by the City of the City Legal Documents or the performance by the City of its obligations under the Program Documents.

Dated: _____

CITY OF LODI

By: _____
[Title]

Approved as to Form:

City Counsel

FORM OF OPINION OF CITY'S OUTSIDE COUNSEL

[Date]

City of Lodi
221 West Pine Street
Lodi, California 95240

Lodi Financing Corporation
221 West Pine Street
Lodi, California 95240

Lehman Brothers Inc.
555 California Street, 30th Floor
San Francisco, California 94108

LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION

Ladies and Gentlemen:

We have served as Outside Counsel to the City of Lodi, California (the "City"), in connection with the City's environmental abatement program for the Lodi Area of Contamination. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement"), by and between the City and the Lodi Financing Corporation relating to the execution, delivery and sale of the above-referenced Certificates of Participation.

In connection with the foregoing, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, corporate records, and other instruments as we have deemed necessary or appropriate for the purposes of this opinion, including (a) the Professional Services Agreement and Scope of Services Statement, dated December 1, 1999 (the "Professional Services Agreement"), between Envision Law Group (the "Outside Counsel") and the City, (b) City Ordinance No. 1684, adopted November 17, 1999 and effective December 17, 1999 (the "Ordinance"), (c) the Sale and Repurchase Agreement, and (d) the Order Granting Defendants' Motion for Summary Judgment and Denying Plaintiff's Motion for Summary Judgment entered by Judge John F. Cruikshank of the San Joaquin County Superior Court and filed on May 19, 2000, in the matter of *San Joaquin County Taxpayers Association v. City of Lodi*, Case No. CV 009657, and the related Notice of Entry of Judgment, dated May 19, 2000 (the "Validation Judgment").

Based upon such examination, we are of the opinion that:

1. The Professional Services Agreement has been duly authorized and executed by Outside Counsel and is valid and binding on Outside Counsel.
2. Consistent with the terms of the Sale and Repurchase Agreement, Outside Counsel has subordinated its right to payment of legal fees and disbursements as specifically set forth in Section II.f.1. of the Scope of Services Statement attached to the Professional Services Agreement.
3. In the event that the Ordinance were to be totally invalidated or repealed, the lien on and the pledge of Program Receipts, as well as the other rights of the Certificate Holders and the Original Purchaser, would not be materially impaired.
4. No appeal of the Validation Judgment has been timely filed and, as provided in California Code of Civil Procedure Section 870(a), the Validation Judgment is “forever binding and conclusive, as to all matters therein adjudicated or which at that time could have been adjudicated, against the [City] and against all other persons,” and the Validation Judgment permanently enjoins “the institution by any person of any action or proceeding raising any issue as to which the judgment is binding and conclusive.”

Respectfully submitted,

FORM OF ISSUANCE REQUEST

REQUEST AND CERTIFICATE OF THE CITY

LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION

To: U.S. Bank Trust National Association
Corporate Trust Services
One California Street, Suite 2550
San Francisco, CA 94111

Attention: _____
Relationship Specialist

The City of Lodi, California (the "City") hereby requests and directs the Trustee, on behalf of the Lodi Financing Corporation (the "Corporation"), to execute and deliver \$ _____ of the Corporation's Variable Rate Certificates of Participation ("Certificates") (Environmental Abatement Program), Series ____ to [Purchaser] on _____ [Delivery Date].

We, the City Attorney and Finance Director [City Manager], respectively, of the City, hereby certify as follows:

1. The representations and warranties of the City contained in (a) the Certificate Purchase Contract, dated June 28, 2000 (the "Certificate Purchase Contract"), among the City, the Corporation and Lehman Brothers Inc. with respect to the sale, execution, and delivery of not to exceed \$16,000,000 aggregate principal amount of the Certificates and (b) the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement") between the City and the Corporation are true and correct in all material respects on and as of the date hereof as if made on this date.

2. There is no action, suit, proceeding, inquiry, or investigation, at law or in equity before or by any court, government agency, public board, or body, pending or, to the best of our knowledge, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain, or enjoin the sale, execution, or delivery of the Certificates or the collection of the Program Receipts (as defined in the Sale and Repurchase Agreement) to be used to pay the principal and interest components of the Certificates, or the pledge of funds and accounts pursuant to the Trust Agreement (as defined in the Sale and Repurchase Agreement), or contesting the powers of the Trustee thereunder with respect to the execution of the Certificates; nor are we aware of any circumstance not disclosed in writing to the Purchaser prior to the date of this Request and Certificate that would form a

basis for any such action, suit, proceeding, inquiry, or investigation, wherein an unfavorable decision, ruling, or finding would materially adversely affect the authorization, execution, delivery, or performance by the City of the obligations on its part contained in the Program Documents, as defined in the Certificate Purchase Contract.

3. After investigation and review of the Program Documents, no event of default, nor any event which, after the passage of time or the giving of notice would constitute an event of default under a Program Document has occurred and is continuing.

4. The City has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the date hereof pursuant to the Program Documents, including compliance with the Program Budget and including any reallocation of amounts therein.

5. The City represents that it will use the proceeds of this issuance in conformance with the Program Budget set forth in Exhibit A to the Sale and Repurchase Agreement. The principal amount of Certificates to be executed and delivered hereunder does not exceed the Cumulative Disbursement Cap for the calendar quarter immediately following the Delivery Date, as set forth in the Program Budget, less the principal amount of any Certificates previously executed and delivered.

6. Between the date of the Certificate Purchase Contract and the date hereof, the City has not, without the prior written consent of the Original Purchaser, together with such other Certificate Holders as are necessary to constitute, in the aggregate, at least 51% of outstanding Accreted Value, offered or issued any bonds, notes, or other obligations for borrowed money, or incurred any material liabilities, direct or contingent, payable from Program Receipts.

7. All capitalized terms used herein that are not otherwise defined shall have the same meanings as in the Certificate Purchase Contract and the Sale and Repurchase Agreement.

8. The City hereby requests and directs the Trustee, after the Trustee's review of this Request and Certificate, to deliver a copy of this Request and Certificate to the Purchaser under the Certificate Purchase Contract at least 10 Business Days prior to the Delivery Date.

[Date]

CITY OF LODI

By: _____
[City Attorney]

By: _____
[City Manager or Finance Director]

FORM OF TERMINATION NOTICE

LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION

To: U.S. Bank Trust National Association
Corporate Trust Services
One California Street, Suite 2550
San Francisco, CA 94111

Attention: _____
Relationship Specialist

1. Pursuant to the Certificate Purchase Contract dated _____ (the "Certificate Purchase Contract"), among the City of Lodi, California (the "City"), the Lodi Financing Corporation (the "Corporation") and Lehman Brothers Inc., the City hereby certifies, represents and warrants that it will make no additional Issuance Requests to the Trustee and is hereby irrevocably and permanently discontinuing all Issuance Requests.

Last Issuance Request made on: _____

Last Issuance Request amount: _____

Date of Delivery of Certificates under last Issuance Request: _____

2. The undersigned hereby certifies that this Notice is in compliance with the Certificate Purchase Agreement and the Program Receipts Sale and Repurchase Agreement, dated _____, between the City and the Corporation (the "Sale and Repurchase Agreement").

3. All capitalized terms used herein that are not otherwise defined shall have the same meanings as in the Certificate Purchase Contract and the Sale and Repurchase Agreement.

4. The City has delivered a copy of this Termination Notice to the Purchaser under the Certificate Purchase Contract and to the Calculation and Verification Agent.

CITY OF LODI

By: _____
[Title]

cc: Original Purchaser
Calculation and Verification Agent

Resolution LFC-4 & Attached Minutes

\$2,500,000
LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION, SERIES 2000A

CERTIFICATE REGARDING CORPORATION RESOLUTION

I, Jacqueline L. Taylor, hereby certify that I am the Acting Secretary of the Board of Directors of the Lodi Financing Corporation (the "Corporation"), a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Corporation.

I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. LFC-4 adopted at the organizational meeting of the Corporation's Board of Directors held on November 3, 1999, of which meeting all of the members of the Corporation's Board of Directors had due notice and at which a quorum was present and acting throughout.

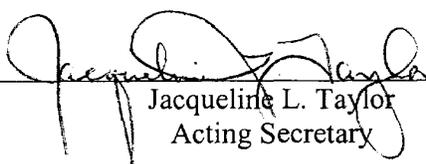
I hereby further certify that I have carefully compared the same with the original resolution so adopted at said meeting and that it is a full, true and correct copy of said resolution; and that said resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

Also attached is a copy of the minutes of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 29th day of June, 2000.

LODI FINANCING CORPORATION

By:


Jacqueline L. Taylor
Acting Secretary

RESOLUTION NO. LFC-4

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LODI FINANCING CORPORATION RELATING TO VARIABLE RATE CERTIFICATES OF PARTICIPATION (ENVIRONMENTAL ABATEMENT PROGRAM), APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A PROGRAM RECEIPTS SALE AND REPURCHASE AGREEMENT, A TRUST AGREEMENT, A CERTIFICATE PURCHASE CONTRACT AND A PLACEMENT AGENT AGREEMENT AND AUTHORIZING CERTAIN OTHER RELATED ACTIONS AND CERTAIN OTHER DOCUMENTS IN CONNECTION THEREWITH

WHEREAS, the Lodi Financing Corporation (the "Corporation") is a nonprofit public benefit corporation organized and existing under the laws of the State of California with the authority to assist with the financing of the costs of the environmental abatement program of the City of Lodi (the "City"); and

WHEREAS, the City and the Corporation desire to enter into that certain Program Receipts Sale and Repurchase Agreement ("Sale and Repurchase Agreement"), dated as of JUNE 1, 2000 by and between the City and the Corporation, the form of which has been presented to this Board of Directors at the meeting at which this Resolution has been adopted, pursuant to which the City will agree to irrevocably sell and convey to the Corporation its right to receive Program Receipts (as defined in the Sale and Repurchase Agreement), and the Corporation will resell and reconvey such Program Receipts to the City in consideration of the City's agreement to make certain Repurchase Payments (as described in the Sale and Repurchase Agreement) in connection therewith, which payments have been pledged to the owners of the Certificates of Participation (defined below) by the Corporation pursuant to a Trust Agreement, dated as of JUNE 1, 2000 (the "Trust Agreement"), by and between the Corporation and the Trustee named therein, as trustee (the "Trustee"), the form of which has been presented to this Board of Directors at the meeting at which this Resolution has been adopted; and

WHEREAS, the Corporation and the City have determined that it would be in the best interests of the Corporation, the City and citizens of the community to authorize the execution and delivery of Certificates of Participation in an aggregate principal amount not to exceed \$16,000,000 (the "Certificates"), which Certificates evidence proportionate interests in certain Repurchase Payments to be made pursuant to the Sale and Repurchase Agreement, and which financing will facilitate the effective and expeditious abatement of an existing or threatened Environmental Nuisance, as defined in the City's Comprehensive Municipal Environmental Response and Liability Ordinance, being Ordinance No. 1684, adopted November 17, 1999 and effective December 17, 1999, repealing and reenacting Title 8, chapter 8.24 of the Lodi Municipal Code (the "Ordinance") within or affecting the City.

NOW, THEREFORE, the Board of Directors of the Corporation does hereby resolve as follows:

SECTION 1: Certificates. This Board of Directors hereby authorizes the execution and delivery of the Certificates in an aggregate principal amount not to exceed \$16,000,000 in accordance with the terms and provisions of the Trust Agreement. The purposes for which the proceeds of the sale of the Certificates shall be expended are to assist with the cost of financing the City's environmental abatement program, as described in the Sale and Repurchase Agreement.

SECTION 2: Certificate Documents. The Sale and Repurchase Agreement, the Trust Agreement, the Certificate Purchase Contract and the Placement Agent Agreement presented at this meeting are approved. The President, Vice-President or the President's designee is authorized and directed to execute and deliver said agreements. The agreements shall be executed in substantially the forms hereby approved, with such additions thereto and changes therein as are recommended or approved by counsel to the Corporation and approved by such officers of the Corporation executing the documents, such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 3: Other Actions. The President, Vice President, Secretary and such other officers of the Corporation are authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the sale and delivery of the Certificates, and the delivery of the documents described above, and otherwise effectuate the purposes of this Resolution, and such actions previously taken by such officers are hereby ratified and confirmed.

SECTION 4: Effective Date. This Resolution shall take effect upon the effective date of the Ordinance, unless the Ordinance does not become effective by June 1, 2000, in which event this Resolution shall be of no further force and effect.

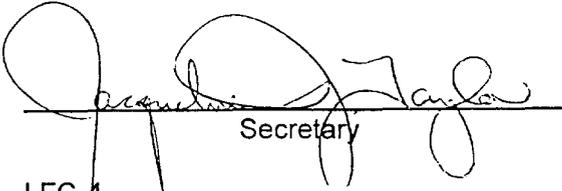
ADOPTED, SIGNED AND APPROVED this 3rd day of November, 1999, by the following vote:

AYES: BOARD MEMBERS – Hitchcock, Mann, Nakanishi, Pennino and Land (President)

NOES: BOARD MEMBERS – None

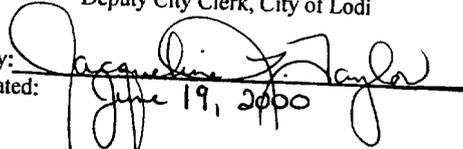
ABSENT: BOARD MEMBERS – None

ABSTAIN: BOARD MEMBERS – None


Secretary
LFC-4

The foregoing document is certified to be a correct copy of the original on file in the City Clerk's Office.

Jacqueline L. Taylor
Deputy City Clerk, City of Lodi

By: 
Dated: June 19, 2000

- b) Agenda item #H-4 entitled, "Ordinance repealing and reenacting Chapter 8.24, Comprehensive Environmental Response and Liability, of the Lodi Municipal Code".

City Attorney Hays presented the following report.

In August of 1997, the City adopted Ordinance No. 1650, which established Chapter 8.24 of the Lodi Municipal Code. This Chapter, known as the Comprehensive Environmental Response and Liability Ordinance (MERLO), is part of the City's environmental program relative to the PCE/TCE contamination of the groundwater within the City of Lodi. We have faced and repulsed several challenges to that Ordinance by insurance companies who provide coverage to potentially responsible parties who we have been focusing on relative to our enforcement activities. Through that process we have developed an understanding of revisions to the Ordinance, which can be undertaken to make the Ordinance even more effective that it already is. Additionally, we have adjusted the Ordinance to recognize the potential for instituting a financing program, which can be utilized to fund remediation activities by the City. Placing this improved MERLO in the City Code will assist us further in the City's remediation activities.

Following additional discussion, the City Council, on motion of Pennino, Mann second, unanimously introduced Ordinance No. 1684 entitled, "An Ordinance Of The City Council Of The City Of Lodi Repealing And Reenacting Lodi Municipal Code Title 8, Health And Safety, Chapter 8.24 Relating To Comprehensive Municipal Environmental Response And Liability".

12. MEETING OF THE LODI FINANCING CORPORATION

Mayor Land adjourned the City Council meeting at approximately 9:25 p.m. to a meeting of the Lodi Financing Corporation.

Deputy City Clerk Taylor called the meeting of the Lodi Financing Corporation to order, and City Attorney Hays provided the following report.

The reason for the establishment of the Lodi Finance Corporation is really quite simple. In order to perform a financing transaction as is proposed, the transaction has to be bilateral, which simply means it takes two parties to enter into the transaction that would result in the issuance of Certificates of Participation as proposed under the action taken by the City Council. The Lodi Financing Corporation represents that second party. The Lodi Financing Corporation was created in order to have that second party. It also is created in order to make very clear that the transaction is between parties who are solely involved in the environmental abatement program with a revenue stream being dedicated to that program consisting of recoveries from that particular program. This makes it very clear that no other City revenues are involved.

City Attorney Hays indicated that the City Clerk calls the meeting to order since the Corporation is basically meeting for the first time and undertakes its initial organizational activities prior to conducting any business. The Council was provided with various documents which indicate the existence of the Corporation and the initial designation of Directors as undertaken by the incorporator. Those documents consisting of the Certificate designating the Directors of the Corporation and the Articles of Incorporation were presented to the Council for information only.

The first action item on the agenda is the election of officers, which will be conducted by the Deputy City Clerk. It was staff's recommendation that Council follow the pattern that the City has established relative to this type of corporation and elect the Mayor and the Mayor Pro Tempore as the President and Vice-President of the Corporation. The Treasurer and Secretary were recommended to be the Finance Director and the City Clerk respectively.

Continued November 3, 1999

Once the officers of the Corporation are elected, the remainder of the meeting will be conducted by the President of the Corporation. Item No. D on the agenda is the adoption of the Bylaws of the Corporation and designation of the annual meeting as it is contained in the Bylaws. The Council was provided a copy of the Bylaws of the Lodi Financing Corporation as well as a copy of the Bylaws of the Lodi Public Improvement Corporation. The Lodi Public Improvement Corporation was the entity that the City partnered with in completing the recent financing transaction involving the City's Electric Utility. The purpose for presenting both is to point out that the Bylaws for both Corporations are very nearly identical.

Item No. E on the agenda is another housekeeping chore to be undertaken by the Board. It is simply the adoption of Resolution No. LFC-3 that appoints the position of City Attorney as Counsel to the Corporation. This particular appointment is consistent with how the City has handled its other Corporation.

Item No. F on the agenda is a request to take minute action. What is being asked of the Board here is simply to authorize staff to make the necessary filings to deal with the tax exempt status of the Corporation and to request a refund of fees that were initially paid at the time of incorporation. Again this is merely a housekeeping measure and action by the Board would allow staff to undertake the appropriate actions.

Item No. G. is the action item which results in the approvals given by the City Council to become effective. By adopting the documents that are presented to the Board, the transaction becomes the bilateral transaction that we have spoken of and can then be fully implemented.

Following discussion, the following action was taken:

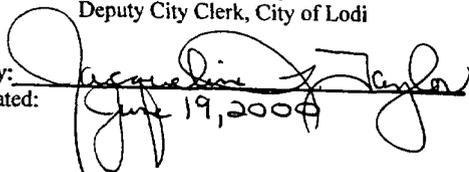
- On motion of Director Pennino, Mann second, the Directors unanimously adopted Resolution No. LFC-1 entitled, "A Resolution Electing Officers Of The Lodi Financing Corporation";
- On motion of Director Nakanishi, Land second, the Directors unanimously adopted Resolution No. LFC-2 entitled, "A Resolution Adopting Bylaws And Designating Time And Place Of Annual Meeting Of The Lodi Financing Corporation";
- On motion of Director Pennino, Mann second, the Directors unanimously adopted Resolution No. LFC-3 entitled, "A Resolution Appointing Counsel For The Lodi Financing Corporation"; and
- On motion of Director Nakanishi, Pennino second, the Directors unanimously adopted Resolution No. LFC-4 entitled, "A Resolution Of The Board Of Directors Of The Lodi Financing Corporation Relating To Variable Rate Certificates Of Participation (Environmental Abatement Program), Approving The Forms Of And Authorizing The Execution And Delivery Of A Program Receipts Sale And Repurchase Agreement, A Trust Agreement, A Certificate Purchase Contract And A Placement Agent Agreement And Authorizing Certain Other Related Actions And Certain Other Documents In Connection Therewith".

There being no further business to come before the Corporation, President Land adjourned the meeting of the Lodi Financing Corporation at approximately 9:35 p.m. and reconvened the meeting of the City Council.

The foregoing document is certified to be a correct copy of the original on file in the City Clerk's Office.

Jacqueline L. Taylor
Deputy City Clerk, City of Lodi

By:
Dated:


July 19, 2004

**Resolution No. 99-180 &
Attached Minutes**

\$2,500,000
LODI FINANCING CORPORATION
(ENVIRONMENTAL ABATEMENT PROGRAM)
VARIABLE RATE CERTIFICATES OF PARTICIPATION, SERIES 2000A

CERTIFICATE REGARDING CITY RESOLUTION

I, Jacqueline L. Taylor, hereby certify that I am the Interim City Clerk of the City of Lodi (the "City"), a municipal corporation duly organized and existing under and by virtue of the Constitution and the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the City.

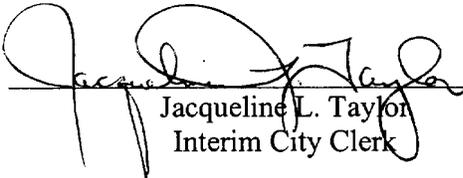
I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. 99-180 adopted at the regular meeting of the City Council of the City held on November 3, 1999, of which meeting all of the members of the City Council of the City had due notice and at which a quorum was present and acting throughout.

I hereby further certify that I have carefully compared the same with the original resolution so adopted at said meeting and that it is a full, true and correct copy of said resolution; and that said resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

Also attached is a copy of the minutes of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 29th day of June, 2000.

CITY OF LODI

By: 
Jacqueline L. Taylor
Interim City Clerk

RESOLUTION NO. 99-180

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI RELATING TO VARIABLE RATE CERTIFICATES OF PARTICIPATION (ENVIRONMENTAL ABATEMENT PROGRAM), APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A PROGRAM RECEIPTS SALE AND REPURCHASE AGREEMENT, A TRUST AGREEMENT, A CERTIFICATE PURCHASE CONTRACT, A PLACEMENT AGENT AGREEMENT AND A PROFESSIONAL SERVICES AGREEMENT, AND AUTHORIZING CERTAIN OTHER RELATED ACTIONS IN CONNECTION THEREWITH.

WHEREAS, the City of Lodi (the "City"), is a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California;

WHEREAS, there exists in the City a significant water contamination problem threatening the City's water supply and the health and safety of the City's inhabitants;

WHEREAS, in May 1997, the City executed a Comprehensive Joint Cooperative Agreement (Including Related Delegation and Settlement Agreements) with the California Department of Toxic Substances Control ("DTSC") Relating to the Investigation and Abatement of the Hazardous Substance Contamination In and Affecting the City (the "Cooperative Agreement");

WHEREAS, under the Cooperative Agreement, the City is committed to act as lead agency in initiating and prosecuting environmental enforcement actions (the "Program") to compel responsible parties to investigate and clean up all actual or potential dangers to public health and the environment arising from or related to hazardous substance contamination of portions of the City's groundwater and soil located within an area of approximately 600 acres and encompassing the City's central business area (the "Lodi Area of Contamination"), as described in the Cooperative Agreement;

WHEREAS, the Cooperative Agreement fully resolved the City's liability, if any, for contamination arising, in whole or in part, from the design, construction, operation or maintenance of the City's sewer systems;

WHEREAS, it is in the public interest and welfare of the City's inhabitants that the City find a means of financing the costs of the Program in order to fulfill the City's obligations under the Cooperative Agreement, and to enforce laws and ordinances which compel responsible parties to assume the cost and responsibility for the necessary remediation work to clean up the City's water supply and preserve and enhance the City's water system;

WHEREAS, the costs of environmental litigation under the Program may be significant;

WHEREAS, the City has determined that the most feasible means of financing Program costs is through the implementation of a certificate of participation financing, which financing will facilitate the effective and expeditious abatement of an existing or threatened Environmental Nuisance (as defined in the City's Comprehensive Municipal Environmental Response and Liability Ordinance described below) within or affecting the City;

WHEREAS, pursuant to Sections 37350 and 7158 of the California Government Code, Section 17 of the California Code of Civil Procedure, and Sections 953 and 954 of the California

Civil Code, the City may sell all or a portion of its right to receive recoveries arising from the Program;

WHEREAS, pursuant to Sections 37350 and 7158 of the California Government Code, Section 17 of the California Code of Civil Procedure, and Sections 953 and 954 of the California Civil Code, the City may purchase all or a portion of its right to receive recoveries arising from the Program;

WHEREAS, to implement this certificate of participation financing, the City proposes to irrevocably sell and convey to the Lodi Public Improvement Corporation (the "Corporation") its right to receive Program Receipts (as defined below), and simultaneously therewith the Corporation desires to sell and reconvey such Program Receipts back to the City in consideration of receipt of the Repurchase Payments, as defined in and pursuant to the Program Receipts Sale and Repurchase Agreement, dated _____, 1999 (the "Sale and Repurchase Agreement"), between the City and the Corporation;

WHEREAS, the Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"), will enter into a Trust Agreement (the "Trust Agreement") pursuant to which (i) the Corporation will assign and pledge to the Trustee its interests in and to the Repurchase Payments and (ii) the Trustee will agree to execute and deliver, from time to time, a principal amount not to exceed \$16,000,000 of certificates of participation (the "Certificates");

WHEREAS, each Certificate will evidence an undivided, proportionate interest in Repurchase Payments, consisting of a principal component and an interest component, to be made by the City, as provided in the Sale and Purchase Agreement and in the Trust Agreement;

WHEREAS, the purchase price to be paid by the Corporation for each portion of Program Receipts purchased from the City pursuant to the Sale and Repurchase Agreement will be payable solely from proceeds from the sale of the Certificates;

WHEREAS, the City's obligation to make Repurchase Payments (and certain other payments under the Sale and Repurchase Agreement) will be a special obligation of the City payable solely from Program Receipts;

WHEREAS, the City adopted Ordinance No. 1684 on November 17, 1999, effective December 17, 1999, repealing and reenacting its Comprehensive Municipal Environmental Response and Liability Ordinance, Title 8, Chapter 8.24 of the Lodi Municipal Code (the "Ordinance"), pursuant to which the City, among other things, has created in favor of Certificate holders a first lien on and interest in the Program Receipts, and the City acknowledges that such first lien is superior to all other uses of Program Receipts, except with regard to certain Permitted Deductions as provided in the Sale and Repurchase Agreement;

WHEREAS, the Program Receipts may be pledged to and deposited in the Municipal Fund (as defined in the Sale and Repurchase Agreement) created under the Ordinance as proceeds of the City's environmental abatement program;

WHEREAS, being payable solely from Program Receipts, the receipt by Certificate Holders of any amounts under the Sale and Repurchase Agreement and the Trust Agreement is unpredictable and uncertain, and accordingly there is significant risk inherent in purchasing and holding the Certificates;

WHEREAS, in view of the risks and uncertainties associated with the Certificates, the City acknowledges that the interest cost of the Certificates is significantly higher than in traditional municipal finance transactions;

WHEREAS, pursuant to Section 5900 et seq. of the Government Code the City, through the Corporation, is authorized to issue Certificates the interest component of which is subject to federal income taxation, and the City has determined that the interest component of the Repurchase Payments made under the Sale and Repurchase Agreement and represented by the Certificates will be subject to federal income taxation;

WHEREAS, pursuant to Section 5906 of the Government Code, the Certificates and the purchasers thereof will be exempt from the usury provisions of Section 1 of Article XV of the California Constitution;

WHEREAS, the City and the Corporation propose to execute and deliver a Certificate Purchase Contract (the "Certificate Purchase Contract") with Environmental Restoration Company Ltd. (the "Original Purchaser"), pursuant to which the Original Purchaser agrees to purchase, from time to time, the Certificates in an aggregate principal amount not to exceed \$16,000,000;

WHEREAS, Lehman Brothers Inc. has acted as Placement Agent for the Certificates of Participation;

WHEREAS, as a condition to execution and delivery of the Certificates, the City will obtain written confirmation from DTSC that the execution of the Sale and Repurchase Agreement, the Trust Agreement and the Certificate Purchase Contract and the execution and delivery of the Certificates do not violate or conflict with the Cooperative Agreement; 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. Findings. The City Council hereby specifically finds and determines that the actions authorized hereby constitute, and are with respect to, the public affairs of the City and that the statements, findings and determinations of the City set forth above and in the preambles of the documents approved herein are true and correct and that the consummation of the transactions contemplated therein shall result in significant public benefits to the City.

Section 2. Sale and Repurchase Agreement. The Sale and Repurchase Agreement, 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 of the City, is hereby approved, and the City Manager or the Finance Director are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Corporation the Sale and Repurchase Agreement in substantially said form, with such changes therein as such officers may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that the principal component of the Repurchase Payments shall not

exceed \$16,000,000 in the aggregate, the final Repurchase Payment shall be due January 1, 2029, and the Variable Rate of interest with respect to the Certificates shall not exceed 30% per annum.

Section 3. Trust Agreement. The Trust Agreement, proposed to be entered and executed by and between the Corporation and the Trustee, in the form presented at this meeting and on file with the City Clerk of the City, is hereby approved, and the Corporation is hereby requested to execute and deliver the Trust Agreement in substantially said form, with such changes therein as the designated officers of the Corporation may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. Certificate Purchase Contract. The Certificate Purchase Contract, proposed to be executed and entered by the City, the Corporation and the Original Purchaser, in the form presented at this meeting and on file with the City Clerk, is hereby approved, and the City Manager or the Finance Director are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Certificate Purchase Contract in substantially said form, with such changes therein as such officers may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Placement Agent Agreement. The Placement Agent Agreement, proposed to be executed and entered by the City and Lehman Brothers Inc., in the form presented at this meeting and on file with the City Clerk, is hereby approved, and the City Manager or the Finance Director are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Placement Agent Agreement in substantially said form, with such changes therein as such officers may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. Professional Services Agreement. The Professional Services Agreement, including a Scope of Services Statement, proposed to be executed and entered by the City and Envision Law Group LLP, San Mateo, California, designating Envision Law Group LLP as the City's outside counsel in connection with the Program and setting forth the terms of such outside counsel's engagement in connection therewith, in the form presented at this meeting and on file with the City Clerk, is hereby approved, and the City Manager or the Finance Director are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Professional Services Agreement in substantially said form, with such changes therein as such officers may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. Certificates of Participation. The City Attorney, with the approval of the Finance Director, is hereby authorized to cause Certificates to be executed and delivered to the Original Purchaser from time to time, in one or more Series having a minimum aggregate amount of \$250,000 each, to finance the costs of the Program, and to direct the expenditure of the proceeds of the Certificates in accordance with the Program Budget attached as Exhibit A to the Sale and Repurchase Agreement, as such budget may be revised from time to time with the consent of the City Council.

Section 8. Attestations. The City Clerk is hereby authorized and directed to attest the signature of the City Manager and the Finance Director as may be required or appropriate in connection with the execution and delivery of the Certificates and the documents approved by this Resolution.

Section 9. Other Actions. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents

which they may deem necessary or desirable in order to consummate the transactions authorized hereby and to consummate the sale, execution and delivery of the Certificates, from time to time in accordance with the Certificate Purchase Contract, and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Sale and Repurchase Agreement, the Trust Agreement, the Certificate Purchase Contract, the Placement Agent Agreement, and the Certificates, including but not limited to the initiation of any judicial action deemed appropriate by the City Attorney in connection with the execution and delivery of the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 10. City Agreement Not to Impair Rights of Certificate Holders. The City will not repeal the Ordinance or amend any provision of the Ordinance in a manner which would adversely affect the rights of the holders of the Certificates until the Certificates are fully paid and discharged and until the Purchase Commitment, as defined in the Sale and Repurchase Agreement, has terminated.

Section 11. Effective Date. This Resolution shall take effect upon the effective date of the Ordinance, unless Ordinance does not become effective by June 1, 2000, in which event this Resolution shall be of no further force and effect.

Dated: November 3, 1999

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I hereby certify that Resolution No. 99-180 was passed and adopted by the City Council of the City of Lodi in a regular meeting held November 3, 1999, by the following vote:

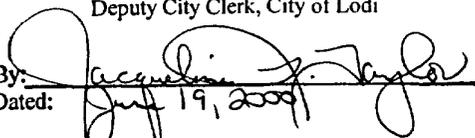
- AYES: COUNCIL MEMBERS – Mann, Nakanishi, Pennino and Land (Mayor)
- NOES: COUNCIL MEMBERS – Hitchcock
- ABSENT: COUNCIL MEMBERS – None
- ABSTAIN: COUNCIL MEMBERS – None


 for ALICE M. REIMCHE
 City Clerk

99-180

The foregoing document is certified to be a correct copy of the original on file in the City Clerk's Office.

Jacqueline L. Taylor
Deputy City Clerk, City of Lodi

By: 
 Dated: July 19, 2009

Continued November 3, 1999

Purchasing Assistant

<u>Step A</u>	<u>Step B</u>	<u>Step C</u>	<u>Step D</u>	<u>Step E</u>
\$2,044.77	\$2,147.00	\$2,254.36	\$2,367.08	\$2,485.43

This new range represents a 7.6% increase over the old range.

Support Services Supervisor

<u>Step A</u>	<u>Step B</u>	<u>Step C</u>	<u>Step D</u>	<u>Step E</u>
\$2,404.60	\$2,524.83	\$2,651.08	\$2,783.63	\$2,922.81

This new range represents an 11.3% decrease from the old range.

Customer Services Supervisor	No change is recommended
Sr. Storekeeper/Buyer	No change is recommended
Supervising Administrative Clerk	No change is recommended

The impact of these changes would be an increase in the salary ranges for Parks Project Coordinator and Purchasing Assistant, and a decrease in the range for Support Services Supervisor. The effect of these changes on the employees occupying these positions would be a 5% increase for the Parks Project Coordinator and Purchasing Assistant, and a freezing, or "Y rating", of the salary for Support Services Supervisor.

Following discussion, the City Council, on motion of Pennino, Hitchcock second, unanimously adopted Resolution No. 99-179 approving the implementation of salary range adjustments for Parks Project Coordinator, Purchasing Assistant and Support Services Supervisor.

- b) Agenda item #H-2 entitled, "Authorize execution of appropriate documents establishing financing program for Environmental Remediation Program relative to groundwater contamination".

City Attorney Hays reminded the City Council that about two and one-half years ago, the City entered into an agreement with the California Department of Toxic Substances Control, which placed the City in the position of lead agency relative to cleaning up the PCE/TCE groundwater contamination in the City. The decision to become the lead agency was undertaken by the City Council after evaluating alternatives and their affect on the community generally. The Council at that time rejected a program that would have resulted in very significant water rate increases for all water rate payers in the community. Instead, the City began funding the environmental remediation activities from reserves in the water fund. The activities to date have principally been of a legal nature and have resulted in the City expending significant dollars. This office some time ago began exploring the possibility of integrating a financing undertaking with the legal strategies that the City wished to pursue in order to accomplish the necessary cleanup program. The City Manager directed that if a program could be developed which did not put at risk funds other than those to be recovered through our environmental remediation activities, then it was a program he would be willing to support as well.

What is before the City Council is a recommendation to move forward with a financing which incorporates an elaborate budget developed to provide funding for our legal program as we have developed it, as well as our technical remediation program, with the revenue stream being only those dollars that are recovered under our environmental remediation program. We have coordinated the program with the Envision Law Group agreement so that payments under that agreement, as presented, track the budget and the financing. No other City revenues are pledged under this program to repay the holders of Certificates of Participation other than program recoveries.

While the financing concept is unique, the actual financing transaction is virtually identical to the Certificate of Participation transaction which the City recently undertook involving the City's electrical system. The effect of Council's approval of the financing is to provide dollars to proceed with our environmental enforcement and remediation activities relative to the PCE/TCE contamination once the financing is completely in place. At that point in time the City will cease to be spending moneys from the water fund.

Council will note that the transaction has moved up from \$15.75 million to \$16 million. This increase reflects the time that has elapsed since we first began this process along with increased costs incurred by Lehman Brothers in developing the legal structure of the transaction. Those costs, as the others, are covered by the transaction now that it has increased to \$16 million.

Alex Burnett, Financial Advisor with PFM, provided a brief presentation regarding the proposed documents, and reflected on the four main factors involved in going forward with this program: the flow of funds and security structure; limitations on non-cash settlements associated with the loan; costs associated with the program, which are clearly outlined and certain fees that are limited but no contingent; unwinding provisions governed in the documents.

Council Member Hitchcock expressed her concerns with moving forward, and asked for clarification regarding the documents provided, requesting that Mr. Burnett provide a detailed review of the key points contained in the proposed program documents. City Attorney Hays reminded Council that certain contents and strategies within the documents are confidential and must remain so for the success of this project, noting that the final report of Mr. Burnett was in his verbal presentation to Council this evening.

Council Member Pennino voiced his concern in retaining the confidentiality of these documents and the City's strategies, and stated he has read the information provided and feels the program will be successful in the City's financial recovery efforts. Further, Mr. Pennino requested that the City Manager review and approve all documents and invoices generated during the life of the program.

Council Member Nakanishi stated that when he ran for the City Council Member position, he was aware of the MERLO topic and was sure if elected, this might be the most important item he would be asked to support or reject. Mr. Nakanishi fully supports this program and would like to see the City Council move forward.

Mayor Land stated that the City Council and staff have worked on the MERLO project for a few years and at this time have few options left. Since insurance companies will not disclose the existence of policies which would help to pay for the contamination cleanup, this program is necessary in helping the city move forward.

Mayor Pro Tempore Mann reminded Council that this item has been exhaustively discussed over the past two years, and that while he cannot recite all the details, he relies on the City Manager, City Attorney and the professionals they have consulted regarding this proposal. Mr. Mann expressed he is comfortable with the safety of City funds provided with this proposal, has done his homework, and will do his best to make a decision best for those who have placed him in this position of trust. The City has done due diligence for as long as needed. It's time to make a decision and move forward now.

Continued November 3, 1999

Following discussion, the City Council, on motion of Mann, Land second, adopted Resolution No. 99-180 entitled, "A Resolution Of The City Council Of The City Of Lodi Relating To Variable Rate Certificates Of Participation (Environmental Abatement Program), Approving The Forms Of And Authorizing The Execution And Delivery Of A Program Receipts Sale And Repurchase Agreement, A Trust Agreement, A Certificate Purchase Contract, A Placement Agent Agreement And A Professional Services Agreement, And Authorizing Certain Other Related Actions In Connection Therewith" by the following vote:

Ayes: Council Members - Mann, Nakanishi, Pennino and Land (Mayor)
Noes: Council Members - Hitchcock
Absent: Council Members - None
Abstain: Council Members - None

10. RECESS

Mayor Land called for a ten-minute recess, and the City Council meeting reconvened at approximately 9:25 p.m.

11. REGULAR CALENDAR (continued)

- a) Agenda item #H-3 entitled, "Ordinance establishing Chapter 2.34, Administrative Procedures, of the Lodi Municipal Code".

City Attorney Hays reported that in January of 1999, the California Court of Appeals, 4th District, Division II decided the case of Haas v. County of San Bernardino. In February of that same year, the Court ordered the Opinion to be published thereby establishing a case with precedential value. The subject matter of the Haas case was centered around how the County of San Bernardino selected its hearing officers to handle administrative hearings. Council will remember that when the administrative matter which was undertaken against M&P Investments and David Mustin, you heard counsel for David Mustin make an argument based upon the Haas case that our administrative procedure was flawed.

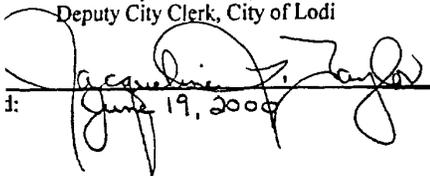
Out of an abundance of caution, we have undertaken to develop a comprehensive Administrative Procedures Chapter for the Lodi Municipal Code. This Chapter is developed in part to answer the Haas decision and to put us in a position should that decision remain in place to be able to absolutely argue against any claim that the selection of hearing officers in our administrative matters is not in compliance with State or Federal due process requirements.

In closing, it should be noted that the Haas case has moved up the judicial ladder and will be considered by the California Supreme Court. The expected outcome at this time is that the California Supreme Court will return to the rather long-standing law in the State of California that it is necessary in order to challenge a hearing officer for the challenging party to demonstrate an actual bias in order to have a hearing officer removed.

Following discussion, the City Council, on motion of Mann, Pennino second, unanimously introduced Ordinance No. 1683 entitled, "An Ordinance Of The City Council Of The City Of Lodi Amending Title 2 – Administration And Personnel Of The Lodi Municipal Code By Adding Chapter 2.34, Relating To Administrative Procedures".

foregoing document is certified to be a correct
of the original on file in the City Clerk's Office.

Jacqueline L. Taylor
Deputy City Clerk, City of Lodi


Date: June 19, 2000

Placement Agent Agreement

Execution Copy

June 28, 2000

The City of Lodi
221 West Pine Street
Lodi, California 95240-1910

Lodi Financing Corporation
221 West Pine Street
Lodi, California 95240-1910

Re: Lodi Financing Corporation
(Environmental Abatement Program)
Variable Rate Certificates of Participation

Placement Agent Agreement

Ladies and Gentlemen:

The purpose of this letter (the "Agreement") is to confirm the engagement of Lehman Brothers Inc. ("Lehman") by the City of Lodi (the "City") to act as the exclusive placement agent on behalf of the City to use its best efforts in placing with an institutional investor (which investor may be Lehman Brothers Inc.) (the "Investor") the Lodi Financing Corporation (Environmental Abatement Program) Variable Rate Certificates of Participation (the "Certificates") in an aggregate principal amount not to exceed \$16,000,000, to be purchased in several Series from time to time in accordance with the terms of the Certificate Purchase Contract, dated as of June 28, 2000 (the "Purchase Contract"), by and among the City, the Lodi Financing Corporation (the "Corporation") and Lehman Brothers Inc., as Purchaser (the "Original Purchaser"). Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Purchase Contract and the Program Receipts Sale and Repurchase Agreement, dated as of June 1, 2000 (the "Sale and Repurchase Agreement"), by and between the City and the Corporation. This letter does not obligate Lehman or the Investor to purchase any Certificates issued in conjunction with this financing for any reason.

1. Description of Financing. The Certificates will evidence and represent interests of the owners thereof in the Repurchase Payments to be made by the City under the Sale and

Repurchase Agreement. Under the provisions of the Sale and Repurchase Agreement, the City will irrevocably sell and convey to the Corporation its right to receive all amounts, proceeds and recoveries from, or in contemplation of, or in connection with, the potential liability of responsible parties or potentially responsible parties, their insurers or indemnitors or of tortfeasors or potential tortfeasors, their insurers or indemnitors ("Program Receipts") received by the City in connection with its Environmental Abatement Program (the "Program"), as described in the City's Ordinance No. 1684, adopted November 17, 1999 and effective December 17, 1999 (the "Ordinance"), repealing and reenacting its Comprehensive Municipal Environmental Response and Liability Ordinance, Title 8, Chapter 8.24 of the Lodi Municipal Code, and the Corporation will irrevocably resell and reconvey undivided interests in the Program Receipts in consideration of the payment by the City of the Repurchase Payments under the Sale and Repurchase Agreement.

The Certificates shall be executed and delivered in Series from time to time pursuant to a Trust Agreement, dated as of June 1, 2000 (the "Trust Agreement"), by and among the Corporation and U.S. Bank National Trust Association, as trustee (the "Trustee"), and shall represent undivided proportionate interests in the Corporation's right to receive Repurchase Payments under the Sale and Repurchase Agreement. The City's obligation to make Repurchase Payments under the Sale and Repurchase Agreement is a limited obligation of the City, payable solely from Program Receipts. The Purchase Contract, the Trust Agreement and the Sale and Repurchase Agreement are collectively referred to herein as the "Legal Documents."

Each Series of the Certificates shall be executed and delivered on the applicable Delivery Date and in the aggregate principal amount specified by the City in an Issuance Request submitted by the City in accordance with the terms of the Trust Agreement. The maximum principal amount of Certificates that may be executed and delivered on any Delivery Date is an amount equal to the Cumulative Disbursement Cap for the immediately succeeding calendar quarter as set forth in the Program Budget, less any principal amount of Certificates previously executed and delivered. The purchase price for each Series of the Certificates shall be equal to the aggregate principal amount of such Series of the Certificates, and no Series of Certificates will be executed and delivered in an aggregate amount of less than \$250,000. No Delivery Date shall occur after the Commitment Period Ending Date.

2. Obligations of Lehman. Subject to the negotiation of final terms and conditions and acceptable documentation, and the satisfaction of other customary closing conditions, including the receipt of acceptable legal opinions, all to be set forth in the Purchase Contract, Lehman will use its best efforts to place the Certificates with the Investor. The City acknowledges that neither Lehman nor any of its affiliates has acted as an advisor to the City in connection with the financing plan.

3. Representations, Warranties and Agreements. The City and the Corporation have made numerous representations, warranties and agreements in the Legal Documents. Lehman is

entitled to rely upon such representations, warranties and agreements as if such statements were incorporated in their entirety herein as of the date of the Initial Closing and of each Subsequent Closing.

4. Compensation; Payment of Placement Fee. The City acknowledges that the structuring of the financing plan and the negotiation and preparation of final documentation have and will continue to involve the expenditure of a substantial amount of time and resources by Lehman and its counsel. Both Lehman and the City further acknowledge that the financing plan may, at any time, be abandoned by the City. Finally, other contingencies may arise that may prevent the Certificates from being issued or prevent Lehman from successfully placing the Certificates. Regardless of any such abandonment or other such contingencies, the Placement Fee referred to in the next paragraph will be payable to Lehman.

In consideration of the significant expenditures and efforts made to date by Lehman and its counsel, and the commitment of Lehman to work with the City toward the negotiation of mutually agreeable documentation, and notwithstanding the risks described above, the City agrees to pay to Lehman a placement fee of \$1,000,000 (the "Placement Fee"). The Placement Fee will be paid to Lehman at closing from the first proceeds of the Certificates. If for any reason no Certificates are issued on or before August 1, 2000, or if for any reason the City should abandon its efforts to issue the Certificates prior to such date, the City agrees to pay the Placement Fee to Lehman, but solely from any Program Receipts theretofore or thereafter collected by the City. Such payment will be made by the City within five business days after August 1, 2000 or the date of abandonment, whichever date occurs first (the "Due Date"). If the City has not received any Program Receipts, or has received insufficient Program Receipts to make such payment in full by the Due Date, the City shall make a partial payment from any Program Receipts on hand and shall apply the first Program Receipts it receives thereafter to payment of the unpaid portion of the Placement Fee until the total amount of the Placement Fee has been paid to Lehman. The Placement Fee shall in any event be nonrefundable, and the obligation to pay the Placement Fee shall survive the termination of this Agreement.

5. Indemnification.

(a) General Indemnity. The City shall, to the extent permitted by law, defend, indemnify and hold harmless the Corporation, the Trustee (as the assignee of the Corporation's rights under the Sale and Repurchase Agreement), Lehman, the Calculation and Verification Agent, the Original Purchaser, each Certificate Holder and their members, directors, officers, employees, and agents from and against any and all losses, claims, damages, liabilities, or expenses of every kind, character, and nature whatsoever (excepting therefrom only such losses, claims, damages, liabilities, or expenses arising from the negligence of the Corporation, with respect to indemnification of the Corporation, or the Trustee, with respect to indemnification of the Trustee), including, but not limited to, losses, claims, damages, liabilities, or expenses arising out of, resulting

from, or in any way connected with (1) the City's interest in, or use of, the Program Receipts or any portion thereof; (2) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates, the Purchase Contract, the Trust Agreement, the Sale and Repurchase Agreement or any related document; (3) the carrying out of the Program; or (4) the acceptance of and administration by the Trustee of the Trustee's duties under the Trust Agreement. The City shall, to the extent permitted by law and, with respect to the indemnification of Lehman, the Calculation and Verification Agent, the Original Purchaser and each Certificate Holder (each a "Special Indemnified Party"), to the extent permitted by clause (b) below, pay or reimburse the Corporation, the Trustee, the Special Indemnified Parties and their members, directors, officers, employees and agents for any and all costs, reasonable attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions. Notwithstanding anything to the contrary in the Sale and Repurchase Agreement or the Trust Agreement, the Trustee and the Corporation shall not be entitled to payment, reimbursement or indemnification for actions involving willful misconduct, default or negligence on the part of the Trustee or the Corporation, respectively.

(b) Limited Source Indemnity. The obligation of the City to defend, indemnify, and hold harmless the Special Indemnified Parties for any suits or claims arising from the sale of the Certificates or the City's pursuit of the Program (as described in the preceding paragraph), shall be payable solely from (i) Program Receipts, and (ii) any proceeds of insurance or self-insurance programs in which the City has participated or will participate. With regard to item (i), if currently available Program Receipts are insufficient to pay attorney fees and expenses and other litigation related costs at the time they are incurred, the Special Indemnified Parties may fund the excess of such fees and expenses, and any future Program Receipts will be used to reimburse the Special Indemnified Parties for such amounts. With regard to item (ii), the City agrees to cooperate fully with the Special Indemnified Parties in submitting and pursuing claims against such City insurers, although the City will have no obligation to maintain any insurance coverage.

(c) Special Conditions. The City's indemnity obligation to the Special Indemnified Parties under section (b) above is subject to the following conditions:

(1) The City will pay attorneys' fees and costs of a single law firm chosen by the Special Indemnified Parties to collectively represent the Special Indemnified Parties, and such counsel shall, to the extent consistent with the Special Indemnified Parties' interests, cooperate with the City and avoid duplication and wastefulness in the assertion of defenses;

(2) The City will pay attorneys' fees and costs of additional law firms to represent an individual Special Indemnified Party where (i) the counsel retained under (c)(1) above could not, as a result of applicable law or code of professional responsibility, assert a defense on behalf of such an individual Special Indemnified Party while simultaneously representing the other Special Indemnified Parties for reasons including, but not limited to, a situation in which the use of counsel chosen by the Special Indemnified Parties to represent the Special Indemnified Party or Parties would present such counsel with a conflict of interest, or in which the actual or potential defendants in, or targets of, any such action include the Special Indemnified Party or Parties, and the City and the Special Indemnified Party or Parties shall have reasonably concluded that there may be legal defenses available to it and/or other Special Indemnified Parties that are different from or additional to those available to the City, or (ii) the City shall authorize the Special Indemnified Parties to employ separate counsel at the expense of the City; and

(3) The City will not, without the prior written consent of the Special Indemnified Parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in which indemnification or contribution may be sought hereunder (whether or not the Special Indemnified Parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each Special Indemnified Party from all liability arising out of such claim, action, suit or proceeding.

The provisions of this Section 5 shall survive the termination of this Agreement, the Purchase Contract and the discharge of the City's obligations under the Sale and Repurchase Agreement and the Trust Agreement.

6. Cooperation with Private Placement. The City and the Corporation agree to assist the Investor and Lehman in preparing materials for use in any private placement of the Certificates which the Investor or Lehman may determine to offer, which assistance shall include but not be limited to the preparation of a private placement memorandum. At the time of any such private placement, the City and the Corporation will represent and warrant that the information provided by each of them, respectively, is true and correct, and the City and the Corporation shall provide the same indemnification and opinions as are provided under the Purchase Contract and shall be subject to the same obligations, as applicable, as thereunder. The provisions of this Section 6 shall survive the termination of this Agreement and the discharge of the City's obligations under the Sale and Repurchase Agreement and the Trust Agreement.

7. Agreement Supersedes Letter of July 30, 1999. This agreement shall supersede and replace the letter agreement dated July 30, 1999, as amended on November 4, 1999, which upon execution hereof shall be of no further force and effect.

8. Governing Law. The terms of this agreement will be governed by and construed in accordance with the laws of the State of California.

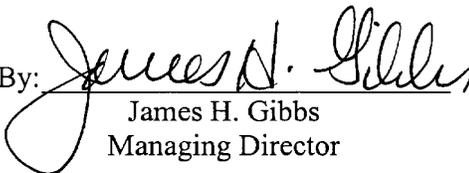
9. Termination; Survival. This Agreement shall terminate one year from the date of acceptance hereof unless extended by the mutual written consent of the City and Lehman. In addition, this agreement may be terminated any time at the option of Lehman if, in the opinion of Lehman, circumstances exist which adversely affect the marketability of the Certificates. The provisions of Sections 4 and 5 hereof shall survive any termination of this agreement. The City shall be obligated to pay Lehman the Placement Fee described above, from Program Receipts, for any placement of Certificates with parties introduced to the City by Lehman if such placement, either in preliminary or final form, occurs within one year after termination of this Agreement.

The City of Lodi
June 28, 2000
Page 7

Should the City agree with the above terms, Lehman requests that the City execute a copy of this letter and return the same to us at the address indicated below.

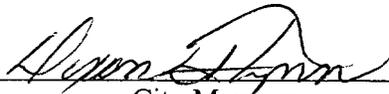
Sincerely,

Lehman Brothers Inc.
555 California Street
30th Floor
San Francisco, California 94104

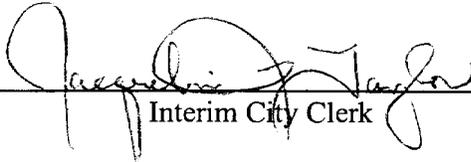
By: 
James H. Gibbs
Managing Director

Agreed to this 28th day of June, 2000:

CITY OF LODI

By: 
City Manager

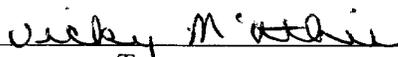
ATTEST:


Interim City Clerk

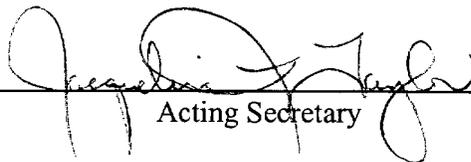
APPROVED AS TO FORM:


City Attorney

LODI FINANCING CORPORATION

By: 
Treasurer

ATTEST:


Acting Secretary

APPROVED AS TO FORM:


Corporation Counsel

Principal $(1 + \frac{.2544}{4})^n$
Compounded Quarterly

2 filed 10-17-01 7.50%

Through Sept 30, 2001
 3070

①	$2.5 \stackrel{4/29/00}{(1 + .0561)^{5a}}$	= 3,284,469.41	3,529,073.32
②	$1.5 \stackrel{10/3/00}{(1 + .0561)^{4a}}$	= 1,865,999.10	2,003,203.71
③	$1.5 \stackrel{11/2/01}{(1 + .0561)^3}$	= 1,766,877.28	1,863,445.31
④	$1.5 \stackrel{4/3/01}{(1 + .0561)^2}$	= 1,673,020.81	1,733,437.50
⑤	$1.125 \stackrel{7/3/01}{(1 + .0561)^1}$	= 1,188,112.50	1,209,675.
⑥	$1.125 \stackrel{10/3/01}{=} 0$		
		<u>9,778,479.10</u>	<u>10,398,534.84</u>
		- 8,125,000	- 7,125,000
		<u>1,653,479.10</u>	<u>3,273,534.84</u>

9,250,000 (issued through 10/2/01)

2,273,535 (30%)

11,523,535

- Quarterly report per Susan Plechick

Principal $(1 + \frac{.2244}{4})^n$
 compounded Quarterly

2
 through Sept 30, 2001
 30%
 $2.44 \times 30\%$

7.50%

①	$2.5 \stackrel{4/29/00}{(1 + .0561)^{5a}}$	= 3,284,469.41	3,589,073.32
②	$1.5 \stackrel{10/3/00}{(1 + .0561)^{4a}}$	= 1,865,999.10	2,003,203.71
③	$1.5 \stackrel{11/2/01}{(1 + .0561)^3}$	= 1,766,877.28	1,863,445.31
④	$1.5 \stackrel{4/2/01}{(1 + .0561)^2}$	= 1,673,020.81	1,733,437.50
⑤	$1.125 \stackrel{7/3/01}{(1 + .0561)^1}$	= 1,188,112.50	1,209,375.
⑥	$1.125 \stackrel{10/2/01}{=} 0$		
		<u>9,778,479.10</u>	<u>10,398,534.84</u>
		- 8,125,000	<u>8,125,000</u>
		<u>1,653,479.10</u>	<u>2,273,534.84</u>

9,250,000 (issued through 10/2/01)
 2,273,535 (30%)
11,523,535