



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Approve City of Lodi Electric System Revenue Variable Rate Demand Certificates of Participation, 2002 Series A and Electric System Revenue Certificates of Participation, 2002 Taxable Series B.

MEETING DATE: December 19, 2001

PREPARED BY: City Manager, Electric Utility Director and Finance Director

RECOMMENDED ACTION: That the City Council approve the attached resolution relating to the City of Lodi Electric System Revenue Variable Rate Demand Certificates of Participation, 2002 Series A and Electric System Revenue Certificates of Participation, 2002 Taxable Series B.

BACKGROUND INFORMATION: As previously discussed with the Council, the current low interest rate environment, gives the City an opportunity to issue new Electric Revenue Certificates of Participation (COPs) to legally defease the approximately \$43,900,000 1999 COP's to their call date and generate debt service savings. At current rates, the present value savings from an optimally structured refunding issue would be in excess of \$5 million. In addition, the Electric Utility currently believes that approximately \$6 million in the existing construction fund is no longer needed for its original purpose, and could be contributed to the refunding escrow. This contribution would reduce the size of the refunding issue (to approximately \$47,100,000), but would not affect the savings. Annual debt service after 2010 would be reduced by approximately \$1,160,000.

In addition, the Electric Utility proposes to issue approximately \$10,200,000 of taxable Electric Revenue COPs to raise working capital. This will provide additional flexibility to meet cashflow needs stemming from the unusual power market conditions of the past 12 months. Debt service on this taxable issue would be a level annual amount of approximately \$1,600,000, with a final maturity in eight years. The proceeds from this issue are not intended to be used for budgeted O&M costs. Budgeted costs are projected to be recovered through existing rates.

The combined issue size would be \$57,300,000. The COPs would be secured by net revenues from the Electric Utility.

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

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

APPROVED: _____

H. Dixon Flynn -- City Manager



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

FUNDING: None required at this time.


H. Dixon Flynn
City Manager

APPROVED: _____
H. Dixon Flynn – City Manager

INSTALLMENT PURCHASE CONTRACT

by and between

CITY OF LODI

and

LODI PUBLIC IMPROVEMENT CORPORATION

Dated as of January 1, 2002

Electric System Revenue Variable Rate Demand
Certificates of Participation

\$ _____ 2002 Series A

and

Electric System Revenue
Certificates of Participation

\$ _____ 2002 Taxable Series B

TABLE OF CONTENTS

	Page
ARTICLE I DEFINITIONS.....	2
SECTION 1.01. Definitions.....	2
ARTICLE II SALE AND REPURCHASE OF FACILITIES	2
SECTION 2.01. Sale of Existing Facilities	2
SECTION 2.02. Repurchase of Existing Facilities by City.....	2
ARTICLE III INSTALLMENT PAYMENTS AND PREPAYMENTS	2
SECTION 3.01. Installment Payments.....	2
SECTION 3.02. Prepayments.....	3
ARTICLE IV ELECTRIC SYSTEM REVENUES; FUNDS.....	3
SECTION 4.01. Pledge of Net Revenues and Moneys in Electric Revenue Fund; Electric Revenue Fund.....	3
SECTION 4.02. Escrow Fund	5
SECTION 4.03. Investments	5
ARTICLE V CERTIFICATE INSURANCE POLICIES.....	6
ARTICLE VI PARITY OBLIGATIONS AND SUBORDINATE OBLIGATIONS	6
SECTION 6.01. Conditions for the Execution of Parity Obligations.....	6
SECTION 6.02. Subordinate Obligations.....	7
ARTICLE VII COVENANTS OF THE CITY	8
SECTION 7.01. Compliance with Contract	8
SECTION 7.02. Distribution of Net Revenues for Debt Service	8
SECTION 7.03. Tax Covenants	8
SECTION 7.04. Against Encumbrances.....	9
SECTION 7.05. Sale or Other Disposition of Property.....	9
SECTION 7.06. Reserved.....	9
SECTION 7.07. Maintenance and Operation of the Electric System; Budgets	9
SECTION 7.08. Compliance with Contracts for Use of the Electric System	9
SECTION 7.09. Insurance	9
SECTION 7.10. Accounting Records; Financial Statements and Other Reports.....	10
SECTION 7.11. Protection of Security and Rights of the Corporation.....	10
SECTION 7.12. Payment of Taxes and Compliance with Governmental Regulations	10

TABLE OF CONTENTS
(continued)

	Page
SECTION 7.13. Amount of Rates and Charges	10
SECTION 7.14. Collection of Rates and Charges.....	11
SECTION 7.15. Eminent Domain and Insurance Proceeds	11
SECTION 7.16. Further Assurances.....	11
SECTION 7.17. Continuing Disclosure	11
SECTION 7.18. Liquidity Facilities	12
SECTION 7.19. City Obligations under Trust Agreement.....	13
ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES	13
SECTION 8.01. Events of Default and Acceleration of Principal	13
SECTION 8.02. Application of Net Revenues upon Acceleration.....	14
SECTION 8.03. Other Remedies.....	15
SECTION 8.04. Non-Waiver.....	15
SECTION 8.05. Remedies Not Exclusive	16
ARTICLE IX DISCHARGE OF OBLIGATIONS.....	16
SECTION 9.01. Discharge of Obligations	16
ARTICLE X MISCELLANEOUS	17
SECTION 10.01. Liability of City Limited to Net Revenues	17
SECTION 10.02. Other Provisions Relating to Financial Guaranties.....	17
SECTION 10.03. Amendments	17
SECTION 10.04. Assignment of Contract	17
SECTION 10.05. Benefits of Contracts Limited to Parties.....	18
SECTION 10.06. Successor Is Deemed Included in all References to Predecessor	18
SECTION 10.07. Waiver of Personal Liability.....	18
SECTION 10.08. Article and Section Headings, Gender and References	18
SECTION 10.09. Partial Invalidity.....	18
SECTION 10.10. Net Contract	18
SECTION 10.11. California Law	19
SECTION 10.12. Indemnification	19
SECTION 10.13. Funds.....	19
SECTION 10.14. Notices	19
SECTION 10.15. Effective Date	20

TABLE OF CONTENTS
(continued)

	Page
SECTION 10.16. Execution in Counterpart	20
SCHEDULE A - SCHEDULE OF SCHEDULE A PRINCIPAL PAYMENTS	S-A-1
SCHEDULE B - SCHEDULE OF SCHEDULE B PRINCIPAL PAYMENTS.....	S-B-1
EXHIBIT 1 - DESCRIPTION OF EXISTING FACILITIES	Exh. 1-1

INSTALLMENT PURCHASE CONTRACT

This Installment Purchase Contract (the "Contract"), dated as of January 1, 2002, by and between the City of Lodi, California, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), and the Lodi Public Improvement Corporation, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"),

W I T N E S S E T H:

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

WHEREAS, the City has established the Electric System (capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to Section 1.01) to serve the inhabitants of the City; and

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

WHEREAS, pursuant to the Prior Contract, the Corporation has sold the Existing Facilities to the City; and

WHEREAS, to provide for the financing of the Existing Facilities on the currently available favorable terms and conditions, the City has determined to prepay its obligations under the Prior Contract, to sell the Existing Facilities to the Corporation and to repurchase the Facilities on the terms and conditions set forth in this Contract; and

WHEREAS, the City has determined that the sale and repurchase of the Existing Facilities as provided in this Contract is necessary and proper for City purposes under the terms of applicable law and is for the common benefit of the City as a whole; and

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

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

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in that certain Trust Agreement, dated as of January 1, 2002, between the Corporation and BNY Western Trust Company, as trustee, shall for all purposes hereof and of any amendment hereof or supplement hereto and of any opinion or report or other document mentioned herein have the meanings given such terms pursuant to said Trust Agreement.

ARTICLE II

SALE AND REPURCHASE OF FACILITIES

SECTION 2.01. Sale of Existing Facilities. In consideration of the deposit of moneys to the Escrow Fund pursuant to the Escrow Agreement and the application of such moneys as provided in the Escrow Agreement, the City hereby sells, assigns, and transfers to the Corporation, and the Corporation hereby purchases from the City, all of the City's right, title and interest in the Existing Facilities.

SECTION 2.02. Repurchase of Existing Facilities by City. In consideration of the obligation of the City to make Installment Payments as provided in Section 3.01 hereof, the Corporation hereby sells, assigns and transfers to the City, and the City hereby purchases from the Corporation, all of the Corporation's right, title and interest in the Existing Facilities.

ARTICLE III

INSTALLMENT PAYMENTS AND PREPAYMENTS

SECTION 3.01. Installment Payments. The City shall, subject to any rights of prepayment provided in Section 3.02 hereof and the exercise of any remedies under Section 8.01 hereof, pay the Corporation the Installment Payments as the purchase price for the Existing Facilities at the times and in the amounts hereinafter set forth. The Installment Payments consist of the Principal Installments and the Interest Installments. The Interest Installments constitute interest on the unpaid balance of the Principal Installments.

The Principal Installments for the Schedule A Installment Payments shall be in the amounts set forth in Schedule A hereto and shall be payable on the dates set forth in Section 4.01(b)(1) hereof. The Interest Installments for the Schedule A Installment Payments for each Interest Rate Period shall be the amounts determined as the interest on the Series A Certificates pursuant to Section 2.03 of the Trust Agreement. The Interest Installments for the Schedule A Installment Payments shall be payable on the dates set forth in Section 4.01(b)(1) hereof. The Principal Installments for the Schedule B Installment Payments shall be in the amounts set forth in Schedule B hereto and shall be payable on the dates set forth in Section 4.01(b)(1) hereof. The Interest Installments for the Schedule B Installment Payments shall be in the amounts set forth in Schedule B hereto at the rates as set forth in Section 2.02(b)

of the Trust Agreement. The Interest Installments for the Schedule B Installment Payments shall be payable on the dates set forth in Section 4.01(b)(1) hereof.

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

SECTION 3.02. Prepayments. On and after _____, the City may prepay, from any source of available funds, all or any part of the Principal Installments and the related Interest Installments becoming due and payable on or after _____, at the following prepayment price (expressed as a percentage of the Principal Installments to be prepaid), plus accrued and unpaid Interest Installments thereon to the date of prepayment, namely:

<u>Prepayment Period</u> <u>(both dates inclusive)</u>	<u>Prepayment Price Installments</u>
_____, through _____	_____
_____, and _____	_____

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

ARTICLE IV

ELECTRIC SYSTEM REVENUES; FUNDS

SECTION 4.01. Pledge of Net Revenues and Moneys in Electric Revenue Fund; Electric Revenue Fund. (a) Subject to the application thereof on the terms and conditions herein provided, all Net Revenues of the Electric System and all moneys on deposit in the Electric Revenue Fund are hereby irrevocably pledged to the payment of the Installment Payments which pledge shall be on a parity with any pledge of Net Revenues or of moneys in the Electric

Revenue Fund securing Parity Obligations as to which the provisions of Section 6.01 hereof have been satisfied. This pledge shall constitute a first pledge of and charge and lien upon the Net Revenues of the Electric System and moneys in the Electric Revenue Fund for the payment of amounts due with respect to this Contract and all Parity Obligations in accordance with the terms hereof and thereof.

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

(b) In order to carry out and effectuate the obligation of the City contained herein to pay the Installment Payments, the City agrees and covenants that all Revenues received by it shall be deposited when and as received in the Electric Revenue Fund which fund has heretofore been established by the City and which fund the City agrees and covenants to maintain separate and apart from other moneys of the City (subject to Section 4.02 hereof) so long as any Installment Payment remains Outstanding hereunder, and all money on deposit in the Electric Revenue Fund shall be applied and used only as provided herein. The City shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Electric Revenue Fund as they become due and payable, and all remaining money on deposit in the Electric Revenue Fund shall be set aside and deposited by the City at the following times in the following order of priority:

(1) Debt Service Fund Deposits. On or before the third Business Day before each Principal Payment Date set forth in Schedule A or Schedule B hereto and each Interest Payment Date, the City shall, from the money in the Electric Revenue Fund, deposit in the Debt Service Fund a sum equal to the Installment Payment becoming due and payable under this Contract on such date. On each date other than a Principal Payment Date set forth in Schedule A or Schedule B hereto or an Interest Payment Date on which an Installment Payment becomes due and payable hereunder (whether by prepayment pursuant to Section 3.02, acceleration pursuant to Section 8.01 or otherwise), the City shall, from the money in the Electric Revenue Fund, deposit in the Debt Service Fund, in immediately available funds, a sum equal to the Installment Payment due and payable on such date. Notwithstanding the provisions of the immediately preceding two sentences, no such deposits to the Debt Service Fund need be made by the City from the Electric Revenue Fund to the extent the Trustee then holds money for such purpose in the Debt Service Fund available to pay the Installment Payments to be paid with such deposit. From such remaining moneys in the Electric Revenue Fund, the City shall also pay to the party entitled thereto or transfer or cause to be transferred to any applicable debt service or other payment fund or account for any Parity Obligations, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, on the dates specified in the proceedings relating to such Parity Obligations, the sum or sums required to be paid or deposited in such debt service or other payment fund or account with respect to principal, premium, if any, and interest on Parity Obligations (or in the case of Parity Payment Agreements, the net payments due) in accordance with the terms of such Parity Obligations.

(2) Reserve Fund Deposits. To the extent the Reserve Requirement is not being satisfied with a Financial Guaranty or Financial Guarantees, on each Principal Payment Date and Interest Payment Date, the City shall, from the money on deposit in the Electric Revenue Fund, transfer to the Trustee for deposit in the Reserve Fund that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. Any amount transferred to the Trustee shall be applied first to pay the issuer of each Financial Guaranty which had been drawn on pursuant to Section 3.04(b) of the Trust Agreement (on a pro rata basis based on the amount drawn) to restore each such Financial Guaranty to its full amount. The City shall also, from such remaining moneys in the Electric Revenue Fund, transfer or cause to be transferred to any applicable reserve fund or account for any Parity Obligations for which a separate reserve has been funded pursuant to Section 6.01(e) hereof, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, the sum or sums, if any, equal to the amount required to be deposited therein in accordance with the terms of such Parity Obligations.

After making the foregoing deposits and transfers hereinabove required to be made, the City shall apply any remaining money in the Electric Revenue Fund (i) first, to pay any payment of interest then due on amounts drawn under the Financial Guaranties, on a pro rata basis and (ii) second, for any lawful purpose of the City, including for the payment of any Subordinate Obligations in accordance with the instruments authorizing such Subordinate Obligations; provided, however, that no moneys in the Electric Revenue Fund shall be applied to any purpose not related to the expansion of the facilities or business of the Electric System or replacement of facilities thereof, including the payment of any Subordinate Obligations or City Transfers, in any Fiscal Year unless amounts remaining on deposit in the Electric Revenue Fund shall be sufficient to make the remaining transfers hereinabove required to be made in such Fiscal Year with respect to Installment Payments and Parity Obligations.

SECTION 4.02. Escrow Fund. The moneys deposited in the Escrow Fund, including the proceeds of the sale of the Certificates, shall be applied as provided in the Escrow Agreement.

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

The City may commingle any of the moneys in Electric Revenue Fund with the moneys held in other funds or accounts (except for moneys held in any rebate fund, which shall be held separately) for investment purposes only; provided however, that all moneys in the Electric Revenue Fund shall be accounted for separately notwithstanding such commingling.

ARTICLE V

CERTIFICATE INSURANCE POLICIES

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

SECTION 5.02. As soon as practicable after the filing thereof with the Corporation, the City shall provide the Certificate Insurer a copy of any financial statement of the City and a copy of any audit and annual report of the City delivered by the City pursuant Section 7.10(b)(1) hereof and a copy of any report or notice required to be filed with a National Repository and/or State Repository pursuant to the Continuing Disclosure Agreement to be delivered by the City in connection with the execution and delivery of the Certificates (and as such terms are defined in the Continuing Disclosure Agreement).

SECTION 5.03. Any acceleration of unpaid Installment Payments pursuant to 8.01 hereof or any annulment thereof shall be subject to the prior written consent of the Certificate Insurer.

SECTION 5.04. Notwithstanding anything contained herein to the contrary, in the event that any Interest Installment and/or Principal Installment of the Installment Payments shall be paid by the Certificate Insurer pursuant to a Certificate Insurance Policy, the Installment Payments shall remain unpaid hereunder for all purposes, shall not be discharged or otherwise satisfied and shall not be considered paid by the City, and the assignment and pledge thereof and all agreements, covenants and other obligations of the City hereunder with respect thereto shall continue to exist and shall run to the benefit of the Certificate Insurer.

SECTION 5.05. In connection with the execution and delivery of any Parity Obligations under the terms of Article VI, the City shall deliver or caused to be delivered to the Certificate Insurer a copy of the disclosure document, if any, circulated with respect to such Parity Obligations.

ARTICLE VI

PARITY OBLIGATIONS AND SUBORDINATE OBLIGATIONS

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

(a) Either -

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

(2) as evidenced by [a Certificate of the City] [an Engineer's Report on file with the City], the projected Adjusted Annual Net Revenues during each of the succeeding five (5) complete Fiscal Years beginning with the first Fiscal Year following issuance of such Parity Obligation in which interest is not capitalized in whole from the proceeds of Parity Obligations, is at least equal to one hundred ten percent (110%) of the Maximum Annual Debt Service for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed;

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

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

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

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

Notwithstanding the foregoing provisions, neither clause (a) nor clause (b) above shall limit the ability of the City to execute any Parity Obligations at any time to refund any Outstanding Installment Payments and Outstanding Parity Obligations which results in a net present value savings to the City, inclusive of all costs of such refunding.

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

ARTICLE VII

COVENANTS OF THE CITY

SECTION 7.01. Compliance with Contract. The City will punctually pay the Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Contract or fail to make any Payment required by this Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of the Electric System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained in this Contract required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with this Contract or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

SECTION 7.02. Distribution of Net Revenues for Debt Service. The City hereby covenants that the City will distribute Net Revenues available for Outstanding Installment Payments and debt service on all Outstanding Parity Obligations on a pro rata basis without regard to whether each such Parity Obligation has a funded debt service reserve or a surety bond or other similar funding instrument.

SECTION 7.03. Tax Covenants. (a) The City hereby covenants it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax-exempt status of the Interest Installments of the Schedule A Installment Payments under Section 103 of the Code. Without limiting the generality of the foregoing, the City shall comply with the requirements of the Tax Certificate, which is incorporated herein as if fully set forth herein.

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

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

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

SECTION 7.04. Against Encumbrances. The City will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the City in, upon, about or relating to the Electric System and will keep the Electric System free of any and all liens against any portion of the Electric System. In the event any such lien attaches to or is filed against any portion of the Electric System, the City will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so if contesting such lien will not materially impair operation of the Electric System. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City will forthwith pay or cause to be paid and discharged such judgment. The City will, to the maximum extent permitted by law, indemnify and hold the Corporation harmless from, and defend it against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against any portion of the Electric System.

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

SECTION 7.06. Reserved.

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

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

SECTION 7.09. Insurance. The City will procure and maintain such insurance relating to the Electric System which it shall deem advisable or necessary to protect its interests and the

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

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

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

(b) The City will prepare and file with the Corporation annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2002):

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

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

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

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

SECTION 7.13. Amount of Rates and Charges. The City will at all times fix, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System

during each Fiscal Year which will be at least sufficient to yield: (a) Adjusted Annual Revenues for such Fiscal Year at least equal to the sum of the following for such Fiscal Year: (i) Adjusted Maintenance and Operation Costs; (ii) Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations, and (iii) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from the Electric Revenue Fund, including all amounts owed to any issuer of a Financial Guaranty then in effect and deposited in the Reserve Fund under the terms of such Financial Guaranty; (b) Adjusted Annual Net Revenues for such Fiscal Year equal to at least one hundred ten percent (110%) of Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Adjusted Annual Revenues and the Adjusted Annual Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this Section.

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

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

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

SECTION 7.17. Continuing Disclosure. The City hereby covenants and agrees, whenever a Term Interest Rate Period is in effect with respect to the Series A Certificates, or if otherwise required by Rule 15c2-12, to comply with the continuing disclosure requirements for the Series A Certificates as promulgated under Rule 15c2-12, as it may from time to time

hereafter be amended or supplemented. The City hereby further covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement to be delivered by the City in connection with the execution and delivery of the Series B Certificates. Notwithstanding any other provision of this Contract, failure of the City to comply with the requirements of Rule 15c2-12 applicable to the Series A Certificates, as it may from time to time hereafter be amended or supplemented, or failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default hereunder and the Corporation shall have no right to accelerate amounts due hereunder as a result thereof; provided, however, that any Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations in this Section and the Continuing Disclosure Agreement.

SECTION 7.18. Liquidity Facilities. (a) The City shall cause the Initial Liquidity Facility to be delivered to the Trustee on the Delivery Date. So long as the Series A Certificates bear interest for an Interest Rate Period which does not extend to the Certificate Payment Date of the Series A Certificates, the City will maintain the Initial Liquidity Facility for such Series A Certificates or cause to be provided to the Trustee an Alternate Liquidity Facility which satisfies the requirements of subsection (b) of this Section. At least forty (40) days prior to the termination or expiration of the existing Liquidity Facility with respect to the Series A Certificates, including any renewals or extensions thereof (which shall not be considered the delivery of an Alternate Liquidity Facility), the City shall cause to be delivered to the Trustee notice that the City expects the Liquidity Provider for the existing Liquidity Facility for the Series A Certificates to renew or extend of the term of such Liquidity Facility or that the City expects to provide an Alternate Liquidity Facility for the Series A Certificates satisfying the requirements of subsection (b) of this Section. At least ten (10) days prior to the termination or expiration of the existing Liquidity Facility with respect to the Series A Certificates, including any renewals or extensions thereof, the City shall cause to be delivered to the Trustee a renewal or extension of the term of such Liquidity Facility or an Alternate Liquidity Facility for the Series A Certificates satisfying the requirements of subsection (b) of this Section.

(b) The City may at any time provide an Alternate Liquidity Facility with respect to the Series A Certificates if such Alternate Liquidity Facility satisfies the following conditions and the City causes the documents and opinions specified in subsection (c) of this Section to be delivered to the Trustee:

(1) The obligations of the Liquidity Provider under the Alternate Liquidity Facility to purchase the Series A Certificates relating to Alternate Credit Facility tendered or deemed tendered for purchase pursuant to Section 2.05(A) or 2.06 of the Trust Agreement shall not be subject to termination or suspension on less than 15 days notice to the City and the Trustee; provided, however, that the obligations of the Liquidity Provider to purchase such Series A Certificates or otherwise provide for the Purchase Price of such Series A Certificates may be immediately terminated or suspended without such notice upon the occurrence of such events as may be provided in the Alternate Liquidity Facility and which are disclosed to the Owners of the Series A Certificates relating to such Alternate Credit Facility in connection with the remarketing of such

Series A Certificates upon the mandatory tender thereof or purchases as a result of the delivery of such Alternate Liquidity Facility pursuant to the provisions of Section 2.06 of the Trust Agreement;

(2) The Alternate Liquidity Facility must take effect on or before the remarketing of the Series A Certificates as a result of the delivery of such Alternate Liquidity Facility pursuant to the provisions of Section 2.06 of the Trust Agreement; and

(3) The Alternate Liquidity Facility must be in an amount to permit the Trustee to draw the maximum Purchase Price of the related Series A Certificates which will be applicable during the Interest Rate Period which will be in effect for such Series A Certificates on the remarketing of such Series A Certificates pursuant to the provisions of Section 2.06 of the Trust Agreement.

(c) On or prior to the date of delivery of an Alternate Liquidity Facility to the Trustee pursuant to this Section, the City shall cause to be furnished to the Trustee: (i) an Approving Opinion with respect to such delivery and (ii) an opinion to the effect that the Alternate Liquidity Facility has been duly authorized, executed and delivered by the applicable Liquidity Provider and constitutes the valid, legal and binding obligation of such Liquidity Provider enforceable against such Liquidity Provider in accordance with its terms; provided, however, that such opinions may be subject to such limitations and exceptions as are customarily taken in transactions such as the delivery of the Alternate Liquidity Facility.

SECTION 7.19. City Obligations under Trust Agreement. The City agrees to comply with all of the requirements of the Trust Agreement applicable to the City and to take all actions, provide all documents and to otherwise satisfy and comply with all provisions of the Trust Agreement applicable to the City.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

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

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

(b) if default shall be made by the City in the performance of any of the agreements or covenants contained herein required to be performed by it, other than as set forth in (a) above, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Corporation;

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

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

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

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

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

Second, to the payment of the Interest Installments and interest then due and payable on the entire principal amount of the unpaid Parity Obligations, and the unpaid Principal

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

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

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

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

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

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

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

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

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation, the City and the Corporation shall be restored to

their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

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

ARTICLE IX

DISCHARGE OF OBLIGATIONS

SECTION 9.01. Discharge of Obligations.

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

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

(c) All or any portion of an unpaid Principal Installment shall, prior to its payment date or date of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this Section if (i) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities which are not subject to redemption except by the holder thereof prior to maturity (including any such securities issued or held in book-entry form), the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant regarding such sufficiency) to pay when due the Principal Installment or such portion thereof on its payment date or its date of prepayment, as the case may be, the Interest Installments with respect to such Principal Installment due on and prior to such payment date or date of prepayment, and the prepayment premium, if any, applicable thereto, and (ii) an Opinion of Counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the Interest Installments of the Schedule A Installment Payments to be includable in gross income under the Code for federal income tax purposes.

(d) After the payment of all Installment Payments and prepayment premiums, if any, as provided in this Section, and payment in full of all fees and expenses of the Corporation, the Corporation, upon request of the City, shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and the Corporation and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of this Contract, and the Corporation shall pay over and

deliver to the City, as an overpayment of Installment Payments, all such money or investments held by it pursuant hereto other than such money and such investments as are required for the payment or prepayment of the Installment Payments and the prepayment premiums, if any, applicable thereto, which money and investments shall continue to be held in trust for the payment thereof.

ARTICLE X

MISCELLANEOUS

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

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

SECTION 10.02. Other Provisions Relating to Financial Guaranties.

(a) In the event that a draw is made on any Financial Guaranty, the City shall not make any prepayments of Installment Payments pursuant to Section 3.02 hereof unless all amounts owed by the City to the issuer of each Financial Guaranty so drawn upon have paid in full pursuant to the terms of such Financial Guaranty.

(b) This Contract may not be terminated unless provisions have been made to pay all amounts owed to the issuer of each Financial Guaranty then in effect under the terms of such Financial Guaranty.

SECTION 10.03. Amendments. The Corporation and the City shall not supplement, amend, modify or terminate any of the terms of this Contract unless the conditions set forth in Section 4.06 of the Trust Agreement have been satisfied.

SECTION 10.04. Assignment of Contract. The City hereby acknowledges that the Corporation, for good and valuable consideration, has transferred, assigned and sent over to the Trustee, pursuant to the provisions of the Trust Agreement, all of the Installment Payments and any and all rights and privileges it has hereunder with respect to the Installment Payments and references to the Corporation herein to the Corporation's rights with respect to the Installment Payments (but not the obligations of the Corporation hereunder, it being understood that the Trustee shall not assume any responsibility for any duties or covenants or warranties of the Corporation hereunder) shall be construed to be references to the Trustee.

SECTION 10.05. Benefits of Contracts Limited to Parties. Nothing contained in this Contract, expressed or implied, is intended to give to any person other than the Corporation, the Trustee (with respect to its rights pursuant to Sections 4.01(b) and 10.12 hereof and as the assignee of the Corporation's rights hereunder), the City, or the Certificate Insurer (so long as the Certificate Insurer is not in default under a Certificate Policy) any right, remedy or claim under or pursuant thereto, and any agreement or covenant required herein to be performed by or on behalf of the Corporation (and the Trustee, as the assignee of the Corporation's rights hereunder) or the City shall be for the sole and exclusive benefit of the other party.

SECTION 10.06. Successor Is Deemed Included in all References to Predecessor. Whenever either the Corporation or the City is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Corporation or the City, and all agreements and covenants required hereby to be performed by or on behalf of the Corporation or the City shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 10.07. Waiver of Personal Liability. No officer or employee of the City shall be individually or personally liable for the payment of the Installment Payments or the performance or satisfaction of any other obligation of the City hereunder, but nothing contained herein shall relieve any officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or by the terms of this Contract.

SECTION 10.08. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections," "Exhibits" and other subdivisions or clauses are to the corresponding articles, sections, exhibits, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to this Contract as a whole and not to any particular article, section, exhibit, subdivision or clause hereof.

SECTION 10.09. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Corporation or the City shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The Corporation and the City hereby declare that they would have executed this Contract, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 10.10. Net Contract. This Contract shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the Installment Payments and all other payments required under this Contract, free of any deductions and without abatement, diminution or set-off whatsoever.

SECTION 10.11. California Law. This Contract shall be construed and governed in accordance with the laws of the State of California.

SECTION 10.12. Indemnification. The City shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Corporation and the Trustee and their directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of (i) the entering into of this Contract, the use of any of the Existing Facilities or any accident in connection with the operation, use, condition or possession of any of the Existing Facilities or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the City or the Corporation, (ii) any claim for patent, trademark or copyright infringement, (iii) any claim arising out of strict liability in tort, (iv) without negligence or willful misconduct, the Trustee's acceptance or administration of the trust under the Trust Agreement, or the exercise or performance of any of its powers or duties thereunder or hereunder; or (v) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of any Certificates executed and delivered under the Trust Agreement. The indemnification arising under this Section shall continue in full force and effect notwithstanding the full payment of all obligations hereunder or the termination of the other provisions hereof for any reason. The City agrees not to withhold or abate any portion of the Installment Payments required pursuant hereto by reason of any defects, malfunctions, breakdowns or infirmities of any of the Existing Facilities. The City and the Corporation mutually agree to promptly give notice to each other of any claim or liability hereby indemnified against following either's learning thereof. The rights to indemnification from the City hereunder shall survive the termination hereof or the resignation or removal of the Trustee.

SECTION 10.13. Funds. Any fund required to be established and maintained herein by the City may be established and maintained in the accounting records of the City either as an account or a fund and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to any such fund shall at all times be maintained in accordance with sound accounting practice.

SECTION 10.14. Notices. All notices, certificates or other communications hereunder to any of the following shall be in writing and shall be sufficiently given to such party if personally delivered or mailed, by United States registered mail, return receipt requested, postage prepaid, to the following addresses:

If to the City:

City of Lodi
221 West Pine Street
Lodi, CA 95241-1910
Attention: City Manager

If to the Corporation: Lodi Public Improvement Corporation
c/o City of Lodi
221 West Pine Street
Lodi, CA 95241-1910
Attention: City Clerk

If to the Trustee: BNY Western Trust Company
550 Kearney St., Suite 600
San Francisco, California 94108
Attention: Corporate Trust Administration

If to the Certificate Insurer: MBIA Insurance Corporation
113 King Street
Armonk, New York 10504
Attention: Surveillance

Each of the above parties may, by written notice given hereunder to the others, designate any further or different addresses to which, or means by which, subsequent notices, requests or other communications shall be sent.

SECTION 10.15. Effective Date. This Contract shall become effective upon its execution and delivery, and, except as otherwise specifically provided with respect to particular terms hereof, shall terminate when the Installment Payments provided herein shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Article IX hereof).

SECTION 10.16. Execution in Counterpart. This Contract may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

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

CITY OF LODI

By _____
City Manager

Attest:

City Clerk

APPROVED:

City Attorney

LODI PUBLIC IMPROVEMENT
CORPORATION

By _____
Executive Director

Attest:

Secretary for the Corporation

APPROVED:

Attorney for the Corporation

SCHEDULE A

SCHEDULE A PRINCIPAL INSTALLMENTS

<u>Payment Date</u>	<u>Principal Installment</u>
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SCHEDULE B

SCHEDULE B PRINCIPAL AND INTEREST INSTALLMENTS

<u>Payment Date</u>	<u>Principal Installment</u>	<u>Interest Installment</u>	<u>Total Payments</u>
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EXHIBIT 1

DESCRIPTION OF EXISTING FACILITIES

The Existing Facilities include various projects to increase system capacity and to improve reliability, varying from overhead circuit reconductoring, new circuits (in conjunction with industrial substation expansions) to switching equipment replacement and circuit reconfiguration for increased functionality, all as listed in the following pages of this Exhibit 1.

Group 1.

Line Extensions – Service Connections – Substructures – Metering

Expenditures in this group include:

Extending existing distribution facilities to serve new loads as they develop within residential subdivisions, commercial and industrial developments as well as individual developments.

Installing services (overhead or underground) to connect customer owned service equipment to the City’s distribution facilities.

Installing substructures (vaults, conduits, etc.) to accommodate distribution and service facilities.

The City is reimbursed for these items by the Developers.

Installing revenue metering facilities

Distribution transformers are purchased from this group as well.

Projects included in this group are:

Project	Expended after Dec.31,1997
Bangs Ranch Subdivision	\$19,840
Millsbridge Subdivision	50,768
Bridgetown #3 Subdivision	12,267
Lodi West Subdivision	15,334
Bangs Ranch #2 Subdivision	10,138
Lodi West #4 Subdivision	24,791
Bagel Express	25,097
Scientific Specialties	14,455
Mini Mart, E. Kettleman Ln.	19,136
Vintage Retirement Residence	13,161
Line extensions (not identified above)	103,783
Service connections	140,661
Substructures	170,434
Metering incl. purchase of new meters	116,628
Distribution transformer purchases	542,807
Subtotal:	\$1,279,300

Group 2.

Distribution System Improvement - Dusk to Dawn Lighting

Expenditures in this group include various construction projects to increase overall system capacity, reliability and operating flexibility to serve the electric load under normal and emergency operating conditions. Dusk to Dawn lighting is also included within this group. Projects are shown in the table below:

Project	Expended after Dec.31,1997
Reconductor overhead lines, various locations	\$158,600
Install capacitor banks	19,374
Capacity increase (PCP)	78,205
Capacity increase (900 block E. Victor)	38,182
Capacity increase (1200 block E. Pine)	12,837
Install UG switching module (Century and Aspen)	16,101
Install padmount switch, vault, etc. (Ham and Kettleman)	69,222
Const. loop, increase capacity (Neuharth and Ackerman)	60,259
Reconstruct lines, install switches (n/o McLane Sub.)	46,806
Substructures, Century Blvd. and Rivergate Dr.	218,450
System improvement projects (not identified above)	95,739
Dusk to Dawn Lighting	2,175
Subtotal:	\$815,950

Group 3.

Substation Construction High Voltage – Protection

Expenditures in this group include various construction projects within the four substations for normal and emergency capacity to serve the electric load and improve operating flexibility. Projects are listed in the table below:

Project	Expended after Dec.31,1997
Install #3 transformer, 60 kV structures, 12 kV feeders and assoc. foundations and protection at Industrial Sub.	\$1,315,164
New control building and relocation of control panels at Henning Substation	174,722
SUBSTATION CONSTRUCTION (NOT IDENTIFIED ABOVE)	7,750
SUBTOTAL:	\$1,497,636

Group 4.

Vehicle and Equipment purchases

Expenditures in this group include the purchase (additional or replacement) of vehicles and equipment. Purchases are shown in the table below:

Item	Expended after Dec.31,1997
Sedan (09-008, replacement)	\$14,912
Cargo van (09-024, replacement)	24,875
Utility vehicle (09-016, replacement)	25,967
½ -ton Pickup truck (09-056, additional)	24,772
Customer information system	481,000
Accounting system (J.D.Edwards)	330,000
Local area network	20,768
	9,700
CONTACT SPEED AND TRAVEL ANALYZER	
	6,930
VOICE RECORDING EQUIPMENT – OPERATIONS/DISPATCH	
	9,022
VARIOUS TOOLS AND EQUIPMENT	
SUBTOTAL:	\$947,946*

*Includes \$481,000 for Customer Information System and \$330,000 for Accounting System. The CIS and AS were funded through the Operating System. These items do not appear in the Expenditure Report.

Group 5.

Interconnection project

Expenditures in this group are associated with the City's needs to increase interconnection capacity and reliability. The table below shows expenditures within this group:

Project	Expended after Dec.31,1997
Interconnection – substation	\$272,262
Interconnection - transmission line	147,202
Interconnection – miscellaneous	285,832
Various materials for construction of pole line	483,850
Subtotal:	\$1,191,143.31

Group 6.

Industrial Sub. 12 kV feeder to Stockton at Neuharth
McLane Sub. 12kV feeder to Evergreen at Low. Sac.
Underground Tie, Rivergate – River Pointe Subdivisions
Distribution Substation, West Side including land, design, power transformer
Industrial Sub. 12kV feeder to Guild and Kettleman
Henning Sub. 12 kV feeder to Low. Sac. and Cochran
60 kV transmission line from Industrial Sub. to west side
12 kV underground feeder, Harney, Ham to Mills and Mills, Harney to Century
McLane Sub. extend 12 kV bus, add breaker and get-a-way
Industrial Sub. 12 kV feeder to Turner and Guild
Industrial Sub. Power transfer #2 incl. Circuit breakers, relays, etc.
Install Capacitor Banks
New developments (line extensions, services, substructures and metering)
Distribution System Improvements (historical)
Communication/data system, fiber optics
Street lighting design
D to D lighting
Substation capacity increases

Group 7.

Service Center including land design, construction, equipment
SF6 Gas reclamation equipment
Relay test set
Training facility incl. vaults, poles
Power transformer LTC oil filtration equipment (2)
Power Quality analyzer
High current test set
Lock boxes for locked meter locations
Remote meter reading system
Voltage recording equipment
Engineering design/analysis software
Underground pulling equipment (substation)
Infrared imaging equipment
Overhead pulling equipment
Circuit breaker performance test set
Data line test set
Laser jet printer (Engineering)

Group 8.

Bucket truck 65 ft.
Walk in van
Flat bed truck (new crew)
Bucket truck (street light maintenance)
Fork lift

Group 9.

Reconstruct overhead add neutral to LeBec CT
Killelea Sub 12 kV open bus, control bldg. 60 kV bus, breakers, land, study
Killelea Sub 12 kV get-a-ways
McLane Sub 12 kV get-a-ways
Industrial Sub. infrared detection upgrade
Transformer upgrade, F&M Bank, Rite Aid
Reconstruction get-a-way/distribution at MSC facility
Downtown underground reconstruct incl. land, switches, transformers, cable
Padmount switch upgrade (8)
Reconstruct #6 cu. overhead (various locations)
Reconstruct sec. underground, Royal Crest, Tejon, Vineyard, English Oaks

Group 10.

Work stations meter shop (2)
Personal computer upgrade (Engineering, Operations, Meter Shop)
Electric meter test bench
SCADA and UPS systems upgrade/replacement
Electric meter test set, portable
Copy Machine (Engineering)
Underground pulling equipment

Group 11.

Mid size cargo van #09049
Bucket truck #09046
Flat bed truck #09050
Flat bed truck #09093
Digger/derrick truck #09001
Flat bed truck #09021
Flat bed truck #09087
Pickup #09014
Cargo van #09086
Service truck (bucket) #09027
Service truck (bucket) #09023
Digger/derrick truck #09009
Digger/derrick truck #09010
Service truck #09045
Sedan #09080
Digger/derrick truck #09011
Sedan #09005
Sedan #09020
Sedan #09037
Bucket truck #09002
Sedan #09060
Sedan #09007
Sedan #09008

Group 12.

An industrial substation facility located at 1215 Thurman Street, Lodi, California, which consists of two 60kV transformers, two 60kV circuit breakers, seven kV circuit breakers, and miscellaneous cabling, bus, control equipment and protective relaying associated with such transformers.

TRUST AGREEMENT

by and between

LODI PUBLIC IMPROVEMENT CORPORATION

and

BNY WESTERN TRUST COMPANY,

as Trustee

Dated as of January 1, 2002

Relating to

ELECTRIC SYSTEM REVENUE VARIABLE RATE DEMAND
CERTIFICATES OF PARTICIPATION
\$ _____ 2002 SERIES A

and

ELECTRIC SYSTEM REVENUE
CERTIFICATES OF PARTICIPATION
\$ _____ 2002 TAXABLE SERIES B

TABLE OF CONTENTS

		Page
ARTICLE I	DEFINITIONS; EQUAL SECURITY	2
SECTION 1.01	Definitions.....	2
SECTION 1.02	Rules of Construction	22
SECTION 1.03	Equal Security.....	23
ARTICLE II	THE CERTIFICATES	23
SECTION 2.01	The Certificates	23
SECTION 2.02	General Terms of the Certificates	23
SECTION 2.03	Interest Rates on the Series A Certificates.....	25
SECTION 2.04	Demand Purchase of the Series A Certificates	28
SECTION 2.05	Mandatory Tender for Purchase of Series A Certificates	29
SECTION 2.06	Purchase and Remarketing of Series A Certificates	30
SECTION 2.07	Mandatory Prepayment.....	35
SECTION 2.08	Optional Prepayment	35
SECTION 2.09	Selection of Certificates for Prepayment	37
SECTION 2.10	Notice of Prepayment	37
SECTION 2.11	Execution of Certificates.....	39
SECTION 2.12	Transfer and Payment of Certificates	39
SECTION 2.13	Exchange of Certificates	39
SECTION 2.14	Certificate Registration Books.....	40
SECTION 2.15	Mutilated, Destroyed, Stolen or Lost Certificates	40
SECTION 2.16	Temporary Certificates	40
SECTION 2.17	Use of Book-Entry System for Certificates	41
SECTION 2.18	Procedure for the Delivery of Certificates	42
ARTICLE III	INSTALLMENT PAYMENTS	43
SECTION 3.01	Installment Payments Held in Trust.....	43
SECTION 3.02	Deposit of Installment Payments	43
SECTION 3.03	Establishment and Maintenance of Accounts for Use of Money in the Debt Service Fund	43
SECTION 3.04	Reserve Fund	44
SECTION 3.05	Rebate Fund	45
SECTION 3.06	Liquidity Facility	46

TABLE OF CONTENTS
(continued)

		Page
SECTION 3.07	Deposit and Investments of Money in Accounts and Funds	46
SECTION 3.08	Assignment to Trustee; Enforcement of Obligations.....	47
ARTICLE IV	RESERVED	47
ARTICLE V	COVENANTS OF THE CORPORATION AND THE TRUSTEE	48
SECTION 5.01	Compliance with Trust Agreement	48
SECTION 5.02	Observance of Laws and Regulations.....	48
SECTION 5.03	Tax Covenants	48
SECTION 5.04	Accounting Records and Reports.....	49
SECTION 5.05	Prosecution and Defense of Suits	49
SECTION 5.06	Amendments to Contract	49
SECTION 5.07	Recording and Filing.....	50
SECTION 5.08	Further Assurances.....	50
ARTICLE VI	THE TRUSTEE	50
SECTION 6.01	The Trustee	50
SECTION 6.02	Liability of Trustee	51
SECTION 6.03	Compensation and Indemnification of Trustee.....	53
SECTION 6.04	Paying Agent.....	54
SECTION 6.05	Notices to Rating Agencies.....	54
SECTION 6.06	Duties of Remarketing Agent	54
SECTION 6.07	Eligibility of Remarketing Agent; Replacement.....	55
SECTION 6.08	Compensation of Remarketing Agent.....	55
SECTION 6.09	Duties of Tender Agent.....	55
SECTION 6.10	Eligibility of Tender Agent; Replacement	55
SECTION 6.11	Compensation of Tender Agent	56
ARTICLE VII	AMENDMENT OF THE TRUST AGREEMENT	56
SECTION 7.01	Amendment of the Trust Agreement	56
SECTION 7.02	Disqualified Certificates	57
SECTION 7.03	Endorsement or Replacement of Certificates After Amendment.....	57
SECTION 7.04	Amendment by Mutual Consent	58
ARTICLE VIII	EVENTS OF DEFAULT AND REMEDIES OF OWNERS	58

TABLE OF CONTENTS
(continued)

		Page
SECTION 8.01	Events of Default; Acceleration; Waiver of Default.....	58
SECTION 8.02	Other Remedies of the Trustee	58
SECTION 8.03	Non-Waiver.....	58
SECTION 8.04	Remedies Not Exclusive.....	58
SECTION 8.05	No Liability by the City to the Owners.....	59
SECTION 8.06	No Liability by the Trustee to the Owners.....	59
ARTICLE IX	DEFEASANCE.....	59
SECTION 9.01	Discharge of Trust Agreement.....	59
SECTION 9.02	Deposit of Money or Securities with Trustee	59
SECTION 9.03	Unclaimed Money.....	60
ARTICLE X	PROVISIONS RELATING TO CERTIFICATE INSURANCE POLICIES	61
SECTION 10.01	Series A Insurance Policy and Series B Insurance Policy	61
SECTION 10.02	Payment Procedure Under the Certificate Insurance Policies.....	61
SECTION 10.03	Trustee as Attorney-In-Fact	62
SECTION 10.04	No Discharge	62
SECTION 10.05	Rights of Certificate Insurer.....	63
SECTION 10.06	Notices	63
ARTICLE XI	MISCELLANEOUS	63
SECTION 11.01	Benefits of this Trust Agreement.....	63
SECTION 11.02	Provisions to Pay Financial Guaranty Issuer(s).....	63
SECTION 11.03	Successor Is Deemed Included In All References To Predecessor	64
SECTION 11.04	Execution of Documents by Owners	64
SECTION 11.05	Waiver of Personal Liability.....	64
SECTION 11.06	Content of Certificates	64
SECTION 11.07	Accounts and Funds; Business Days	65
SECTION 11.08	Notices	65
SECTION 11.09	CUSIP Numbers.....	66
SECTION 11.10	Partial Invalidity.....	66
SECTION 11.11	Compliance with Certificate Purchase Contract	66

TABLE OF CONTENTS
(continued)

		Page
SECTION 11.12	California Law	66
SECTION 11.13	Execution in Several Counterparts.....	66
EXHIBIT A	FORM OF SERIES A CERTIFICATE	A-1
EXHIBIT B	FORM OF SERIES B CERTIFICATE.....	B-1

TRUST AGREEMENT

THIS TRUST AGREEMENT, dated as of January 1, 2002 (the "Trust Agreement"), by and between the LODI PUBLIC IMPROVEMENT CORPORATION, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), and BNY Western Trust Company, a banking corporation duly organized and existing under and by virtue of the laws of the State of California (the "Trustee");

WITNESSETH:

WHEREAS, the Corporation is a nonprofit, public benefit corporation duly organized and existing under and pursuant to the laws of the State of California; and

WHEREAS, the Corporation is authorized and empowered to assist the City of Lodi (the "City"), a municipal corporation duly organized and existing under the laws of the State of California, in acquiring and financing and refinancing certain additions, betterments, extensions and improvements to the City's Electric System (capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to Section 1.01 hereof); and

WHEREAS, the Corporation and the City have entered into the Contract under and pursuant to which the Corporation has agreed to assist the City by refinancing certain additions, betterments, extensions and improvements to the City's Electric System consisting of the Existing Facilities; and

WHEREAS, the City has determined that the consummation of the transactions contemplated in the Contract is necessary and proper for City purposes and is for the common benefit of the City as a whole; and

WHEREAS, the City is obligated to make certain Installment Payments to the Corporation under the Contract; and

WHEREAS, all rights to receive the Installment Payments have been assigned by the Corporation to the Trustee pursuant to this Trust Agreement; and

WHEREAS, in consideration of such assignment and the execution and entering into of this Trust Agreement, the Trustee has agreed to execute and deliver the Certificates in an aggregate principal amount equal to the aggregate Principal Installments of such Installment Payments, each evidencing and representing a proportionate interest in such Installment Payments; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Trust Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the execution and delivery of this Trust Agreement have been in all respects duly authorized;

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants herein, and for other valuable consideration, the parties hereto do hereby covenant and agree, as follows:

ARTICLE I

DEFINITIONS; EQUAL SECURITY

SECTION 1.01 Definitions. Unless the context otherwise requires, the terms defined in this section shall, for all purposes hereof and of any Supplemental Trust Agreement and of any certificate, opinion, request or other document herein or therein mentioned, have the meanings herein specified:

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

“Adjusted Annual Debt Service” means, for any Fiscal Year or any designated twelve (12) month period in question, the Annual Debt Service for such Fiscal Year or twelve month period minus the sum of the amount of the Annual Debt Service with respect to Outstanding Parity Obligations to be paid during such Fiscal Year or twelve month period from the proceeds of Parity Obligations or interest earned thereon (other than interest deposited into the Electric Revenue Fund), all as set forth in a Certificate of the City.

“Adjusted Annual Net Revenues” mean, for any Fiscal Year or any designated twelve (12) month period in question, the Adjusted Annual Revenues during such Fiscal Year or twelve month period less the Adjusted Maintenance and Operation Costs during such Fiscal Year or twelve month period.

“Adjusted Annual Revenues” mean, for any Fiscal Year or any designated twelve (12) month period in question, the Revenues during such Fiscal Year or twelve month period plus, for the purposes of determining compliance with Section 7.13 of the Contract only, the amount of Available Reserves on deposit, or which the City has authorized to be deposited, in the Electric Revenue Fund as of the first day of such Fiscal Year or twelve month period.

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

“Alternate Liquidity Facility” means an alternate standby certificate purchase agreement or a letter or line of credit or similar credit facility delivered to the Trustee pursuant to Section 7.18 of the Contract, and meeting the requirements of said Section 7.18. The extension of the expiration date of a Liquidity Facility shall not be deemed to be the provision of an Alternate Liquidity Facility.

“Annual Debt Service” means, for any Fiscal Year or any designated twelve (12) month period in question, (i) with respect to the Installment Payments, the required payments scheduled to be made with respect to all Outstanding Installment Payments in such Fiscal Year or twelve (12) month period, provided that for the purpose of determining the Reserve Fund Requirement,

compliance with Section 7.13 of the Contract and the conditions for the execution of Parity Obligations, clauses (C) and (D) below shall apply if any Payment Agreement is in effect with respect to any Outstanding Installment Payments; or (ii) with respect to Parity Obligations, the required payments scheduled to be made with respect to all Outstanding Parity Obligations in such Fiscal Year or twelve (12) month period provided, that for the purposes of determining compliance with Section 7.13 and conditions for the execution of Parity Obligations:

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

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

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

(1) Counterparty Obligated to Pay Actual Variable Interest Rate on Variable Interest Rate Parity Obligations. If the Payment Agreement obligates a Qualified Counterparty to make payments to the City based on the actual Variable Interest Rate on a Parity Obligation that would, but for the Payment Agreement, be treated as a Variable Interest Rate Parity Obligation and obligates the City to make payments to the Qualified Counterparty based on a fixed rate, payments by the City to the Qualified Counterparty shall be assumed to be made at the fixed rate specified by the Payment Agreement and payments by the Qualified Counterparty to the City shall be assumed to be made at the actual Variable Interest Rate on such Parity Obligation, without regard to the occurrence of any

event that, under the provisions of the Payment Agreement, would permit the Qualified Counterparty to make payments on any basis other than the actual Variable Interest Rate on such Parity Obligation, and such Parity Obligation shall set forth a debt service schedule based on that assumption;

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

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

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

(b) City Obligated to Make Payments Based on Fixed Interest Rate. If payments by the City under the Payment Agreement are based on a fixed interest rate and payments by the Qualified Counterparty are based on a variable interest rate index, payments by the City to the Qualified Counterparty will be based on an interest rate equal to the rate that is one hundred percent (100%) of the fixed interest rate specified by the Payment Agreement to be paid by the City, and payments by the Qualified Counterparty to the City will be based on a rate equal to the Assumed RBI-based Rate as the variable interest rate deemed to apply to the Variable Interest Rate Parity Obligation.

(4) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (C)(1), (2) and (3) of this definition, the City shall not be required to (but may at its option) take into

account as set forth in subparagraph (C) of this definition (for the purpose of determining Annual Debt Service) the effects of any Payment Agreement that has a remaining term of ten (10) years or less;

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

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

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

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

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

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

“Approving Opinion” means an opinion of Bond Counsel that an action being taken (i) is authorized by the Contract and this Trust Agreement, and (ii) will not adversely affect the Tax-exempt status of the interest on the Series A Certificates.

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

“Authorized Liquidity Provider Representative” means any person who at the time and from time to time may be designated as such, by written certificate furnished to the City and the Trustee containing the specimen signature of such person and signed on behalf of the Liquidity Provider by any officer of the Liquidity Provider, which certificate may designate an alternate or alternates.

“Authorized Denomination” means (a) with respect to the Series A Certificates: (i) during any Weekly Interest Rate Period, \$100,000 or any integral multiple of \$5,000 above such amount and (ii) during any Term Interest Rate Period, \$5,000 or any integral multiple thereof; and (b) with respect to the Series B Certificates, \$5,000 or any integral multiple thereof.

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

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

“Bank Rate” means the rate established by the Reimbursement Agreement, which shall be paid on Pledged Certificates.

“Beneficial Owners” means those individuals, partnerships, corporations or other entities for whom the Direct Participants have caused DTC to hold Book-Entry Certificates.

“Bond Counsel” means any attorney at law or firm of attorneys of nationally recognized standing in matters pertaining to the federal tax exemption of interest on obligations of states and political subdivisions, selected by the City and duly admitted to practice law before the highest court of any state of the United States of America.

“Book-Entry Certificates” means the Certificates registered in the name of the nominee of DTC, or any successor securities depository for the Certificates, as the registered owner thereof pursuant to the terms and provisions of Section 2.11 hereof.

“Business Day” shall mean any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, or the city or cities in which the Principal Corporate Trust Office of the Trustee or the Tender Agent or the office of the Liquidity Provider

at which demands for payment under the Liquidity Facility are to be presented are authorized or required by law to close or (iii) a day on which the New York Stock Exchange is closed.

“Certificate Insurer” means MBIA Insurance Corporation, as issuer of the Certificate Insurance Policies.

“Certificate Insurance Policies” mean collectively, the Series A Insurance Policy and the Series B Insurance Policy.

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

“Certificate of the Corporation” means an instrument in writing signed by the President of the Corporation or by any other officer of the Corporation duly authorized by the Corporation for that purpose.

“Certificate Payment Date” means, with respect to the Series A Certificates, January 1, ____ and with respect to the Series B Certificates, January 1, ____.

“Certificate Register” means the books for the registration and transfer of the Certificates kept by the Trustee pursuant to Section 2.14 hereof.

“Certificates” means Series A Certificates and the Series B Certificates.

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

“City Transfers” mean any payments from Revenues to the City for payments-in-lieu of taxes, transfers to the General Fund or similar payments but shall not include any item constituting a Maintenance and Operation Cost.

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

“Contract” means that certain Installment Purchase Contract, dated as of January 1, 2002, by and between the City and the Corporation, as amended or supplemented from time to time.

“Corporate Trust Office” means: (i) with respect to the Trustee, including in its capacity as Tender Agent, the principal corporate trust office of the Trustee at San Francisco, California or such other office designated by the Trustee from time to time; and (ii) with respect to any Tender Agent other than the Trustee, the office designated as such pursuant to Section 6.09 hereof.

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

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation and related to the authorization, execution and delivery of the Contract, this Trust Agreement and the sale of the Certificates, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of the underwriter, fees and charges for preparation, execution and safekeeping of the Certificates, fees of the Corporation and any other cost, charge or fee in connection with the original execution and delivery of the Certificates.

“Debt Service Fund” means the fund by that name established pursuant to Section 3.02 hereof.

“Defeasance Securities” mean the following:

- A. United States Treasury Certificates, Notes and Bonds (including State and Local Government Series)
- B. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities
- C. Resolution Funding Corp. (“REFCORP”) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
- D. Pre-refunded municipal bonds rate “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or “AAA” rated pre-refunded municipals to satisfy this condition.
- E. Obligations issued by the following agencies which are backed by the full faith and credit of the United States:
 1. United States Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
 2. Farmers Home Administration (“FmHA”)
Certificates of beneficial ownership
 3. Federal Financing Bank
 4. General Services Administration
Participation certificates
 5. United States Maritime Administration
Guaranteed Title XI financing

6. United States Department of Housing and Urban Development
Project Notes
Local Authority Bonds
New Communities Debentures – United States government guaranteed debentures
United States Public Housing Notes and Bonds – United States government guaranteed public housing notes and bonds.

“Delivery Date” means January __, 2002.

“Direct Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds the Certificates as securities depository.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the New York Banking Law, or any successor securities depository for the Certificates.

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

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

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

“Escrow Agreement” means that certain Escrow Agreement between the City and BNY Western Trust Company, as trustee under that certain Trust Agreement, dated as of August 1, 1999, between the Corporation and BNY Western Trust Company.

“Escrow Fund” means the fund so designated established pursuant to the Escrow Agreement.

“Event of Default” means with respect to this Trust Agreement, an event described in Section 8.01 hereof and, with respect to the Contract, an event described in Section 8.01 thereof.

“Existing Facilities” means the additions, betterments, modifications and improvements to the Electric System generally described in Exhibit 1 hereto.

“Facilities” mean the Existing Facilities.

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

“Financial Guaranty” means a policy of municipal bond insurance or surety bonds issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the highest rating category (without regard to qualifiers) by S&P and Moody’s and, if rated by A.M. Best & Company, also in the highest rating category (without regard to qualifiers) by A.M. Best & Company.

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

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

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

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

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

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

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

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

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

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

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

“Information Services” mean Financial Information, Incorporated’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services, “Called Bond Service,” 55 Broad Street, 28th Floor, New York, New York 10004; Moody’s Investors Service’s “Municipal and Government,” 5250 77 Center Drive, Suite 150, Charlotte, NC 28217, Attention: Called Bonds Department; and Standard & Poor’s Corporation’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Corporation may designate in a Certificate of the Corporation delivered to the Trustee.

“Initial Liquidity Facility” means with respect to the Series A Certificates that certain Standby Certificate Purchase Agreement among the City, the Trustee and the Initial Liquidity Provider, delivered on the Delivery Date, or any extension or renewal thereof.

“Initial Liquidity Provider” means _____.

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

“Interest Account” means the account by that name established pursuant to Section 3.03 hereof.

“Interest Installments” mean, with respect to the Schedule A Installment Payments, the interest on the unpaid Principal Installments set forth in Schedule A to the Contract determined at the applicable rate or rates determined in accordance with Section 2.03 of this Trust Agreement and with respect to the Schedule B Installment Payments, the interest on the unpaid Principal Installments set forth in Schedule B to the Contract determined at the applicable rate or rates determined in accordance with Section 2.03 of this Trust Agreement.

“Interest Payment Date” means (a) with respect to the Series A Certificates: (i) during a Weekly Interest Rate Period, the first Wednesday of each month, commencing on _____, and if such date is not a Business Day, on the next succeeding Business Day; and (ii) during a Term Interest Rate Period, each April 1 and October 1, and if such date is not a Business Day, on the next succeeding Business Day, and (iii) to the extent not an Interest Payment Date pursuant to (i) or (ii), the first day of an Interest Rate Period; and (b) with respect to the Series B Certificates each _____ and _____, commencing with _____, 2002, and if such date is not a Business Day, on the next succeeding Business Day.

“Interest Period” means with respect to a Weekly Interest Rate Period, the period from the first Wednesday of a month to the first Tuesday of the next succeeding month, except that the initial Interest Period shall be the period from the Delivery Date to the first Tuesday in [February, 2002]; and with respect to a Term Interest Rate Period, the period from January 1 of a year to June 30 of such year and the period from July 1 of a year to December 31 of the next succeeding year, except that the initial Interest Period for a Term Interest Rate Period shall be the

period from the commencement of such Term Interest Rate Period to the first to occur of the next succeeding June 30 or December 31.

“Interest Rate Period” shall mean either a Weekly Interest Rate Period or a Term Interest Rate Period.

“LIBOR Index Rate” means the rate per annum (rounded upwards, if necessary, to the next higher one hundred-thousandth of a percentage point) for deposits in U.S. Dollars for a period equal to _____ which appears on the Telerate Page 3750 as of 11:00 a.m. (London, England time) on the date two Business Days before the determination of the RBI.

“Liquidity Facility” means (i) the Initial Liquidity Facility and (ii) in the event of delivery of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

“Liquidity Provider” means the Initial Liquidity Provider, and any other commercial bank, savings bank or association or other financial institution providing a Liquidity Facility then in effect and party to a Reimbursement Agreement.

“Maximum Rate” shall mean with respect to the Series A Certificates twelve percent (12%) per annum, or such other rate determined by the City with the consent of the Liquidity Provider.

“MBIA Surety Bond” means the debt service reserve fund surety bond issued by the Certificate Insurer which shall be deposited in the Reserve Fund pursuant to Section ____ hereof to satisfy the initial Reserve Fund Requirement upon the execution and delivery of the Certificates.

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

pursuant to the proceedings authorizing such Parity Obligations; and (g) any other cost or expense which, in accordance with Generally Accepted Accounting Principles, is to be treated as a cost of operating or maintaining the Electric System; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor, amortization of intangibles and City Transfers.

“Maximum Annual Debt Service” means, with respect to any Fiscal Year or any other period of twelve consecutive months, the greatest Annual Debt Service payable during such Fiscal Year or other period, as applicable, on the Outstanding Installment Payments and any Outstanding Parity Obligations or Parity Obligations then being issued.

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

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

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

“Outstanding,” means: (i) when used as of any particular time with reference to Installment Payments, all Installment Payments which have not been paid or otherwise satisfied as provided in Article IX of the Contract; (ii) when used as of any particular time with reference to Parity Obligations means all Parity Obligations which have not been paid or otherwise satisfied as provided in the proceedings and instruments pursuant to which such Parity Obligations have been issued or incurred; and (iii) when used as of any particular time with reference to Certificates, Certificates evidencing proportionate ownership interests in Installment Payments which have not been paid or otherwise satisfied as provided in Article IX of the Contract; For purposes of Section 6.01 and Section 7.13 of the Contract only, (i) Parity Payment Agreements related to other Parity Obligations which are included in determining Annual Debt Service on such other Parity Obligations, and (ii) Parity Bank Agreements as to which no amounts have been drawn which have not been reimbursed by the City shall not be considered Outstanding for purposes of this Contract.

“Owner” means any person who shall be the registered owner of any Certificate.

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

“Parity Obligations” mean all obligations hereafter issued or incurred by the City the payment of which constitutes a charge and lien on the Net Revenues and moneys in the Electric

Revenue Fund equal to and on a parity with the charge and lien upon the Net Revenues for the payment of the Installment Payments.

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

“Paying Agent” means the paying agent described in Section 6.04 hereof.

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

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

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

“Permitted Investments” mean any of the following obligations if and to the extent that they are permissible investments of funds of the City as stated in its current investment policy (copies of which the Corporation shall cause the City to provide on a current basis to the Trustee) and to the extent then permitted by law:

A. Direct obligations of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

1. United States Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures

5. General Services Administration
Participation certificates
6. Government National Mortgage Association (“GNMA”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
7. United States Maritime Administration
Guaranteed Title XI financing
8. United States Department of Housing and Urban Development
Project Notes
Local Authority Bonds
New Communities Debentures - United States government
guaranteed debentures
United States Public Housing Notes and Bonds - United States
government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (“FHLMC”)
Participation Certificates
Senior debt obligations
3. Federal National Mortgage Association (“FNMA”)
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association
Senior debt obligations
5. Resolution Funding Corporation obligations
6. Farm Credit System
Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m” or “AA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks (including affiliates of the Trustee), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including Guaranteed Investment Contracts, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Certificate Insurer.

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank (including those of the Trustee and its affiliates) which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

K. Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to the Certificate Insurer Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repurchase agreements must be between the municipal entity and a dealer bank or securities firm
 - a. Primary dealers on the Federal Reserve reporting dealer list which are rated "A" or better by S&P Corporation and Moody's, or
 - b. Banks rated "A" or above by S&P and Moody's.
2. The written repurchase agreements contract must include the following:
 - a. Securities which are acceptable for transfer are:
 - (1) Direct United States governments, or

- (2) Federal agencies backed by the full faith and credit of the United States government (and FNMA & FHLMC)
- b. The term of a repurchase agreement may be up to 30 days
- c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
- d. Valuation of Collateral
 - (1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
 - (a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.
- 3. A legal opinion must be delivered to the municipal entity to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds.

L. Any state administered pool investment fund in which the City is statutorily permitted or required to invest will be deemed a permitted investment.

“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.

“Pledged Certificates” shall have the meaning ascribed thereto in Section 2.07(C)(2).

“Prepayment Account” means the account by that name established pursuant to Section 3.03 hereof.

“Principal Account” means the account by that name in the Revenue Fund established pursuant to Section 3.03 hereof.

“Principal Installments” mean: (i) with respect to the Schedule A Installment Payments, the amount designated as such in Schedule A to the Contract; and (ii) with respect to the Schedule B Installment Payments, the amount designated as such in Schedule B to the Contract.

“Principal Payment Date” means each date on which a Principal Installment is due and payable, whether on a scheduled payment date, a mandatory prepayment date or acceleration of the maturity of the Principal Installments.

“Prior Contract” means the Installment Purchase Contract, dated as of August 1, 1999, between the City and the Corporation.

“Purchase Date” shall mean the date on which any Series A Certificate is required to be purchased pursuant to Section 2.04(A) or 2.05 of this Trust Agreement.

“Purchase Price” shall mean an amount equal to 100% of the principal amount of any Series A Certificate purchased pursuant to Section 2.04(A) or 2.05 of this Trust Agreement, plus accrued and unpaid interest thereon to but not including the Purchase Date or the date on which such Series A Certificate is deemed purchased in accordance with Section 2.06(A)(3), plus, in the case of a mandatory tender for purchase in connection with an adjustment to a Weekly Interest Rate Period described in Section 2.03(C)(II)(b), the premium, if any, that would be paid if the Series A Certificates were being prepaid on the date of the mandatory tender for purchase.

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

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

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

“RBI” means the Bond Buyer Revenue Bond Index or comparable index of long-term municipal obligations chosen by the City, or, if no comparable index can be obtained, ___ percent (___ %) of the LIBOR Index Rate.

“Rebate Fund” means the City of Lodi Electric System 2002 Certificates Rebate Fund established pursuant to Section 3.05 of this Trust Agreement.

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

“Record Date” means, (a) with respect to the Series A Certificates, (i) during a Weekly Interest Rate Period, the Business Day immediately preceding the applicable Interest Payment Date, and (ii) during any Term Interest Rate Period, and (b) with respect to the Series B Certificates, the fifteenth day of the month prior to an Interest Payment Date whether or not a Business Day.

“Reimbursement Agreement” means the Initial Liquidity Facility, and any other agreement entered into in connection with any Alternate Liquidity Facility and serving the same function.

“Remarketing Agent” shall mean with respect to the Certificates, Salomon Smith Barney Inc. and its successors in such capacity under this Trust Agreement.

“Remarketing Agreement” shall mean the Remarketing Agreement dated as of January 1, 2002, between the City and the Remarketing Agent or the agreement or instrument pursuant to which a successor to the Remarketing Agent shall perform its services.

“Representation Letter” means the letter of representation to The Depository Trust Company, New York, New York, from the City.

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

“Reserve Fund” means the City of Lodi Electric System 2002 Certificates Reserve Fund established pursuant to Section 3.04 of this Trust Agreement.

“Reserve Requirement” means [with respect to the Series B Certificates], as of any date of determination, the least of (a) ten percent (10%) of the initial offering price to the public of the [Series B] Certificates as determined under the Code, or (b) the greatest Annual Debt Service with respect to the [Schedule B] Installment Payments in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any [Schedule B] Installment Payment is due, or (c) one hundred twenty-five percent (125%) of the sum of the Annual Debt Service with respect to the [Schedule B] Installment Payments for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of the [Series B] Certificates) and terminating with the last Fiscal Year in which any [Schedule B Installment] Payment is due, divided by the number of such Fiscal Years, all as computed and determined by the City and specified in writing to the Trustee; provided, that such requirement (or any portion thereof) may be provided by one or more Financial Guaranties.

If at any time obligations insured or issued by the issuer of a Financial Guaranty shall no longer maintain the required ratings set forth in the definition of “Financial Guaranty” above, the City shall provide or cause to be provided cash or a substitute Financial Guaranty meeting such requirements.

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

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

“Schedule A Installment Payments” mean the Principal Installments relating to the Series A Certificates set forth in Schedule A to the Contract and the Interest Installments with respect thereto.

“Schedule B Installment Payments” mean the Principal Installments relating to the Series B Certificates set forth in Schedule B to the Contract and the Interest Installments with respect thereto.

“Securities Depositories” mean: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories as the Corporation may designate in a Certificate of the Corporation to the Trustee.

“Series” means, with respect to the Certificates, the Series A Certificates or the Series B Certificates.

“Series A Certificates” means the City of Lodi Electric System Revenue Variable Rate Demand Certificates of Participation 2002 Series A evidencing proportionate, undivided ownership interests of the Owners thereof in the Schedule A Installment Payments.

“Series A Insurance Policy” means the Financial Guaranty Insurance Policy issued by the Certificate Insurer insuring the payment when due of the principal of and interest on the Series A Certificates as provided therein.

“Series B Certificates” means the City of Lodi Electric System Revenue Certificates of Participation, 2002 Taxable Series B, evidencing proportionate, undivided ownership interests of the Owners thereof in the Schedule B Installment Payments.

“Series B Insurance Policy” means the Financial Guaranty Insurance Policy issued by the Certificate Insurer insuring the payment when due of the principal of and interest on the Series B Certificates as provided therein.

“State” means the State of California.

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

“Supplemental Trust Agreement” means any trust agreement then in full force and effect which has been duly executed and delivered by the Corporation and the Trustee amendatory hereof or supplemental hereto; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized hereunder.

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

“Tax-exempt” means, with respect to interest on any obligations of a state or local government, including the Interest Installments evidenced by the Series A Certificates, that such interest is excluded from gross income for federal income tax purposes (other than in the case of a holder of any such obligation who is a substantial user of the facilities financed with such obligations or a related person within the meaning of Section 147(a) of the Code) whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

“Tender Agent” shall mean the Trustee, or any successor tender agent appointed pursuant to Section 6.10 hereof.

“Term Interest Rate” shall mean a non-variable interest rate with respect to the Series A Certificates established in accordance with Section 2.03(D) hereof.

“Term Interest Rate Period” shall mean each period during which a Term Interest Rate is in effect.

“Trust Agreement” means this Trust Agreement, dated as of January 1, 2002, between the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions hereof.

“Trustee” means BNY Western Trust Company, or any other association or corporation which may at any time be substituted in its place as provided in Section 6.01 hereof.

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

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

“Weekly Interest Rate” shall mean a variable interest rate with respect to the Series A Certificates established weekly in accordance with Section 2.03(C) hereof.

“Weekly Interest Rate Period” shall mean each period during which Weekly Interest Rates are in effect.

“Weekly Rate Index” means The Bond Market Association Municipal Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, Tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or as otherwise designated by The Bond Market Association; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, the “The Bond Market Association Municipal Index” shall mean such other reasonably comparable index selected by the Borrower.

“Written Request of the Corporation” means an instrument in writing signed by the Treasurer of the Corporation or by any other officer of the Corporation duly authorized by the Corporation for that purpose.

SECTION 1.02 Rules of Construction. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof. All references herein to “articles,” “sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby,” “herein,” “hereof,” “hereto,” “herewith,”

“hereunder” and other words of similar import refer to this Trust Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

References in this Trust Agreement and the Contract to the principal or principal amount of Certificates shall refer to the Principal Installments as to which such Certificates evidence proportionate, undivided ownership interests. References in this Trust Agreement and the Contract to interest on Certificates or interest borne by Certificates shall refer to the Interest Installments as to which such Certificates evidence proportionate, undivided ownership interests.

SECTION 1.03 Equal Security. In consideration of the acceptance of the Certificates by the Owners thereof, this Trust Agreement shall be deemed to be and shall constitute a contract between the Corporation and the Owners from time to time of all Certificates authorized, executed and delivered hereunder and then Outstanding to secure the full and final payment of the interest, and principal and prepayment premiums, if any, evidenced and represented by the Certificates which may from time to time be authorized, executed and delivered hereunder, subject to the agreements, conditions, covenants and provisions contained herein; and all agreements and covenants set forth herein to be performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to security or otherwise of any Certificates over any other Certificates by reason of the number or date thereof or the time of authorization, execution or delivery thereof or for any cause whatsoever, except as expressly provided herein or therein.

ARTICLE II

THE CERTIFICATES

SECTION 2.01 The Certificates. (a) The Trustee is hereby authorized and directed to execute and deliver the Series A Certificates in the aggregate principal amount of \$_____, evidencing proportionate interests in the Schedule A Installment Payments. The Series A Certificates shall be designated “City of Lodi Electric System Revenue Variable Rate Demand Certificates of Participation 2002 Series A”.

The Trustee is hereby authorized and directed to execute and deliver the Series B Certificates in the aggregate principal amount of \$_____, evidencing proportionate interests in the Schedule B Installment Payments. The Series B Certificates shall be designated “City of Lodi Electric System Revenue Certificates of Participation 2002 Taxable Series B”.

SECTION 2.02 General Terms of the Certificates. (a) The Series A Certificates shall be dated the Delivery Date and shall mature (subject to prior prepayment or acceleration) on their Certificate Payment Date. The Series A Certificates shall bear interest on the unpaid principal amount thereof as set forth in Section 2.03; provided, however, that in no event shall the rate of interest on any Series A Certificate exceed at any time the Maximum Rate. If an Event of Default shall have occurred and be continuing, the interest rate on the Series A Certificates shall be the Maximum Rate.

(b) The Series B Certificates shall be dated _____ and shall mature (subject to prior prepayment or acceleration) on their Certificate Payment Date. The

Series B Certificates shall have Certificate Payment Dates on the dates and in the principal amounts and evidence and represent Interest Installments of the Schedule B Payments calculated at the rates as set forth in the following schedule:

Certificate Payment Date (_____)	Principal Amount	Interest Rate
	\$	%

The Interest Installments of the Installment Payments evidenced and represented by the Series B Certificates are payable in lawful money of the United States of America at the rates (based on a 360-day year of twelve 30-day months) set forth above, payable on _____, 2002, and semiannually thereafter on _____ and _____ in each year to the respective Certificate Payment Date or prepayment prior thereto. The Series B Certificates shall evidence and represent Interest Installments of the Schedule B Payments from the Interest Payment Date next preceding the date of execution thereof, unless such date of execution is after a Record Date and on or before the following Interest Payment Date, in which event they shall evidence and represent interest from such Interest Payment Date, or unless such date of execution is on or before the Record Date for the first Interest Payment Date for the Series B Certificates, in which event such Certificate shall evidence and represent interest from _____, 2002; provided, that if at the time of execution of any Outstanding Series B Certificate or Interest Installment evidenced and represented by such Series B Certificate is then in default, such Certificate shall evidence and represent interest from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Series B Certificate.

(c) The Certificates shall be issuable only in Authorized Denominations. The Series A Certificates shall be issued in substantially the form set forth in Exhibit A of this Trust Agreement with such variations, insertions or omissions for the Certificates as are appropriate and not inconsistent therewith and shall conform generally to the rules and regulations of any governmental authority or usage or requirement of law with respect thereto. The Series B Certificates shall be issued in substantially the form set forth in Exhibit B of this Trust Agreement with such variations, insertions or omissions for the Certificates as are appropriate and not inconsistent therewith and shall conform generally to the rules and regulations of any governmental authority or usage or requirement of law with respect thereto. The Certificates shall be numbered from one upward and may bear such additional letters, numbers, legends or designations as the Trustee determines are desirable. The Certificates may be printed, lithographed or typewritten.

(d) The principal of and premium, if any, and interest on the Certificates shall be payable in lawful money of the United States of America. Payment of interest on each Certificate shall be made on each Interest Payment Date to the Person appearing on the Certificate Register as the Owner thereof on the applicable Record Date, such interest to be paid by the Trustee (i) to such Owner by check mailed by first class mail on the Interest Payment Date, to such Owner's address as it appears on the Certificate Register or at such other address as has been furnished to the Trustee in writing by such Owner not later than the applicable Record Date, or (ii) upon written request at least three Business Days prior to the applicable Record

Date, to the Owner of Certificates aggregating not less than \$1,000,000 in principal amount, by wire transfer in immediately available funds to an account maintained in the United States as such Owner shall specify in its written notice; except, in each case, that if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Owners in whose name any such Certificates are registered at the close of business on the fifth Business Day next preceding the date of payment of such defaulted interest. The principal of and premium, if any, on the Certificates shall be payable by check of the Trustee upon surrender thereof at the Corporate Trust Office of the Trustee.

SECTION 2.03 Interest Rates on the Series A Certificates.

(A) The Series A Certificates shall bear interest from and including the date of authentication and delivery thereof until payment of the principal or prepayment price thereof shall have been made or provided for on the due date thereof in accordance with the provisions of this Trust Agreement, whether at maturity, upon prepayment or acceleration. Interest on the Series A Certificates with respect to the immediately preceding Interest Period shall be paid as provided in Section 2.04 hereof, provided that if any Interest Payment Date is not a Business Day, such interest (and any principal due) shall be mailed or wired pursuant to Section 2.02(d) on the next succeeding Business Day and no interest shall accrue from the date when due. During a Weekly Interest Rate Period, interest on the Series A Certificates shall be computed upon the basis of a 365/366-day year for the number of days actually elapsed. During any Term Interest Rate Period, interest on the Series A Certificates shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months.

(B) In the manner hereinafter provided, the term of the Series A Certificates will be divided into consecutive Interest Rate Periods, during each of which the Series A Certificates shall bear interest at a Weekly Interest Rate or a Term Interest Rate. All the Series A Certificates shall have the same Interest Rate Period. The initial Interest Rate Period for the Series A Certificates shall be a Weekly Interest Rate Period.

(C) (I) Determination of Weekly Interest Rate. During a Weekly Interest Rate Period, the Series A Certificates shall bear interest at a Weekly Interest Rate, which shall be determined by the Remarketing Agent not later than 5:00 p.m., New York City time, on the Tuesday of each week during such Weekly Interest Rate Period (provided that if such Tuesday is not a Business Day, the Weekly Interest Rate shall be determined by 5:00 p.m., New York City time, on the following Business Day), for the period commencing on the Wednesday of such week; provided, however, that the Weekly Interest Rate for a Weekly Interest Rate Period succeeding a Term Interest Rate Period shall be determined not later than the Business Day next preceding the effective date of such Weekly Interest Rate Period. The Weekly Interest Rate for the Series A Certificates shall be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Series A Certificates known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Series A Certificates, would enable the Remarketing Agent to sell the Series A Certificates on such day at a price equal to the principal amount thereof plus accrued interest; provided,

however, that if for any reason a Weekly Interest Rate for the Series A Certificates cannot be determined, the Weekly Interest Rate for the Series A Certificates for the next succeeding week shall remain the same as the then-existing rate. The first Weekly Interest Rate determined for each Weekly Interest Rate Period for the Series A Certificates shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday. Thereafter, each Weekly Interest Rate for such Certificates shall apply to the period commencing on a Wednesday and ending on the next succeeding Tuesday, unless the Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period for the Series A Certificates shall apply to the period commencing on the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on such last day.

If, for any reason, the Weekly Interest Rate on any Series A Certificates is not established as provided in this Section by the Remarketing Agent or no Remarketing Agent shall be serving as such hereunder or any Weekly Interest Rate so established is held to be invalid or unenforceable with respect to any such Interest Rate Period, then the interest rate for such Weekly Interest Rate Period shall be 100% of the Weekly Rate Index on the date such Weekly Interest Rate was (or would have been) determined as provided above.

(II) Adjustment to Weekly Interest Rate Period. The City, by written direction to the Trustee and the Remarketing Agent, accompanied by an Approving Opinion with respect to such adjustment, may elect to adjust a Term Interest Rate Period for the Series A Certificates to a Weekly Interest Rate Period. Such direction shall specify the effective date of such adjustment to a Weekly Interest Rate Period, which shall be (a) the Interest Payment Date which is the day next succeeding the last day of the then current Term Interest Rate Period for such Series A Certificates (or the Business Day next succeeding such Interest Payment Date if not a Business Day) not less than 45 days following the date of receipt by the Trustee of such direction, or (b) any date on which the Series A Certificates may be optionally prepaid pursuant to Section 2.08 not less than 45 days following the date of receipt by the Trustee of such direction. If the City desires to adjust the Series A Certificates to a Weekly Interest Rate Period prior to the end of an existing Term Interest Rate Period, and a premium would be required for such adjustment pursuant to Section 2.08 of this Trust Agreement, such premium must be (i) covered by the Liquidity Facility or (ii) moneys provided to the Trustee by the City with the notice of adjustment to a Weekly Interest Rate Period.

(III) Notice of Adjustment to Weekly Interest Rate Period. The Trustee shall give notice by mail of an adjustment of the Series A Certificates to a Weekly Interest Rate Period to the Owners of the Series A Certificates, the Liquidity Provider and the City not less than 30 days prior to the effective date of such Weekly Interest Rate Period. Such notice shall state (1) that the interest rate on the Series A Certificates will be adjusted to a Weekly Interest Rate, (2) the

effective date of such Weekly Interest Rate Period, (3) that the Series A Certificates will be purchased on such effective date pursuant to Section 2.05 of this Trust Agreement, and (4) the procedures for purchase of the Series A Certificates, and (5) that on the effective date of such Weekly Interest Rate Period, the Series A Certificates will be purchased as provided in Section 2.05 hereof.

- (D) (I) Determination of Term Interest Rate. During each Term Interest Rate Period, the Series A Certificates shall bear interest at a Term Interest Rate, which shall be determined by the Remarketing Agent not later than 4:00 p.m., New York City time, on any Business Day not less than one day preceding the first day of such Term Interest Rate Period. The Term Interest Rate for the Series A Certificates shall be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Series A Certificates known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if evidenced and represented by the Series A Certificates, would enable the Remarketing Agent to sell the Series A Certificates on such Business Day at a price equal to the principal amount thereof; provided, however, that if for any reason the Term Interest Rate for the Series A Certificates cannot be determined for any Term Interest Rate Period, the interest rate on the Series A Certificates shall, automatically and without further act by any party, including without limitation compliance with the requirements of Section 2.03(C)(II), adjust to a Weekly Interest Rate.

(II) Adjustment to and Continuation of Term Interest Rate Period. The City, by written direction to the Trustee and the Remarketing Agent, accompanied by an Approving Opinion with respect thereto, may elect that the Interest Rate Period for the Series A Certificates shall be a Term Interest Rate Period, and shall determine the duration of the Term Interest Rate Period (which may be any period of at least one year, provided it ends on a day immediately preceding an Interest Payment Date applicable to the Term Interest Period, or the period of time remaining to the Certificate Payment Date of the Series A Certificates). Such direction (a) shall specify the effective date of such Term Interest Rate Period, which shall be (1) an Interest Payment Date not less than 45 days following the date of receipt by the Trustee of such direction, (2) the Interest Payment Date which is the day next succeeding the last day of the then current Term Interest Rate Period (or the Business Day next succeeding such Interest Payment Date if the adjustment is from a Term Interest Rate Period and such Interest Payment Date is not a Business Day) not less than 45 days following the date of receipt by the Trustee of such direction, or (3) any date on which the Series A Certificates may be optionally prepaid pursuant to Section 2.08 not less than 45 days following the date of receipt by the Trustee of such direction; and (b) shall specify the last day of such Term Interest Rate Period. If, at least 45 days prior to the last day of any Term Interest Rate Period for the Series A Certificates, the City shall not have elected that the Series A Certificates bear interest at a Weekly Interest Rate or a Term Interest Rate during the next succeeding Interest

Rate Period, the next succeeding Interest Rate Period shall be a Term Interest Rate Period of the same duration as the immediately preceding Term Interest Rate Period. Notwithstanding anything else provided in this Section 2.03(D)(II), the City may not adjust the Series A Certificates to a Term Interest Rate Period unless (i) the Liquidity Facility has been modified to provide interest coverage sufficient to maintain the short-term rating on the Series A Certificates, (ii) the remaining term of the Liquidity Facility extends to the Interest Payment Date immediately following the last day of such Term Interest Rate Period and (iii) prior to the commencement of a Term Interest Rate Period, the Trustee and the Corporation shall have received a continuing disclosure agreement with respect to the Series A Certificates imposing obligations upon the City or any other responsible party to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time be amended or supplemented, as provided in Section 7.17 of the Contract.

(III) Notice of Adjustment to Term Interest Rate Period. The Trustee shall give notice by mail of each Term Interest Rate Period for the Series A Certificates to the Owners of such Certificates, the Liquidity Provider and the City not less than 30 days prior to the effective date of such Term Interest Rate Period. Such notice shall state (1) that the interest rate on the Series A Certificates will be adjusted to or continue to be a Term Interest Rate, (2) the effective date of such Term Interest Rate Period, (3) that the Series A Certificates shall be purchased on such effective date pursuant to Section 2.05 of this Trust Agreement, and (4) the procedures for purchase of the Series A Certificates, and (5) that on the effective date of such Term Interest Rate Period, the Series A Certificates will be purchased as provided in Section 2.05 hereof.

(E) The determination of the interest rate on the Series A Certificates by the Remarketing Agent shall be conclusive and binding upon the Owners of the Series A Certificates, the City, the Tender Agent, the Certificate Insurer, the Liquidity Provider and the Trustee.

(F) The Series A Certificates shall be subject to prepayment and purchase as provided in Sections 2.04, 2.05 , 2.07 and 2.08 hereof.

SECTION 2.04 Demand Purchase of the Series A Certificates.

(A) During any Weekly Interest Rate Period, any Series A Certificate or portions thereof in Authorized Denominations may be tendered for purchase at the option of the Owner thereof, or with respect to Book-Entry Certificates, at the option of the Direct Participant with an ownership interest in Book-Entry Certificates, and shall be purchased (but only from the funds specified in Section 2.06(A)(2) hereof available for such purchase) on any Business Day at the Purchase Price upon (i) delivery to the Trustee, if the Series A Certificates are Book-Entry Certificates, or otherwise to the Tender Agent, at its Corporate Trust Office of an irrevocable notice in writing (a "Tender Notice") by 4:00 p.m., New York City time, on any Business Day, which states the name of the registered Owner of such Series A Certificate or the Direct Participant for such Series A Certificate, as applicable, payment instructions with respect to the Purchase Price of such Series A Certificate, the principal amount of such Series A Certificate to

be purchased and the date on which the same shall be purchased (which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee or Tender Agent, as applicable), and (ii) if the Series A Certificates are not Book-Entry Certificates, delivery of such Series A Certificate to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs, at or prior to 12:30 p.m., New York City time, on the date specified in such notice; or if the Series A Certificates are Book-Entry Certificates, upon confirmation by DTC to the Trustee that a Direct Participant with respect to Book-Entry Certificates being purchased pursuant to this Section has an ownership interest in such Book-Entry Certificate at least equal to the amount specified in such Tender Notice, the transfer on the registration books of DTC of the beneficial ownership interest in such Book-Entry Certificate tendered for purchase to the account of the Trustee, or to the account of a Direct Participant acting on behalf of the Trustee.

(B) If moneys sufficient to pay the Purchase Price of Series A Certificates to be purchased pursuant to subsection (A) of this Section shall be held by the Trustee or the Tender Agent on the date such Series A Certificates are to be purchased, any Series A Certificates to be so purchased that are not delivered by the Owners thereof to the Tender Agent or transferred on the registration books of DTC, as applicable, on the specified purchase date will be deemed to have been delivered for purchase, or transferred on the registration books of DTC, as applicable, on such date and to have been purchased. The former Owners of such Series A Certificates, or Direct Participants with respect to Book-Entry Certificates, will thereafter have no rights with respect to such Series A Certificates except to receive payment of the Purchase Price therefor upon surrender of such Series A Certificates to the Tender Agent or the transfer on the registration books of DTC of the beneficial interest in such Book-Entry Certificates.

SECTION 2.05 Mandatory Tender for Purchase of Series A Certificates. (A) The Series A Certificates shall be subject to mandatory tender for purchase prior to their Certificate Payment Date (but only from the funds specified in Section 2.06(A)(2) hereof available for such purchase) as follows:

(a) On the first day of each Interest Rate Period for the Series A Certificates, or (2) on the effective date of an Alternate Liquidity Facility for the Series A Certificates, the Owner or Direct Participant of each Series A Certificate shall tender such Certificate for purchase as provided below and such Certificate shall be purchased or deemed purchased as provided in Section 2.06(A)(3) hereof at the Purchase Price. Subject to Section 2.06(G) hereof, payment of the Purchase Price of such Certificate shall be made by 2:30 p.m., New York City time, on the Purchase Date, in the same manner as payment of interest on the Series A Certificates, to the Owner of record or Direct Participant with respect to Book-Entry Certificates. If the Series A Certificates are not Book-Entry Certificates, the Owner shall deliver such Certificate not later than 12:30 p.m., New York City time, on the Purchase Date to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs. If the Series A Certificates are Book-Entry Certificates, the tendering Direct Participant shall transfer on the registration books of DTC the beneficial ownership interests in Series A Certificates tendered for

purchase to the account of the Trustee or a Direct Participant acting on behalf of the Trustee. The Trustee shall give the Owners of the Series A Certificates subject to mandatory tender for purchase pursuant to this subsection (a) written notice thereof which shall be mailed not less than fifteen (15) calendar days prior to the Purchase Date.

(b) The Series A Certificates shall be subject to mandatory tender for purchase in whole, at the Purchase Price, in the event that (i) the Liquidity Facility relating to the Series A Certificates is not renewed or a notice of expected renewal or expected delivery of an Alternate Liquidity Facility is not delivered to the Trustee at least forty (40) days prior to the scheduled expiration of the Liquidity Facility; or (ii) such renewal or Alternate Liquidity Facility is not actually delivered on a Business Day at least ten (10) calendar days prior to such expiration date. Any such purchase shall occur on a date determined by the Trustee which date shall be a Business Day no later than three (3) calendar days prior to the scheduled expiration of the Liquidity Facility. The Trustee shall give the Owners of the Series A Certificates subject to mandatory tender for purchase pursuant to this subsection (b) written notice thereof which shall be mailed not less than five (5) calendar days prior to the Purchase Date.

(c) The Series A Certificates shall be subject to mandatory tender for purchase in whole, at the Purchase Price, in the event that the Liquidity Provider providing the Liquidity Facility related to such Series A Certificates notifies the Trustee in writing of the occurrence of an event of default or termination under the Reimbursement Agreement related to such Liquidity Facility. Any such purchase shall occur on a date determined by the Trustee which date shall be a Business Day no later than three (3) calendar days prior to the date when the Liquidity Provider's obligations to purchase the Series A Certificates or otherwise provide for the Purchase Price thereof shall terminate or be suspended pursuant to the Liquidity Facility as a result of such event of default or termination. The Trustee shall give the Owners of the Series A Certificates subject to mandatory tender for purchase pursuant to this subsection (c) written notice thereof which shall be mailed as soon as practicable after receiving the written notice of an event of default or termination from a Liquidity Provider referred to above in this subsection (c).

SECTION 2.06 Purchase and Remarketing of Series A Certificates.

(A) *Notice of Certificates Delivered for Purchase.* Whenever the Series A Certificates are Book-Entry Certificates, all references in this Section to the Tender Agent shall instead mean the Trustee, as the context may require.

(1) As soon as practicable, the Tender Agent shall give telephonic, telegraphic or telecopier notice, promptly confirmed in writing, to the Trustee and the Remarketing Agent, specifying the principal amount of Series A Certificates tendered for purchase pursuant to Section 2.04 hereof or subject to mandatory tender for purchase pursuant to Section 2.05 hereof. The Trustee shall promptly supply the same notice to the Remarketing Agent and the Liquidity Provider.

(2) The Tender Agent shall purchase, at the Purchase Price, but only from funds made available from the sources listed below, Series A Certificates tendered for purchase pursuant to Section 2.04 hereof or subject to mandatory tender for purchase

pursuant to Section 2.05 hereof from the Owners thereof by 2:30 p.m., New York City time, on the date such Series A Certificates are required to be purchased. Funds for the payment of such Purchase Price shall be derived from the following sources in the order of priority indicated:

(a) the proceeds of the sale of the Series A Certificates (but only such remarketing proceeds as are received from purchasers of the Series A Certificates pursuant to Section 2.06(B) hereof) furnished to the Tender Agent or the Trustee, as applicable, by the Remarketing Agent; provided, however that such proceeds shall not have been derived from the City; and

(b) moneys furnished to the Tender Agent representing the proceeds of a draw under the Liquidity Facility.

(3) The provisions of this Section 2.06(A)(3) shall not apply at any time that the Series A Certificates are Book-Entry Certificates. With respect to any Series A Certificates tendered for purchase or required to be tendered for purchase as to which sufficient funds to accomplish such purchase are available to the Tender Agent at the respective times at which payment of the Purchase Price is to be made as provided herein:

(a) Such Series A Certificates shall be deemed purchased for all purposes of this Trust Agreement, irrespective of whether or not such Series A Certificates shall have been presented to the Tender Agent, and the former Owner or Owners of such Series A Certificates shall have no claim thereon, under this Trust Agreement or otherwise for any amount other than the Purchase Price thereof and such Series A Certificates shall no longer be deemed to be Outstanding for purposes of this Trust Agreement and the Trustee shall so note on the Certificate Register for the Series A Certificates.

(b) Subject to Section 2.06(G) hereof, in the event that any Series A Certificates shall not be presented to the Tender Agent, the Tender Agent shall segregate and hold the moneys for the Purchase Price of such Series A Certificates in trust, uninvested for the benefit of the former Owners of such Series A Certificates, who shall, except as provided in the following sentences, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the Purchase Price of such Series A Certificates.

(c) In the event that any Series A Certificates shall not be presented to the Tender Agent at the time specified in Section 2.04 or Section 2.05 hereof (each an "Undelivered Certificate"), then the Trustee shall execute and deliver to the Tender Agent a new Series A Certificate or Series A Certificates, as the case may be, in an aggregate principal amount equal to the principal amount of the Undelivered Certificates bearing a number or numbers not contemporaneously outstanding. Every Series A Certificate delivered as provided in the preceding sentence shall be entitled to all the benefits of this Trust Agreement equally and proportionately with any and all other Series A Certificates duly issued hereunder.

The Tender Agent shall maintain a record of any Undelivered Certificates, together with the names and addresses of the former Owners thereof.

(d) In case any Series A Certificates which have been deemed purchased as provided in Section 2.06(A)(3)(a) hereof are delivered to the Tender Agent subsequent to the date and time specified for such delivery for payment of the Purchase Price thereof at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof with the signature of such Owner guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs on any Business Day, the Tender Agent shall (subject to Section 2.06(G)) pay the Purchase Price of such Series A Certificate to the Owner no later than 12:00 noon, New York City time, on the next succeeding Business Day. Any such Series A Certificate so delivered to the Tender Agent shall be cancelled and delivered to the Trustee.

(B) *Remarketing of Certificates; Notice of Interest Rates.*

(1) The Remarketing Agent shall determine the rate of the interest on the Series A Certificates as provided in Section 2.03 hereof and shall furnish to the Trustee and the Tender Agent in a timely manner all information necessary for the Tender Agent and the Trustee to carry out their respective duties hereunder, including, but not limited to, the interest rates applicable to all Series A Certificates.

(2) The Remarketing Agent shall periodically inform the Trustee of the rate of interest on the Series A Certificates from time to time.

(3) The Remarketing Agent shall use its best efforts to sell any Series A Certificates tendered or deemed tendered for purchase in accordance with this Trust Agreement to new purchasers. Not later than 4:00 p.m. (New York time) on the Business Day before the Purchase Date, the Remarketing Agent shall in writing notify the Trustee, the Liquidity Provider and the Tender Agent of the principal amount of Series A Certificates that have been remarketed as of such time and are to be purchased on the Purchase Date. By 12:30 p.m. (New York time) on the Purchase Date, the Tender Agent shall in writing update such notification to inform the Trustee and the Liquidity Provider of the actual amount of remarketing proceeds on hand.

(C) *Delivery of Remarketed Certificates.*

(1) The Trustee and the Tender Agent each shall hold all Series A Certificates delivered to them for purchase in trust for the benefit of the respective Owners which shall have so delivered such Series A Certificates or for the Direct Participants who have transferred their interests in the Book-Entry Certificates until moneys representing the Purchase Price of such Series A Certificates shall have been delivered to or for the account of or to the order of such Owners or Direct Participants. The Trustee and the Tender Agent (or after five Business Days, as provided in Section 2.06(G), the Trustee) each shall hold all moneys for the purchase of Series A Certificates, including any

moneys representing the premium, if any, to be paid in connection with the purchase of Series A Certificates (which shall be held separate and apart from other moneys held for the purchase of Series A Certificates or the payment of the principal of , premium, if any, and interest on the Series A Certificates), in trust in non-commingled funds for the benefit of the Person which shall have so delivered such moneys until Series A Certificates purchased with such moneys shall have been delivered to or for the account of such Person. Neither the Corporation nor the City shall have any right, title, or interest in or to any moneys held by the Trustee, the Tender Agent or the Remarketing Agent, or pursuant to Section 2.06(G). Series A Certificates purchased with moneys described in Section 2.06(A)(2)(a) or 2.06(A)(2)(b) hereof, including without limitation Certificates issued in place of such Series A Certificates pursuant to Section 2.06(A)(3)(c), shall be registered as directed by the Trustee (from instructions received from the Remarketing Agent) and made available to the Remarketing Agent by 12:30 p.m., New York City time, or transferred on the registration books of DTC on the date of such purchase or the date the ownership interest shall be transferred to the new Direct Participants on the books of DTC, against payment in immediately available funds or evidence of immediately available funds in the form of a federal reserve wire number. The Tender Agent shall notify the Trustee of each Series A Certificate registered and delivered pursuant to subsection (C)(1) or (C)(2), and, in the case of delivery of Series A Certificates in place of Pledged Certificates pursuant to subsection (C)(2) below, the Tender Agent shall also notify the Trustee of the reinstatement of the Liquidity Facility.

(2) Series A Certificates purchased with moneys obtained by a drawing on the Liquidity Facility (“Pledged Certificates”), including without limitation Series A Certificates issued in place of such Certificates pursuant to Section 2.06(A)(3)(c) hereof, shall be held by the Tender Agent or registered in the name of the Liquidity Provider on the registration books of DTC, with respect to Book-Entry Certificates. The proceeds of any remarketing of Pledged Certificates shall be delivered to the Trustee and transferred to the Liquidity Provider. Upon receipt by the Trustee of funds representing the proceeds of the remarketing of Pledged Certificates, Series A Certificates in place of such Pledged Certificates so purchased shall be made available for pick-up by the Remarketing Agent for subsequent delivery to the purchasers thereof, or the ownership interest shall be transferred to the new Direct Participants on the books of DTC. Prior to or simultaneously with such delivery, the proceeds of such remarketing shall have been or shall be delivered to the Trustee and transferred to the Liquidity Provider, and the Trustee and the Tender Agent shall have received written confirmation from the Liquidity Provider of the reinstatement of the Liquidity Facility.

(3) In the event that the Remarketing Agent is able to remarket any Series A Certificates tendered for purchase pursuant to Section 2.04 hereof or subject mandatory tender for purchase pursuant to Section 2.05 hereof after the time on which the Remarketing Agent is required to provide its first notice to the Trustee and the Tender Agent as specified in Section 2.06(B)(3), the Remarketing Agent shall give or cause the Trustee or Tender Agent, as applicable, to give notice in the manner and containing the details set forth in this Section 2.06, as soon as practicable after such remarketing, but in no event later than 11:30 a.m., New York City time, on the Purchase Date and the Series A Certificates shall be registered in the names of the purchasers thereof made available to

the Remarketing Agent as soon as practicable thereafter on such date or the next succeeding Business Day or transferred on the registration books of DTC to the account of Direct Participants furnished to the Trustee or Tender Agent, as applicable, by the Remarketing Agent.

(4) If any Series A Certificate is tendered for purchase pursuant to Section 2.04 hereof after a notice of prepayment for such Series A Certificate has been given, the Remarketing Agent will give the prepayment notice to any purchaser of such Series A Certificate or to DTC if a Book-Entry Certificate and the purchaser (including a Direct Participant) shall acknowledge receipt of such prepayment notice.

(D) *Draws Upon the Liquidity Facility.* The Trustee shall draw on the Liquidity Facility in an amount necessary and in sufficient time (including on the Business Day prior to the date funds are required for purchase if such a draw is required to receive sufficient amounts for such purchase on a timely basis on the date of purchase) so as to provide to the Trustee or the Tender Agent, as the case may be, the balance of the funds needed to purchase tendered Series A Certificates. The Trustee may shall take into account remarketing proceeds actually received from the Remarketing Agent by the Trustee or the Tender Agent, as applicable, pursuant to Section 2.06(E). If applicable, the Trustee shall transfer or cause to be transferred to the Tender Agent any moneys drawn under the Liquidity Facility for payment of the tendered Series A Certificates. If the Trustee has drawn on the Liquidity Facility, and receives notice from the Tender Agent of remarketing proceeds actually received, the Trustee shall so notify the Liquidity Provider to modify its draw request or, if unable to do so, shall return such excess to the Liquidity Provider. Such moneys shall be used only to pay the Purchase Price as provided herein, and if not so used shall be promptly returned to the Liquidity Provider.

(E) *Delivery of Proceeds of Sale.* The proceeds of the remarketing of any Series A Certificates shall be transferred by the Remarketing Agent to the Tender Agent or the Trustee, as applicable, no later than 12:30 p.m., New York City time, on the Purchase Date and, upon receipt thereof, the Tender Agent or the Trustee, as applicable, shall immediately apply such proceeds to the payment of the Purchase Price of Series A Certificates to the Owners thereof pursuant to Section 2.06(A)(2), or, in the case of the remarketing of Series A Certificates which constitute Pledged Certificates, as provided in Section 2.06(C)(2). In making payments to the Liquidity Provider, the Trustee may conclusively assume that the Liquidity Provider has not been repaid from any other sources. To the extent that the Liquidity Provider is repaid with proceeds of the sale of Pledged Certificates by the Remarketing Agent, new Series A Certificates shall be registered and delivered (or ownership interests transferred) as provided in Section 2.06(C)(2).

(F) *No Sales After Default.* Notwithstanding anything in this Trust Agreement to the contrary, if there shall have occurred and be continuing an Event of Default as described in Section 8.01, there shall be no sales of Series A Certificates pursuant to subparagraph (B)(3) of this Section 2.06.

(G) *Unclaimed Moneys.* The Tender Agent shall, at the end of the fifth Business Day after the Purchase Date, transfer all funds then held on hand by virtue of the fact that Series A Certificates deemed tendered on such date were not presented for purchase to the Tender Agent in accordance with the provisions of 2.06(A) to the Trustee to be held in a segregated account for

the Series A Certificates to be designated the “Unclaimed Moneys Account” and to hold the same in trust uninvested, for the payment of the Purchase Price thereof to the former Owners of such Series A Certificates as required by the provisions of Section 2.06(A). Upon receipt of funds from the Trustee, the Tender Agent shall pay such Purchase Price from such amounts by check of the Tender Agent made payable to the party entitled to such payment as soon as practicable after such party surrenders the Series A Certificate or Series A Certificates so deemed purchased to the Tender Agent. Any such moneys so held in trust by the Tender Agent shall be held uninvested until paid to the person entitled thereto or paid to the Trustee as provided in this Section 2.06(G).

(H) *Conditions to Remarketing upon Expiration of Liquidity Facility.* If a notice to renew the Liquidity Facility or to provide an Alternate Liquidity Facility in accordance with Section 7.18 of the Contract shall not be delivered by the City to the Trustee prior to the 40th day before the scheduled expiration date of the Liquidity Facility, then the Series A Certificates shall not be remarketed after the 10th day prior to such expiration date.

(I) *Notices Upon Delivery of Alternate Liquidity Facility.* Whenever the City has delivered to the Trustee and the Remarketing Agent notice of expected delivery of an Alternate Liquidity Facility for the Series A Certificates pursuant to Section 7.18 of the Contract, the Trustee shall mail a notice to all Owners of the Series A Certificates stating: (i) the name of the issuer of the Alternate Liquidity Facility, (ii) the date on which the Alternate Liquidity Facility will become effective, (iii) the rating expected to apply to the Series A Certificates after the Alternate Liquidity Facility is delivered, (iv) disclosure relating to the provider of the Alternate Liquidity Facility in form and substance satisfactory to the Trustee and the Remarketing Agent, and (v) notice that the Series A Certificates will be subject to mandatory tender for purchase on the date of delivery of the Alternate Liquidity Facility, and information on where such Series A Certificates are to be delivered. Such notice shall be mailed at least fifteen (15) calendar days prior to the effective date of the Alternate Liquidity Facility.

SECTION 2.07 Mandatory Prepayment. The Series A Certificates shall be subject to mandatory prepayment prior to their Certificate Payment Date, in part, on January 1, ___ and on each January 1 thereafter in a principal amount equal to the Principal Installments of the Schedule A Installment Payments due pursuant to the Contract on such date at a prepayment price equal to the principal amount of the Series A Certificates to be prepaid plus accrued but unpaid interest thereon to the prepayment date, without premium. The Series B Certificates shall be subject to mandatory prepayment prior to their Certificate Payment Date, in part, on December 1, ___ and on each January 1 thereafter in a principal amount equal to the Principal Installments of the Schedule B Installment Payments due pursuant to the Contract on such date at a prepayment price equal to the principal amount of the Series B Certificates to be prepaid plus accrued but unpaid interest thereon to the prepayment date, without premium.

SECTION 2.08 Optional Prepayment. (a) The Series A Certificates shall be subject to prepayment from prepayments of Installment Payments made at the option of the City as follows:

(i) *Optional Prepayment during Weekly Interest Rate Period.* On any Interest Payment Date during a Weekly Interest Rate Period and on the first day of any Term

Interest Rate Period, the Series A Certificates may be prepaid by the Trustee, but only upon the request of the City pursuant to Section 3.02 of the Contract, in whole or in part, at a prepayment price equal to the principal amount thereof, without premium.

(ii) *Optional Prepayment during Term Interest Rate Period.* During any Term Interest Rate Period, the Series A Certificates also shall be subject to prepayment in whole or in part, but only upon the request of the City pursuant to Section 3.02 of the Contract, at the times (measured from the first day of the applicable Term Interest Rate Period), and at the prepayment prices (expressed as percentages of principal amount) set forth below, plus accrued interest, if any, to the prepayment date:

Length of Term Interest Rate Period or Length of Time to Maturity	Prepayment Dates and Prices
Greater than 17 years	At any time on or after the 10th anniversary of the commencement date of such Interest Rate Period at 101% declining 1/2% annually to 100%.
Greater than 10 and less than or equal to 17 years	At any time on or after the 5th anniversary of the commencement date of such Interest Rate Period at 101% declining 1/2% annually to 100%.
Greater than 8 and less than or equal to 10 years	At any time on or after the 5th anniversary of the commencement date of such Interest Rate Period at 101% declining 1/2% annually to 100%.
Greater than 6 and less than or equal to 8 years	At any time on or after the 3rd anniversary of the commencement date of such Interest Rate Period at 101% declining 1/2% annually to 100%.
Greater than 4 and less than or equal to 6 years	At any time on or after the 2nd anniversary of the commencement date of such Interest Rate Period at 101% declining 1/2% annually to 100%.
Greater than 3 and less than or equal to 4 years	At any time on or after the 2nd anniversary of the commencement date of such Interest Rate Period at 100-1/2% declining 1/2% annually to 100%.
Greater than 2 and less than or equal to 3 years	At any time on or after the 1st anniversary of the commencement date of such Interest Rate Period at 100-1/2% declining 1/2% annually to 100%.
Greater than 1 and less than or equal to 2 years	At any time on or after the 1st anniversary of the commencement date of such Interest Rate Period at 100%.
Less than or equal to 1 year	On the Interest Payment Date which is at least six months after the commencement date of such Interest Rate Period at 100%.

the commencement date of such Interest Rate Period at 100%.

If the City delivers an Approving Opinion to the Trustee with respect to such change, the City may provide a different schedule of optional prepayment dates and prices.

If the Series A Certificates are to be adjusted to a Weekly Interest Rate Period pursuant to, and in accordance with, Section 2.03(C)(II) before the end of a Term Interest Rate Period, the City shall be required to pay the Owners of the Series A Certificates, as a portion of the Purchase Price of the Series A Certificates, the premium, as stated above, that would apply if the Series A Certificates were prepaid on the date of such adjustment.

(b) *Optional Prepayment of Series B Certificates.* The Series B Certificates are subject to optional prepayment prior to their respective stated Certificate Payment Dates, upon notice as hereinafter provided, from prepayments of Installment Payments made by the City pursuant to the Contract, as a whole or in part (from such Certificate Payment Dates as are designated by the Corporation to the Trustee at the direction of the City or, if the Corporation fails to designate such Certificate Payment Dates, in inverse order of Certificate Payment Date and by lot within a Certificate Payment Date) on any date on or after _____, at the following prepayment prices (expressed as percentages of the Principal Installments of the Series B Certificates called for prepayment), plus accrued and unpaid Interest Installments evidenced and represented by such Series B Certificates to the prepayment date:

Prepayment Period (dates inclusive)	Prepayment Price
_____ through _____	____%
_____ through _____	

SECTION 2.09 Selection of Certificates for Prepayment.

If less than all Outstanding Certificates of any particular Series are to be prepaid at any one time, the Trustee shall select the portions of the Certificates of such Series to be prepaid by lot in a manner which the Trustee deems to be fair. For purposes of selecting Certificates to be prepaid, Certificates of each Series shall be deemed to be composed of five thousand dollars (\$5,000) multiples and any such multiple of principal amount as may be separately prepaid, subject to the requirement that the unpaid balance of any Certificate prepaid in part must be in an Authorized Denomination.

SECTION 2.10 Notice of Prepayment.

Notice of prepayment of Certificates shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the Certificates designated for prepayment at their addresses appearing in the Certificate Register, (ii) the Tender Agent, (iii) the Securities Depositories and (iv) one or more Information Services. Notice of prepayment to the Securities Depositories and the Information Services shall

be given by registered mail, certified mail, overnight delivery or facsimile transmission. Each notice of prepayment shall state the date of such notice, the prepayment price, the place of prepayment (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the Certificates to be prepaid, and, if less than all of the Certificates of any one Series are to be prepaid, the distinctive certificate numbers of the Certificates of such Series to be prepaid and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Certificates the prepayment price thereof and in the case of a Certificate to be prepaid in part only, the specified portion of the principal amount thereof to be prepaid, with accrued and unpaid interest thereof to the prepayment date, and that from and after such prepayment date interest thereon shall cease to accrue, and shall require that such Certificates be then surrendered at the address of the Trustee specified in the prepayment notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such prepayment. The failure to receive such notice nor any defect therein shall affect the sufficiency of such prepayment.

In the event of prepayment of Certificates with optional prepayments of Installment Payments pursuant to Section 3.2 of the Contract, the Trustee shall mail a notice of prepayment upon receipt of a Written Request of the City but only after the City shall file a Certificate of the City with the Trustee that on or before the date set for prepayment, the City will deposit with or otherwise make available to the Trustee for deposit in the Debt Service Fund the money required for payment of the prepayment price, including accrued interest thereon, of all Certificates then to be called for prepayment (or the Trustee determines that money will be deposited with or otherwise made available to it in sufficient time for such purpose), together with the estimated expense of giving such notice.

If notice of prepayment has been duly given as aforesaid and money for the payment of the prepayment price of the Certificates called for prepayment is held by the Trustee, then on the prepayment date designated in such notice the Certificates (or portions thereof) so called for prepayment shall become due and payable, and from and after the prepayment date so designated interest on such Certificates shall cease to accrue, such Certificates (or portions thereof) shall cease to be entitled to any benefit or security under this Trust Agreement and the Owners of such Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof from the moneys held by the Trustee for such purpose, and such moneys are hereby pledged to such payment.

In the event that a notice of prepayment is being given for an optional prepayment during a Weekly Interest Rate Period, which prepayment is occurring due to a refunding of the Certificates of a Series, such notice of prepayment shall state, at the direction of the City, that the prepayment is conditioned on the issuance and delivery of the refunding securities and shall further state, at the direction of the City, that in the event that such refunding securities are not issued and delivered, such prepayment notice shall be automatically rescinded and shall be null and void.

All Certificates prepaid pursuant to the provisions of this Section shall be cancelled and destroyed by the Trustee and shall not be redelivered.

SECTION 2.11 Execution of Certificates. The Certificates shall be executed by the Trustee by the manual signature of an authorized officer or signatory of the Trustee.

SECTION 2.12 Transfer and Payment of Certificates. Any Certificates may, in accordance with its terms, be transferred in the Certificate Register by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificates at the Corporate Trust Office of the Trustee for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. Whenever any Certificates or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver to the transferee a new Certificate or Certificates of the same Certificate Payment Date evidencing and representing a like aggregate principal amount in authorized denominations. The Trustee shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege. Services rendered and reasonable expenses incurred by the Trustee, including the cost of printing any new Certificate, in connection with a transfer pursuant to this Section shall be paid by the City.

The Trustee may deem and treat the registered owner of any Certificates as the absolute owner of such Certificates for the purpose of receiving payment of the principal and interest and prepayment premium, if any, evidenced and represented thereby and for all other purposes, whether such Certificates shall be overdue or not, and the Trustee shall not be affected by any notice or knowledge to the contrary; and payment of the interest and principal and prepayment premium, if any, evidenced and represented by such Certificates shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on such Certificates to the extent of the sum or sums so paid.

The Trustee shall not be required to register the transfer of any Certificate during the period commencing on the date 15 days preceding the selection of Certificates for prepayment and ending on the date of mailing of notice of such prepayment, or any Certificate which has been selected for prepayment in whole or in part, from and after the day of mailing of a notice of prepayment of such Certificates selected for prepayment in whole or in part.

SECTION 2.13 Exchange of Certificates. Certificates may be exchanged at the Corporate Trust Office of the Trustee for Certificates evidencing and representing a like aggregate principal amount of Certificates of the same Certificate Payment Date of other authorized denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege. Services rendered and reasonable expenses incurred by the Trustee, including the cost of printing any new Certificate, in connection with an exchange pursuant to this Section shall be paid by the City.

The Trustee shall not be required to exchange any Certificate during the period commencing on the date 15 days preceding the selection of Certificates for prepayment and ending on the date of mailing of notice of such prepayment, or any Certificate which has been selected for prepayment in whole or in part, from and after the day of mailing of a notice of prepayment of such Certificates to the date of prepayment thereof.

SECTION 2.14 Certificate Registration Books. The Trustee will keep at its Corporate Trust Office sufficient books for the registration and transfer of the Certificates which shall at all times be open to inspection by the Corporation during regular business hours with reasonable prior notice, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates in such books as hereinabove provided.

SECTION 2.15 Mutilated, Destroyed, Stolen or Lost Certificates. If any Certificate shall become mutilated the Trustee, at the expense of the Owner, shall thereupon execute and deliver a new Certificate of like tenor and amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be cancelled and destroyed.

If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner, shall thereupon execute and deliver a new Certificate of like tenor in lieu of and in substitution for the Certificate so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Certificate delivered under this Section and of the expenses which may be incurred by the Corporation and the Trustee in the premises. Any Certificate executed and delivered under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Trust Agreement with all other Certificates secured by this Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one and the same.

SECTION 2.16 Temporary Certificates. The Certificates executed and delivered under this Trust Agreement may be initially executed and delivered in temporary form exchangeable for definitive Certificates when ready for delivery. The temporary Certificates may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and may contain such reference to any of the provisions of this Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee, upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates it will execute and furnish definitive Certificates and thereupon the temporary Certificates may be surrendered, for cancellation, in exchange therefor at the Corporate Trust Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Certificates definitive Certificates evidencing and representing an equal aggregate principal amount of Certificates of authorized denominations. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under this Trust Agreement as definitive Certificates delivered hereunder.

SECTION 2.17 Use of Book-Entry System for Certificates.

(a) The Certificates of each Series initially shall be delivered in the form of a single executed fully registered securities certificate for each stated Certificate Payment Date of such Certificates, in the aggregate principal amount of the Certificates of such Certificate Payment Date. Upon initial delivery, the ownership of all such Certificates shall be registered in the registration records maintained by the Trustee pursuant to Section 2.14 hereof in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee may treat DTC (or its nominee) as the sole and exclusive owner of the Certificates registered in its name for the purposes of payment of the principal amount or prepayment price and interest on such Certificates, selecting the Certificates or portions thereof of each Series to be prepaid, giving any notice permitted or required to be given to Owners hereunder, registering the transfer of Certificates, obtaining any consent or other action to be taken by Owners of the Certificates and for all other purposes whatsoever; and the Trustee shall not be affected by any notice to the contrary. Neither the Trustee nor the Corporation shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this Section, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Certificates under or through DTC or any Participant, or any other person which is not shown on the registration records as being an Owner of Certificates, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal amount or prepayment price of or interest on the Certificates (iii) any notice which is permitted or required to be given to Owners of Certificates hereunder, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial prepayment of the Certificates, or (v) any consent given or other action taken by DTC as Owner of Certificates. The Trustee shall pay all principal amount and prepayment price of and interest on the Certificates only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the principal amount and prepayment price of and interest on the Certificates to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Certificates will be transferable to such new nominee in accordance with subsection (c) of this Section.

(b) In the event that the Corporation determines that the beneficial owners of the Certificates should obtain securities certificates, the Trustee shall, upon the written instruction of the Corporation, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of securities certificates. In such event, the Certificates will be transferable in accordance with subsection (c) of this Section. DTC may determine to discontinue providing its services with respect to the Certificates at any time by giving written notice of such discontinuance to the Corporation and the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Certificates will be transferable in accordance with subsection (c) of this Section. Whenever DTC requests the Corporation and the Trustee to do so, the Trustee and the Corporation will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Certificates then Outstanding. In such event,

the Certificates will be transferable to such securities depository in accordance with subsection (c) of this Section, and thereafter, all references in this Trust Agreement to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(c) In the event that any transfer or exchange of Certificates is authorized under subsection (a) or (b) of this Section, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner of the Certificates to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of Sections 2.12 and 2.13 hereof. In the event certificates are delivered to Owners other than Cede & Co., its successor as nominee for DTC as Owner of all the Certificates, another securities depository as Owner of all the Certificates, or the nominee of such successor securities depository, the provisions of Sections 2.12 and 2.13 hereof shall also apply to, among other things, the registration, exchange and transfer of the Certificates and the method of payment of principal amount or prepayment price of and Interest Installments evidenced and represented by the Certificates.

SECTION 2.18 Procedure for the Delivery of Certificates. The Trustee is hereby authorized to execute and deliver the Certificates to the purchaser thereof upon the Written Request of the Corporation and upon receipt of the proceeds of the sale thereof and receipt of the Certificate Insurance Policies and the MBIA Surety Bond. Upon receipt of the proceeds of the sale of the Certificates from the purchaser thereof, other amounts transferred to the Trustee for such purposes, the Trustee shall set aside and deposit the proceeds received from such sale and such other amounts in the following respective accounts or funds or with the following respective persons, in the following order of priority:

(a) The Trustee shall deposit in the Escrow Account the sum of \$_____ from proceeds from the sale of the Series A Certificates to be applied as provided in the Escrow Agreement;

(b) The Trustee shall deposit the remainder of the proceeds of sale of the Certificates in the Costs of Issuance Fund, which fund is hereby created and which fund the Corporation hereby agrees to maintain with the Trustee until June 1, 2002. Within the Costs of Issuance Fund there is hereby created the following separate and segregated accounts to be designated the "Series A Costs of Issuance Account" and the "Series B Costs of Issuance Account." All money in the Series A Costs of Issuance Account shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series A Certificates upon receipt of a Written Request of the Corporation filed with the Trustee, and all money in the Series B Costs of Issuance Account shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series B Certificates upon receipt of a Written Request of the Corporation filed with the Trustee, each of which shall be sequentially numbered and shall state the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On June 1, 2002 or upon the earlier Written Request of the Corporation, any remaining balance in the accounts within the Costs of Issuance Fund shall be transferred to the Debt Service Fund.

The Trustee shall also deposit in the Reserve Fund the MBIA Surety Bond in the face amount of \$ _____, which shall satisfy the initial Reserve Fund Requirement upon execution and delivery of the Certificates [Series B only?].

ARTICLE III

INSTALLMENT PAYMENTS

SECTION 3.01 Installment Payments Held in Trust. The Installment Payments shall be held in trust by the Trustee for the benefit of the Owners from time to time of the Certificates, but shall nonetheless be disbursed, allocated and applied solely for the uses and purposes provided herein.

SECTION 3.02 Deposit of Installment Payments. The Trustee hereby agrees to establish, maintain and hold in trust the “City of Lodi Electric System 2002 Certificates Debt Service Fund” (the “Debt Service Fund”) for so long as any Certificates shall be Outstanding hereunder. All Installment Payments, including any prepayments thereof pursuant to Section 3.02 of the Contract, received by the Trustee shall be immediately deposited in the Debt Service Fund and shall be disbursed and applied only as hereinafter provided.

SECTION 3.03 Establishment and Maintenance of Accounts for Use of Money in the Debt Service Fund. Subject to Section 5.03 hereof, all money in the Debt Service Fund shall be set aside by the Trustee in the following respective special accounts within the Debt Service Fund (each of which is hereby created and each of which the Trustee hereby agrees and covenants to maintain) in the following order of priority:

- (a) Interest Account, and
- (b) Principal Account.

All money in each of such accounts shall be held in trust by the Trustee for the benefit of the Owners and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this Section.

(a) Interest Account. On each Interest Payment Date, commencing on _____, and on each other date when interest on the Certificates becomes due and payable, whether upon prepayment, acceleration or otherwise, the Trustee shall set aside from the Debt Service Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest on the Certificates becoming due and payable on such Interest Payment Date.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest on the Certificates becoming due and payable on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest as it shall become due and payable (including

accrued interest on Certificates purchased or prepaid prior to their respective Certificate Payment Date).

(b) Principal Account. On each Certificate Payment Date, and on each date on which any Certificate is to be prepaid in accordance with the Trust Agreement, the Trustee shall set aside from the Debt Service Fund and deposit in the Principal Account an amount of money equal to the principal amount of the Outstanding Certificates coming due on such date and any prepayment premium payable in connection with the prepayment of Certificates on such date.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the Principal Installments evidenced and represented by the Outstanding Certificates with a Certificate Payment Date of such January 15.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal amount of Certificates as they shall become due and payable, whether at their respective Certificate Payment Dates or on prior prepayment.

SECTION 3.04 Reserve Fund.

(a) The Trustee hereby agrees and covenants to maintain the Reserve Fund so long as the Contract has not been discharged in accordance with its terms or any Certificates remain Outstanding hereunder. Amounts on deposit in the Reserve Fund are hereby pledged to the payment of the [Series B] Certificates. The Trustee shall deposit in the Reserve Fund the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to Section 4.01(b)(2) of the Contract, as directed by the Corporation in a Written Request of the Corporation. Moneys on deposit in the Reserve Fund shall be transferred by the Trustee to the Debt Service Fund to pay principal of and/or interest on the Certificates on each date when such principal and/or interest is due and payable in the event amounts on deposit therein are insufficient for such purposes. All investments in the Reserve Fund shall (beginning in January 2002) be valued on January 1 of each year. Amounts on deposit in the Reserve Fund in excess of the Reserve Fund Requirement shall, at the Written Request of the Corporation, be withdrawn from the Reserve Fund and transferred to the City for deposit in the Revenue Fund established under the Contract.

(b) Notwithstanding anything herein to the contrary, at any time one or more Financial Guaranties are on deposit in the Reserve Fund, the Trustee shall:

- (i) provide the issuer of each Financial Guaranty notice in accordance with the terms of such Financial Guaranty of any draw on such Financial Guaranty at least three days prior to the Interest Payment Date or Certificate Payment Date, as applicable, on which the proceeds of such draw are required;
- (ii) withdraw and use all cash on deposit in the Reserve Fund prior to using and withdrawing any amounts derived from payments under any Financial Guaranty;

- (iii) draw on all Financial Guaranties on a pro rata basis based on the draw limit of each such Financial Guaranty, if there is more than one Financial Guaranty on deposit in the Reserve Fund; and
- (iv) maintain adequate records, verified with the issuer of the applicable Financial Guaranty, as to the amount available to be drawn at any given time under each Financial Guaranty and as to the amounts paid and owing to the issuer of such Financial Guaranty under the terms of such Financial Guaranty.

SECTION 3.05 Rebate Fund.

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the “City of Lodi Electric System 2002 Series A Rebate Fund” (the “Rebate Fund”). Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary to comply with the terms of the Tax Certificate. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the government of the United States of America. None of the City, the Corporation nor the Owner of any Certificate shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section, by Section 7.03 of the Contract and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the City, including supplying all necessary information in the manner provided in the Tax Certificate, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate.

(b) Upon the City’s written direction, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the City if and to the extent required, so that the balance of the Rebate Fund after such deposits shall equal the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the City in accordance with the Tax Certificate.

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section other than from moneys held in the Rebate Fund or from other moneys provided to it by the City.

(d) The Trustee shall invest all amounts held in the Rebate Fund in Investment Securities as directed by the City, which directions shall be in compliance with the restrictions set forth in the Tax Certificate. Money shall not be transferred from the Rebate Fund except as provided in paragraph (E) below.

(e) Upon receipt of the City’s written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the City so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the City’s written directions; provided,

however, only moneys in excess of the Rebate Requirement may be transferred out of the Rebate Fund to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Rebate Fund after prepayment and payment of all of the Certificates and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the City.

(f) Notwithstanding any other provision of this Trust Agreement, including in particular Article VII hereof, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section, Section 7.03 of the Contract and the Tax Certificate shall survive the defeasance or payment in full of the Series A Certificates.

SECTION 3.06 Liquidity Facility.

(A) The Trustee shall hold and maintain the Liquidity Facility for the benefit of the Series A Certificateholders until the Liquidity Facility expires in accordance with its terms. The Trustee shall diligently enforce all terms, covenants and conditions of the Liquidity Facility, including drawing on the Liquidity Facility as required (including on the Business Day prior to the day money is needed pursuant to the terms of this Trust Agreement if so required by its terms) to provide for all payments of the Purchase Price of Series A Certificates on a timely basis, and the provisions relating to the payment of draws on, and reinstatement of amounts that may be drawn under, the Liquidity Facility, and will not consent to, agree to or permit any amendment or modification of the Liquidity Facility that would materially adversely affect the rights or security of the Owners of the Series A Certificates. If at any time during the term of the Liquidity Facility any successor Trustee shall be appointed and qualified under this Trust Agreement, the resigning or removed Trustee shall request that the Liquidity Provider transfer the Liquidity Facility to the successor Trustee. If the resigning or removed Trustee fails to make this request, the successor Trustee shall do so before accepting appointment.

(B) If at any time there shall have been delivered to the Trustee an Alternate Liquidity Facility pursuant to and in accordance with Section 7.18 of the Contract, then the Trustee shall accept such Alternate Liquidity Facility and promptly surrender the previously held Liquidity Facility to the appropriate Liquidity Provider, in accordance with the terms of such Liquidity Facility, for cancellation. If at any time there shall cease to be any Series A Certificates Outstanding hereunder, the Trustee shall promptly surrender the Liquidity Facility to the Liquidity Provider, in accordance with the terms of the Liquidity Facility, for cancellation. The Trustee shall comply with the procedures set forth in the Liquidity Facility relating to the termination thereof.

SECTION 3.07 Deposit and Investments of Money in Accounts and Funds. (a) All money held by the Trustee in any of the accounts or funds established pursuant hereto shall be invested in Permitted Investments at the Written Request of the Corporation (which shall be in compliance with Section 5.03 hereof) filed with the Trustee which such Permitted Investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement hereunder, and the Trustee shall have no liability or responsibility for any loss resulting from any investment made in accordance herewith; provided, except for investment agreements approved by the Certificate Insurer, money in the Reserve Fund shall not be invested in any investment with a maturity extending beyond five years of the time of such

investment. If no such Written Request of the Corporation is received by the Trustee, the Trustee shall invest such money in those Permitted Investments described in clause (D) of the definition thereof. Subject to Section 5.03 hereof, all interest or profits received on any money so invested shall be deposited in the Debt Service Fund.

(b) The Corporation (and the City by its execution of the Contract) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Corporation or the City the right to receive brokerage confirmations of security transactions as they occur, the Corporation and the City specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Corporation and the City monthly cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

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

(d) The Trustee shall not be liable for any loss from any Permitted Investments acquired, held or disposed of in compliance with Section 3.06 hereof.

SECTION 3.08 Assignment to Trustee; Enforcement of Obligations.

(a) The Corporation hereby transfers, assigns and sets over to the Trustee all of the Installment Payments and any and all rights and privileges it has under the Contract (other than its rights to indemnification pursuant to Section 10.12 of the Contract), including, without limitation, the right to collect and receive directly all of the Installment Payments and the right to enforce the provisions of the Contract; and any Installment Payments collected or received by the Corporation shall be deemed to be held, and to have been collected or received, by the Corporation as the agent of the Trustee, and shall forthwith be paid by the Corporation to the Trustee. The Trustee also shall, subject to the provisions of this Trust Agreement, take all steps, actions and proceedings required to be taken as provided in any opinion of counsel delivered to it, reasonably necessary to maintain in force for the benefit of the Owners of the Certificates the Trustee's rights in and priority to the following security granted to it for the payment of the Certificates: the Trustee's rights as assignee of the Installment Payments under the Contract and as beneficiary of any other rights to security for the Certificates which the Trustee may receive in the future.

(b) The Trustee may, in performing the obligations set out in Section 3.08(a) above, rely and shall be protected in acting or refraining from acting upon an Opinion of Counsel furnished by the City.

ARTICLE IV

RESERVED

ARTICLE V

COVENANTS OF THE CORPORATION AND THE TRUSTEE

SECTION 5.01 Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the provisions hereby; and the Corporation will not suffer or permit any default by it to occur hereunder, but will faithfully comply with, keep, observe and perform all the agreements and covenants to be observed or performed by it contained herein and in the Certificates.

SECTION 5.02 Observance of Laws and Regulations. The Corporation and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

SECTION 5.03 Tax Covenants.

(a) The Corporation hereby covenants with the Owners of the Certificates that, notwithstanding any other provisions of this Trust Agreement, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax-exempt status of interest on the Series A Certificates under Section 103 of the Code. The Corporation shall not, directly or indirectly, use or permit the use of proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would adversely affect the Tax-exempt status of interest on the Series A Certificates.

(b) The Corporation shall not take any action, or fail to take any action, if any such action or failure to take action would cause the Series A Certificates to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the Series A Certificates or any of the property financed or refinanced with proceeds of the Series A Certificates, or any portion thereof, or any other funds of the Corporation, that would cause the Series A Certificates to be "private activity bonds" within the meaning of Section 141 of the Code. To that end, so long as any Series A Certificates are Outstanding, the Corporation, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder, to the extent such requirements are, at the time, applicable and in effect. The Corporation shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the Certificates as "governmental bonds."

(c) The Corporation shall not, directly or indirectly, use or permit the use of any proceeds of any Series A Certificates, or of any property financed or refinanced thereby, or other funds of the Corporation, or take or omit to take any action, that would cause the Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the Corporation shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

(d) The Corporation shall not make any use of the proceeds of the Series A Certificates or any other funds of the Corporation, or take or omit to take any other action, that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(e) In furtherance of the foregoing tax covenants, the Corporation covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Certificates.

SECTION 5.04 Accounting Records and Reports. The Trustee will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipts, disbursements, allocation and application of the Installment Payments and the proceeds of the Certificates, and such books shall be available for inspection by the Corporation, at reasonable hours and under reasonable conditions. Not more than 180 days after the close of each Fiscal Year, the Trustee shall furnish or cause to be furnished to the Corporation a complete financial statement covering receipts, disbursements, allocation and application of Installment Payments received by the Trustee for such Fiscal Year. The Corporation shall keep or cause to be kept such information as required under the Tax Certificate.

SECTION 5.05 Prosecution and Defense of Suits. The Corporation will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Installment Payments and the proceeds of the Certificates or to the extent involving the failure of the Corporation to fulfill its obligations hereunder; provided that the Trustee or any affected Owner at its election may appear in and defend any such suit, action or proceeding. The Corporation will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the Corporation, and will indemnify and hold harmless the Trustee against any attorney’s fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions hereunder, except for any loss, cost, damage or expense resulting from the active or passive negligence, willful misconduct or breach of duty by the Trustee. Notwithstanding any contrary provision hereof, this covenant shall remain in full force and effect even though all Certificates secured hereby may have been fully paid and satisfied.

SECTION 5.06 Amendments to Contract. The Corporation shall not supplement, amend, modify or terminate any of the terms of the Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Certificate

Insurer (if the Certificate Insurer is not in default under a Certificate Insurance Policy) and the Trustee, which such consent of the Trustee shall be given only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the Owners or result in any material impairment of the security hereby given for the payment of the Certificates, or (b) if the Certificate Insurer is in default under a Certificate Insurance Policy, the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding to such supplement, amendment, modification or termination; provided, however, that no such supplement, amendment, modification or termination shall reduce the amount of Installment Payments to be made by the City pursuant to the Contract, or extend the time for making such Installment Payments in any manner that would require the consent of Certificate Owners pursuant to Section 7.01(b) hereof in any manner not in compliance with Section 7.01 hereof.

SECTION 5.07 Recording and Filing. The Trustee upon receipt of a Written Request of the Corporation shall, at the expense of the Corporation, file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to fully perfect, preserve and protect the security of the Owners and the rights and interests of the Trustee; provided, however, that the Trustee will not be required to execute a special or general consent to service of process, or to qualify as a foreign corporation in connection with any such filing, recording, registration, refiling or rerecording in any jurisdiction in which it is not now so subject.

SECTION 5.08 Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee or any Owner, the Corporation will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them hereby.

ARTICLE VI

THE TRUSTEE

SECTION 6.01 The Trustee.

(a) BNY Western Trust Company, as the Trustee, shall receive all money which the Corporation is required to deposit with the Trustee hereunder and for the purpose of allocating, applying and using such money as provided herein and for the purpose of paying the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates presented for payment and for the purpose of canceling all paid or prepaid Certificates as provided herein. The Corporation agrees that it will at all times maintain a Trustee having a corporate trust office in either San Francisco, California or Los Angeles, California.

(b) The Corporation may at any time (unless there exists any Event of Default as defined in Section 8.01 hereof), and upon written direction from the Certificate Insurer shall, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided that any such successor shall be a banking corporation or trust company doing business and having a principal office in either San Francisco, California or Los Angeles, California, having a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state Corporation, acceptable to the Certificate Insurer. If such banking corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining Corporation above referred to, then for the purpose of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the Corporation and the Certificate Insurer and by mailing to the Owners notice of such resignation. Upon receiving such notice of resignation, the Corporation shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. If, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required hereby.

(c) The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default that may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations shall be read into this Trust Agreement. The Trustee shall, during the existence of any Event of Default (that has not been cured), exercise such of the rights and powers vested in it hereby, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

SECTION 6.02 Liability of Trustee.

(a) The recitals of facts, agreements and covenants herein and in the Certificates shall be taken as recitals of facts, agreements and covenants of the Corporation, and the Trustee assumes no responsibility for the correctness of the same or makes any representation as to the sufficiency or validity hereof or of the Certificates, or shall incur any responsibility in respect thereof other than in connection with the rights or obligations assigned to or imposed upon it herein, in the Certificates or in law or equity. The Trustee shall not be liable in connection with the performance of its duties hereunder except for its own active or passive negligence, willful misconduct or breach of duty.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Certificates at the time Outstanding, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee hereunder.

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it hereby at the request, order or direction of any of the Owners pursuant to the provisions hereof unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred therein or thereby. The Trustee has no obligation or liability to the Owners for the payment of interest, principal or prepayment premium, if any, evidenced and represented by the Certificates from its own funds; but rather the Trustee's obligations shall be limited to the performance of its duties hereunder.

(e) The Trustee shall not be deemed to have knowledge of any default hereunder or default under the Contract unless and until it shall have actual knowledge thereof or shall have received written notice thereof at its Corporate Trust Office. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Certificates or as to the existence of a default hereunder.

(f) The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty hereunder, but the Trustee shall not be answerable for the professional malpractice of any attorney-at-law or certified public accountant in connection with the rendering of his professional advice in accordance with the terms hereof, if such attorney-at-law or certified public accountant was selected by the Trustee with due care.

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

(h) Whether or not therein expressly so provided, every provision hereof or of the Contract or any related documents relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this article.

(i) The Trustee makes no representation or warranty, express or implied, as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Corporation or City of the Projects. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Contract or this Trust Agreement for the existence, furnishing or use of the Projects.

(j) The Trustee shall be protected in acting upon any notice, requisition, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Corporation, with regard

to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

(k) Whenever in the administration of its rights and obligations hereunder the Trustee shall deem it necessary or desirable that a matter be established or proved prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Corporation, which certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions hereof upon the faith thereof, but in its discretion the Trustee may in lieu thereof accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

(l) No provision of this Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers.

(m) The Trustee shall have no responsibility, opinion or liability with respect to any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the execution and delivery of the Certificates.

(n) All immunities, indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, employees, officers and agents thereof.

(o) Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, so long as such company shall meet the requirements set forth in Section 6.01, shall be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

(p) The Trustee may become the owner or pledgee of any Certificates with the same rights it would have if it were not Trustee.

SECTION 6.03 Compensation and Indemnification of Trustee. The Corporation covenants to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it in the exercise and performance of any of the powers and duties hereunder of the Trustee, and the Corporation will pay or reimburse the Trustee upon its request for all expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, default or willful misconduct. The Corporation, to the extent permitted by law, shall indemnify, defend and hold harmless the Trustee against any loss, damages, liability or expense incurred without negligence, default or willful misconduct on the part of the Trustee arising out of or in connection with (i) the

acceptance or administration of the trusts created hereby, or the exercise or performance of any of its powers or duties hereunder, or (ii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of any of the Certificates, including costs and expenses (including attorneys' fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. The rights of the Trustee and the obligations of the Corporation under this section shall survive the discharge of the Certificates and the Trust Agreement and the resignation or removal of the Trustee.

SECTION 6.04 Paying Agent. The Trustee, with the written approval of the City and the Liquidity Provider, may appoint and have a Paying Agent in such cities as the Trustee deems desirable, for the payment of the principal of and interest (and premium, if any) on, the Certificates. It shall be the duty of the Trustee to make such credit arrangements with such Paying Agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of, and interest (and premium, if any) on, the Certificates presented at either place of payment. The Trustee will not be responsible for the failure of the Liquidity Provider or any other party to make funds available to the Trustee or Paying Agent. The Trustee is the initial Paying Agent.

SECTION 6.05 Notices to Rating Agencies. The Trustee shall provide the Rating Agencies, with copies to the City, the Certificate Insurer and the Liquidity Provider (but shall incur no liability for any failure to do so), with written notice upon the occurrence of: (i) the expiration, termination or substitution of the Liquidity Facility; (ii) the discharge of liability on any Certificates pursuant to Section 10.02; (iii) the resignation or removal of the Trustee; (iv) acceptance of appointment as successor trustee hereunder; (v) the prepayment or purchase of all Certificates; or (vi) a material change in the Trust Agreement, the Contract, or the Liquidity Facility, upon its receipt of written notice of any such changes. The Trustee shall also notify any Rating Agency of any material changes to any of the documents to which the Trustee is a party, upon its receipt of written notification of any such changes.

SECTION 6.06 Duties of Remarketing Agent. The City shall appoint the Remarketing Agent for the Series A Certificates, subject to the conditions set forth in Section 8.11 hereof. The Remarketing Agent shall designate to the Trustee its principal office and signify its acceptance of the duties and obligations imposed on it hereunder by a written instrument of acceptance delivered to the City and the Trustee under which the Remarketing Agent will agree to perform the obligations of the Remarketing Agent set forth herein and under which the Remarketing Agent will agree to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the City and the Trustee at all reasonable times. The Remarketing Agent shall set the interest rates on the Series A Certificates and perform the other duties provided for in Section 2.03 and Section 2.07 and shall remarket Series A Certificates as provided in Section 2.07. There may be separate Remarketing Agents for these two functions. Subject to the terms of the Remarketing Agreement, the Remarketing Agent may for its own account or as broker or agent for others deal in Series A Certificates and may do anything any other Owner may do to the same extent as if the Remarketing Agent were not serving as such. The initial Remarketing Agent shall be

Salomon Smith Barney Inc. The Remarketing Agent shall hold all moneys delivered to it in connection with the remarketing of Series A Certificates in trust in non-commingled funds for the benefit of the person or entity which has delivered such moneys until such moneys are delivered to the Trustee or the Tender Agent, as applicable, as provided herein. The Remarketing Agent shall not sell Series A Certificates to the City.

SECTION 6.07 Eligibility of Remarketing Agent; Replacement. The Remarketing Agent shall be a bank, trust company or member of the National Association of Securities Dealers, Inc. organized and doing business under the laws of the United States of America or any state or the District of Columbia. Any successor Remarketing Agent shall have a capitalization of at least \$15,000,000 as shown in its most recent published annual report.

The Remarketing Agent may resign by notifying the City, the Trustee, the Tender Agent and the Liquidity Provider at least 30 days before the effective date of such resignation. The City may, and upon a showing by the Liquidity Provider of reasonable cause, shall remove the Remarketing Agent upon 30 days' written notice and with the advice and consent of the City and the Liquidity Provider, which consent shall not be unreasonably withheld, appoint a successor by notifying the Remarketing Agent, the Liquidity Provider and the Trustee, provided such notice may be waived if the Remarketing Agent is unable or ceasing to perform its duties.

SECTION 6.08 Compensation of Remarketing Agent. The Remarketing Agent shall not be entitled to any compensation from the Trustee but, rather, shall make separate arrangements with the City for its compensation.

SECTION 6.09 Duties of Tender Agent. The Trustee is hereby appointed as the Tender Agent for the Series A Certificates and the Trustee hereby accepts such appointment. Each successor Tender Agent shall designate its Corporate Trust Office and signify its acceptance of all of the duties and obligations imposed upon it hereunder by a written instrument of acceptance delivered to the City, the Trustee, the Liquidity Provider and the Remarketing Agent. The Tender Agent shall perform the duties provided for in this Trust Agreement and in exercising such duties shall be entitled to the same rights and immunities applicable to the Trustee as set forth in this Trust Agreement and shall not be liable for any action or omission to act except for negligence or willful misconduct. Notwithstanding any provision in this Trust Agreement to the contrary, the Tender Agent shall not be responsible for any misconduct or negligence on the part of any agent, correspondent, attorney or receiver appointed with due care by it hereunder. When acting as co-authenticating agent hereunder, the Tender Agent shall promptly notify the Trustee in writing of transfers and exchanges of Series A Certificates. Notwithstanding the foregoing, the initial Tender Agent is the Trustee.

SECTION 6.10 Eligibility of Tender Agent; Replacement. The Tender Agent and any successor to the Tender Agent shall be a bank or trust company organized and doing business under the laws of the United States of America or any state and shall have (or in the case of a bank or trust company included in a bank holding company system, the related bank holding company shall have) a capitalization of at least \$10,000,000 as shown in its most recent published annual report and at all times when the Series A Certificates are not Book-Entry Certificates shall have an office or agency for servicing the Series A Certificates in New York, New York.

The Tender Agent may resign by notifying the City, the Trustee, the Liquidity Provider, the Remarketing Agent and the Owners at least 30 days before the effective date of such resignation. The Trustee may remove the Tender Agent and appoint a successor by notifying the Tender Agent, the Remarketing Agent, the Liquidity Provider and the City. No removal or resignation of the Tender Agent shall be effective until the successor has delivered an acceptance of its appointment to the Trustee and the predecessor Tender Agent.

In the event of the resignation or removal of the Tender Agent, such Tender Agent shall pay over, assign and deliver any moneys held by it as Tender Agent to its successor, or if there is no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of Tender Agent, the Trustee shall act as such Tender Agent to the extent it has operational capacity to perform such tasks.

SECTION 6.11 Compensation of Tender Agent. The Tender Agent shall not be entitled to any compensation from the Remarketing Agent or the Trustee but, rather, shall only be entitled to compensation from the City. The City shall transmit all payment of fees to the Trustee who shall, in turn, make payment to the Tender Agent.

ARTICLE VII

AMENDMENT OF THE TRUST AGREEMENT

SECTION 7.01 Amendment of the Trust Agreement. (a) Except as provided in subsection (b) and (c) of this Section 7.01, the Trust Agreement and the rights and obligations of the Corporation and of the Owners may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consent of the Certificate Insurer or, if the Certificate Insurer is in default under a Certificate Insurance Policy, the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 7.02 hereof, are filed with the Trustee; provided, that before executing any such Supplemental Trust Agreement the Trustee may first obtain at the Corporation's expense an Opinion of Counsel that such Supplemental Trust Agreement complies with the provisions of the Trust Agreement, on which opinion the Trustee may conclusively rely.

(b) No amendment to the Contract or this Trust Agreement shall (1) extend the Certificate Payment Date of, or change the payment dates of, or reduce the rate of interest or Principal Installments, Interest Installments or prepayment premium, if any, evidenced and represented by any Certificate without the express written consent of the Owner of such Certificate, or (2) reduce the percentage of Certificates required for the written consent to any such amendment, or (3) modify any rights or obligations of the Trustee without its prior written assent thereto. Copies of any amendments made to the Trust Agreement which are consented to by the Certificate Insurer shall be sent to S&P.

(c) The Trust Agreement and the rights and obligations of the Corporation and of the Owners may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of any Owners, but only to the extent

permitted by law, for any purpose that will not materially adversely affect the interests of the Owners, including (without limitation) for any one or more of the following purposes:

(i) to add to the agreements and covenants required herein to be performed by the Corporation other agreements and covenants thereafter to be performed by the Corporation, or to surrender any right or power reserved herein to or conferred herein on the Corporation;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the Corporation may deem desirable or necessary and not inconsistent herewith;

(iii) to add to the agreements and covenants required herein, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939;

(iv) to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion of interest evidenced and represented by the Certificates from gross income for federal income tax purposes under the Code or the exemption of such interest from State of California personal income taxes;

(v) to make such amendments or supplements as may be necessary or appropriate to maintain any then current rating on the Certificates by any of the Rating Agencies;

(vi) to add to the rights of the Trustee; or

(vii) to amend the schedule of prepayment dates and prices pursuant to Section 2.08(b) hereof.

SECTION 7.02 Disqualified Certificates. Certificates owned or held by or for the account of the Corporation or the City shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in this article, and shall not be entitled to consent to or take any other action provided in this article. Upon the request of the Trustee, the Corporation shall specify to the Trustee those Certificates disqualified pursuant to this Section.

SECTION 7.03 Endorsement or Replacement of Certificates After Amendment. After the effective date of any action taken as hereinabove provided, the Corporation may determine that the Certificates may bear a notation by endorsement in form approved by the Corporation as to such action, and in that case upon demand of the Owner of any Outstanding Certificates and presentation of such Owner's Certificate for such purpose at the Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Corporation shall so determine, new Certificates so modified as, in the opinion of the Corporation, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Certificate a new Certificate or Certificates shall be exchanged at the Corporate Trust Office of the Trustee without cost to each Owner for its Certificate or Certificates then Outstanding upon surrender of such Outstanding Certificates.

SECTION 7.04 Amendment by Mutual Consent. The provisions of this article shall not prevent any Owner from accepting any amendment as to the particular Certificates held by him, provided that due notation thereof is made on such Certificates.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

SECTION 8.01 Events of Default; Acceleration; Waiver of Default. If an Event of Default (as that term is defined in the Contract) shall happen, then such Event of Default shall constitute a default hereunder, and in each and every such case during the continuance of such Event of Default the Trustee or the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding may exercise the remedies provided to the Corporation in the Contract; provided, that nothing contained herein shall affect or impact the right of action of any Owner to institute suit directly against the City to enforce payment of the obligation evidenced and represented by such Owner's Certificates.

SECTION 8.02 Other Remedies of the Trustee. The Trustee shall have the right:

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

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

(c) by suit in equity upon the happening of any Event of Default hereunder to enforce the Corporation's rights under the Contract to require the City and its officers and employees to account as the trustee of an express trust.

SECTION 8.03 Non-Waiver. A waiver of any default or breach of any duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or any acquiescence therein, and every right or remedy conferred upon the Trustee by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

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

SECTION 8.04 Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, and each

such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

SECTION 8.05 No Liability by the City to the Owners. Except for the payment when due of the Installment Payments and the performance of the other agreements and covenants required to be performed by it contained in the Contract, the City shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Installment Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained herein.

SECTION 8.06 No Liability by the Trustee to the Owners. Except as expressly provided herein, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by its contained in the Contract.

ARTICLE IX

DEFEASANCE

SECTION 9.01 Discharge of Trust Agreement. When the obligations of the City under the Contract shall cease pursuant to Article IX of the Contract (except for the right of the Trustee and the obligation of the City to have the money and securities mentioned therein applied to the payment of Installment Payments as therein set forth), then and in that case the obligations created by this Trust Agreement shall thereupon cease, determine and become void except for the right of the Owners and the obligation of the Trustee to apply such moneys and securities to the payment of the Certificates as herein set forth and the right of the Trustee to collect any fees or expenses due hereunder and the Trustee shall turn over to the City, as an overpayment of Installment Payments, all balances remaining in any other funds or accounts other than moneys and Defeasance Securities held for the payment of the Certificates at maturity or on prepayment, which moneys and Defeasance Securities shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the Principal Installments and Interest Installments and premium, if any, evidenced and represented by the Certificates, and after such payment, this Trust Agreement shall become void.

If moneys or securities are deposited with and held by the Trustee as hereinabove provided, the Trustee shall mail a notice, first-class postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to Section 2.16 hereof, stating that (a) moneys or Defeasance Securities are so held by it, and (b) that this Trust Agreement has been released in accordance with the provisions of this Section.

SECTION 9.02 Deposit of Money or Securities with Trustee. Whenever in this Trust Agreement or the Contract it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities (certified to be sufficient by a report of an Independent

Certified Public Accountant) in the necessary amount to pay or prepay any Installment Payments evidenced by Certificates, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Trust Agreement and shall be:

(a) lawful money of the United States of America in an amount equal to the Principal Installments evidenced and represented by such Certificates on the payment date thereof and all unpaid Interest Installments evidenced and represented thereby to maturity, except that, in the case of Certificates which are to be prepaid prior to such date of payment and in respect of which notice of such prepayment shall have been given as in Article II provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the Principal Installments plus accrued Interest Installments to such date of prepayment plus a prepayment premium, if any, evidenced and represented by such Certificates; or

(b) Defeasance Securities which are not subject to prepayment except by the holder thereof prior to maturity (including any such securities issued or held in book-entry form) or municipal obligations which have been defeased under irrevocable escrow instructions with Defeasance Securities and which are rated in the highest rating category by the Rating Agencies, the principal of and interest on which when due will provide, in its opinion of an Independent Certified Public Accountant, delivered to the Trustee, money sufficient to pay the Principal Installments plus prepayment premium, if any, plus all accrued Interest Installments to maturity or to the prepayment date, as the case may be, represented by the Certificates to be paid or prepaid, as such amounts become due, provided that, in the case of Certificates which are to be prepaid prior to the maturity thereof, notice of such prepayment shall have been given as in Article II provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Trust Agreement and the Contract or by Written Request of the City) to apply such money to the payment of such Principal Installments plus prepayment premium, if any, plus Interest Installments represented by such Certificates.

Notwithstanding anything contained herein to the contrary, in the event that the Interest Installments and/or the Principal Installments evidenced and represented by any of the Certificates shall be paid by the Certificate Insurer pursuant to the Certificate Insurance Policy, such Certificates shall remain Outstanding hereunder for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid, and the assignment and pledge hereof and all agreements, covenants and other obligations of the City under the Contract assigned to the Trustee for the benefit of the Owners of the Certificates shall continue to exist and shall run to the benefit of the Certificate Insurer, and the Certificate Insurer shall be subrogated to the rights of such Owners.

SECTION 9.03 Unclaimed Money. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Certificates which remains unclaimed for two (2) years after the date when such Certificates have become due and payable, either at their stated Certificate Payment Dates or by call for prepayment prior to Certificate Payment Date, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee

after the date when such Certificates have become due and payable, shall be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the City for the payment of the Installment Payments evidenced and represented by the Certificates; provided, however, that before being required to make any such payment to the City, the Trustee shall at the request of and at the expense of the City, cause to be mailed to all Owners and the Securities Depositories and the Information Services a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the City.

ARTICLE X

PROVISIONS RELATING TO CERTIFICATE INSURANCE POLICIES

SECTION 10.01 Series A Insurance Policy and Series B Insurance Policy. Notwithstanding anything to the contrary contained herein, any amount drawn under the Series A Insurance Policy will be available only for payment of Schedule A Installment Payments evidenced and represented by the Series A Certificates pursuant to the provisions of this Article X and any amount drawn under the Series B Insurance Policy will be available only for payment of Schedule B Installment Payments evidenced and represented by the Series B Certificates pursuant to the provisions of this Article X.

SECTION 10.02 Payment Procedure Under the Certificate Insurance Policies.

(a) In the event that, on the second Business Day, and again on the Business Day, prior to the Payment Date, the Trustee has not received sufficient moneys to pay all amounts due with respect to the Certificates relating to Schedule A Installment Payments or Schedule B Installment Payments due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Certificate Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Certificate Insurer or its designee.

(c) In addition, if the Trustee has notice that any Owner has been required to disgorge Schedule A Installment Payments evidenced and represented by the Series A Certificates or Schedule B Installment Payments evidenced and represented by the Series B Certificates to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Certificate Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

SECTION 10.03 Trustee as Attorney-In-Fact. The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as an attorney-in-fact for Owners of the Certificates as follows:

(a) if and to the extent the Trustee has not received sufficient moneys to pay the Interest Installments evidenced and represented by the Series A Certificates, the Trustee shall (i) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the applicable Certificate Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Certificate Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Certificate Insurer of the claims for interest to which such deficiency relates and which are paid by the Certificate Insurer, (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the applicable Certificate Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (iii) disburse the same to such respective Owners; and

(b) if and to the extent the Trustee has not received sufficient moneys to pay the Principal Installments evidenced and represented by the Series A Certificates or the Series B Certificates, the Trustee shall (i) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Certificate Insurer as agent for such Owner in any legal proceeding relating to the payment of such Principal Installment and an assignment to the Certificate Insurer of any of the Certificates surrendered to the Insurance Paying Agent of so much of the Principal Installment thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the applicable Insurance Policy payment therefor from the Insurance Paying Agent, and (iii) disburse the same to such Owners.

SECTION 10.04 No Discharge.

(a) Installment Payments with respect to claims for Schedule A Installment Payments evidenced and represented by the Series A Certificates or Schedule B Installment Payments evidenced and represented by the Series B Certificates disbursed by the Trustee from proceeds of the applicable Certificate Insurance Policy shall not be considered to discharge the obligation of the City with respect to such Schedule A Installment Payments or Schedule B Installment Payments evidenced by the Certificates, and the Certificate Insurer shall become the owner of such unpaid Certificates and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this Article or otherwise.

(b) Irrespective of whether any such assignment is executed and delivered, the Corporation and the Trustee hereby agree for the benefit of the Certificate Insurer that: (i) they recognize that to the extent the Certificate Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of Schedule A Installment Payments evidenced and represented by the Series A Certificates or Schedule B Installment Payments evidenced and represented by the Series B Certificates, the Certificate Insurer will be subrogated to the rights of such Owners to receive the amount of such Schedule A Installment Payments evidenced and

represented by the Series A Certificates or Schedule B Installment Payments evidenced and represented by the Series B Certificates from the City, with interest thereon as provided and solely from the sources stated in the Contract and such Certificates; and (ii) they will accordingly pay to the Certificate Insurer the amount of Schedule A Installment Payments or Schedule B Installment Payments (including principal and interest recovered under subparagraph (ii) of the first paragraph of the applicable Certificate Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Contract and such Certificates, but only from the sources and in the manner provided in the Contract for the payment of Principal Installments and Interest Installments with respect to such Certificates to Owners, and will otherwise treat the Certificate Insurer as the owner of such rights to the amount of such principal and interest.

SECTION 10.05 Rights of Certificate Insurer. Notwithstanding anything to the contrary contained herein, so long as the Certificate Insurer is not in default under a Certificate Insurance Policy, (a) the Certificate Insurer, acting alone, shall have the right to direct all remedies upon the occurrence and during the continuance of an Event of Default, (b) the Certificate Insurer shall be deemed to be the Owner of each Certificate it insures for the purpose of exercising all rights and privileges available to such Owners, (c) the Certificate Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner in accordance with the applicable provisions of this Trust Agreement and (d) except for a prepayment pursuant to the terms of Section 2.03, 2.04 or 2.05 of this Trust Agreement, there shall be no acceleration in the payment of principal with respect to the Certificates without the prior written consent of the Certificate Insurer.

SECTION 10.06 Notices. The Certificate Insurer shall receive copies of all notices required to be delivered to Owners or to the Trustee and, on an annual basis, copies of the City's audited financial statements and annual budget, if any. The Certificate Insurer shall receive notice of the resignation or removal of the Trustee and the appointment of a successor thereto. Copies of any amendments made to the Trust Agreement which are consented to by the Certificate Insurer shall be sent to S&P. The Certificate Insurer shall also receive notices of any amendment to the Trust Agreement which does not require its prior consent.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01 Benefits of this Trust Agreement. Nothing contained herein, expressed or implied, is intended to give to any person other than the Corporation, the Trustee, the City, the Certificate Insurer, the Liquidity Provider, the issuer of each Financial Guaranty and the Owners any right, remedy or claim under or by reason hereof. Any agreement or covenant required herein to be performed by or on behalf of the Corporation or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Trustee, the City, the Certificate Insurer, the Liquidity Provider, the issuer of each Financial Guaranty and the Owners.

SECTION 11.02 Provisions to Pay Financial Guaranty Issuer(s). Notwithstanding anything to the contrary herein, this Trust Agreement may not be terminated unless provisions

have been made to pay all amounts owed to the issuer of each Financial Guaranty then in effect under the terms of each such Financial Guaranty.

SECTION 11.03 Successor Is Deemed Included In All References To Predecessor. Whenever herein either the Corporation or any member, officer or employee thereof is named or referred to, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Corporation or such member, officer or employee, and all agreements and covenants required hereby to be performed by or on behalf of the Corporation or any member, officer or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 11.04 Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly-sworn to before such notary public or other officer. The ownership of any Certificates and the amount, Certificate Payment Date, number and date of holding the same may be proved by the Certificate Register.

Any declaration, request or other instrument or writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the Corporation or the Trustee in good faith and in accordance therewith.

SECTION 11.05 Waiver of Personal Liability. No member, officer or employee of the Corporation shall be individually or personally liable for the payment of the Interest Installments or Principal Installments or prepayment premiums, if any, evidenced and represented by the Certificates by reason of their delivery, but nothing herein contained shall relieve any such member, officer or employee from the performance of any official duty provided by applicable provisions of law or hereby.

SECTION 11.06 Content of Certificates. Every Certificate of the Corporation with respect to compliance with any agreement, condition, covenant or provision provided herein shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or provision has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or provision has been complied with.

Any Certificate of the Corporation may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the

Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters or information with respect to which is in the possession of the Corporation, upon a representation by an officer or officers of the Corporation unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

SECTION 11.07 Accounts and Funds; Business Days. Any account or fund required herein to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such accounts and funds shall at all times be maintained in accordance with this Trust Agreement and sound industry practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. Any action required to occur hereunder on a day which is not a Business Day shall be required to occur on the next succeeding Business Day with the same effect as if made on such non-Business Day.

SECTION 11.08 Notices. Unless otherwise provided herein, all notices, requests or other communications to be given hereunder shall be given by mail or hand delivery, addressed as follows:

If to the Corporation:	Lodi Public Improvement Corporation c/o City of Lodi 221 West Pine Street Lodi, California 95241-1910 Attention: City Clerk
If to the City:	City of Lodi 221 West Pine Street Lodi, California 95241-1910 Attention: City Manager
If to the Trustee:	BNY Western Trust Company 550 Kearney St., Suite 600 San Francisco, California 94108 Attention: Corporate Trust Administration
If to the Certificate Insurer:	MBIA Insurance Corporation 113 King Street Armonk, New York 10504 Attention: Surveillance
If to the Liquidity Provider:	Attention:

Each of the above parties may, by written notice given hereunder to the others, designate any further or different addresses to which, or means by which, subsequent notices, requests or other communications shall be sent.

SECTION 11.09 CUSIP Numbers. Neither the Corporation nor the Trustee shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Certificate or in any prepayment notice relating thereto. The Trustee may, in its discretion, include in any prepayment notice relating to any of the Certificates a statement to the effect that the CUSIP numbers on the Certificates have been assigned by an independent service and are included in such notice solely for the convenience of the Owners and that neither the Corporation nor the Trustee shall be liable for any defects or inaccuracies in such numbers.

SECTION 11.10 Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Corporation or the Trustee shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof or of the Certificates, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law. The Corporation and the Trustee hereby declare that they would have executed and delivered this Trust Agreement and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the execution and delivery of the Certificates pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 11.11 Compliance with Certificate Purchase Contract. The Corporation and the Trustee each covenant that they have reviewed and are familiar with the terms and conditions set forth in the Certificate Purchase Contract dated January __, 2002, by and between the City and the Underwriter and each agrees to comply with the terms thereof.

SECTION 11.12 California Law. This Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 11.13 Execution in Several Counterparts. This Trust Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Corporation and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Lodi Public Improvement Corporation has caused this Trust Agreement to be signed in its name by its President and BNY Western Trust Company, in token of its acceptance of the trusts created hereunder, has caused this Trust Agreement to be signed by one of the officers thereunder duly authorized, all as of the day and year first above written.

LODI PUBLIC IMPROVEMENT
CORPORATION

By: _____
Executive Director

Attest:

Secretary to the Corporation

APPROVED:

Attorney for the Corporation

BNY WESTERN TRUST COMPANY,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

FORM OF SERIES A CERTIFICATE

ELECTRIC SYSTEM REVENUE
VARIABLE RATE DEMAND
CERTIFICATE OF PARTICIPATION,
2002 SERIES A
Evidencing a Proportionate
Interest of the Owner Hereof in Certain
Installment Payments to be made by the
CITY OF LODI

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

No. R- _____ \$ _____

Interest Rate	Certificate Payment Date	Dated Date	CUSIP
Variable	_____	_____	

REGISTERED OWNER: [CEDE & CO.]

PRINCIPAL AMOUNT: \$ _____

THIS IS TO CERTIFY that the registered owner set forth above of this Electric System Revenue Variable Rate Demand Certificate of Participation, 2002 Series A (the “Certificate”), is the owner of a proportionate interest in the rights to receive certain Schedule A Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Installment Purchase Contract executed and entered into as of January 1, 2002, by and between the City of Lodi, a municipal corporation organized and existing under and by virtue of the Constitution and laws of the State of California (the “City”) and the Lodi Public Improvement Corporation, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the “Corporation”) (which Installment Purchase Contract is referred to herein as the “Contract”), all of which rights to receive such Installment Payments have been assigned by the Corporation to BNY Western Trust Company, a banking corporation duly organized and existing under and by virtue of the laws of the State of California, or any other association or corporation which may at any time be

substituted in place of the original trustee as provided in the Trust Agreement hereinafter mentioned (the "Trustee"). Capitalized terms used in this Certificate not otherwise defined herein shall have the meanings given such terms in the Trust Agreement hereinafter mentioned or in the Contract.

The registered owner of this Certificate is entitled to receive, subject to the terms of the Contract and any right of prepayment prior thereto hereinafter provided for, on the Certificate Payment Date (as that term is defined in the Trust Agreement hereinafter mentioned, and herein a "Certificate Payment Date") set forth above, upon surrender of this Certificate on such Certificate Payment Date or on the date of prepayment prior thereto at the Corporate Trust Office of the Trustee, the principal amount set forth above, representing the registered owner's proportionate share of the Schedule A Installment Payments constituting principal installments becoming due and payable on such Certificate Payment Date or on the date of prepayment prior thereto, and to receive an interest installment on such principal installment at the rate per annum for each Interest Rate Period for this Certificate determined as described below, payable on each Interest Payment Date, commencing _____, 2002 to the respective Certificate Payment Date or date of prepayment prior thereto. The registered owner of this Certificate as shown in the registration books maintained by the Trustee as of the close of business on the applicable Record Date is entitled to receive such registered owner's proportionate share of the Installment Payments evidenced and represented by this Certificate from the Interest Payment Date next preceding the date of execution hereof by the Trustee; unless such date of execution is after a Record Date and on or before the following Interest Payment Date, in which event from such Interest Payment Date, or unless such date of execution is on or before _____, in which event from the dated date specified above); provided that if at the time of execution of this Certificate, interest evidenced and represented by the Certificates is then in default, interest shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Certificates. Interest evidenced and represented by this Certificate due on or before the Certificate Payment Date or prior prepayment of this Certificate shall be payable in lawful money of the United States of America, by check mailed on such Interest Payment Date by first-class mail to the registered owner hereof; provided, that if the registered owner hereof shall be the owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Certificates, upon the written request of the registered owner hereof received by the Trustee prior to the applicable record date (which such request shall remain in effect until rescinded in writing by such registered owner), interest shall be paid by wire transfer in immediately available funds. The principal evidenced and represented hereby is payable in lawful money of the United States of America at the Corporate Trust Office of the Trustee.

This Certificate is one of the duly authorized certificates of participation aggregating _____ dollars (\$ _____) in principal amount, which have been executed by the Trustee under and pursuant to the provisions of a Trust Agreement, dated as of January 1, 2002 (the "Trust Agreement") between the Corporation and the Trustee. Copies of the Trust Agreement are on file at the Corporate Trust Office of the Trustee and reference is hereby made to the Trust Agreement and to any and all amendments thereof and supplements thereto for a description of the agreements, conditions, covenants and terms of the Certificates, for the nature, extent and manner of enforcement of such agreements, conditions, covenants and terms, for the rights and remedies of the registered owners of the Certificates with respect thereto

and for the other agreements, conditions, covenants and terms upon which the Certificates are executed and delivered thereunder.

Interest on the Certificates

The term of the Certificates will be divided into consecutive Interest Rate Periods, as provided in the Trust Agreement, during each of which the Certificates shall bear interest at the Weekly Interest Rate or the Term Interest Rate. The initial Interest Rate Period shall be a Weekly Interest Rate Period. The interest rate determination method may be subsequently changed from time to time by the City, without the consent of the owners of the Certificates, as provided in the Trust Agreement. The Trustee shall give notice the owners of the Certificates, as provided in the Trust Agreement, prior to any change in the interest rate determination method.

Interest on the Certificates with respect to the immediately preceding Interest Period (as defined in the Trust Agreement) will be paid on each Interest Payment Date provided that if any Interest Payment Date is not a Business Day, such Interest (and any principal due) shall be mailed or wired as provided above on the next succeeding Business Day and no interest shall accrue from the date when due. During a Weekly Interest Rate Period, interest shall be computed on the basis of a 365/366-day year for the number of days actually elapsed. During a Term Interest Rate Period, interest shall be computed upon the basis of a 360-day year consisting of twelve 30-day months. Interest on the Certificates shall bear interest from and including the Delivery Date (as defined in the Trust Agreement) until payment of the principal or prepayment price thereof has been made or provided for, whether at maturity, upon prepayment or otherwise.

Interest Payment Date means (i) during a Weekly Interest Rate Period the first Wednesday of each month, commencing on _____, (ii) April 1 and October 1 during a Term Interest Rate Period and (iii) to the extent not an Interest Payment Date pursuant to (i) or (ii), the first day of an Interest Rate Period.

Record Date means (i) during a Weekly Interest Rate Period, the last Business Day before an Interest Payment Date and (ii) during a Term Interest Rate Period, the 15th day of the month prior to an Interest Payment Date.

Weekly Interest Rate

During each Weekly Interest Rate Period, the Certificates shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent not later than 5:00 p.m., New York City time, on the Tuesday of each week during such Weekly Interest Rate Period (provided that if such Tuesday is not a Business Day, the Weekly Interest Rate shall be determined by 5:00 p.m., New York City time, on the following Business Day) for the period commencing on the Wednesday of such week; provided, however, that, the Weekly Interest Rate for the Weekly Interest Rate Period succeeding such Term Interest Rate Period shall be determined not later than the Business Day next preceding the effective date of such Weekly Interest Rate Period. The Weekly Interest Rate shall be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Certificates known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if established for the Interest Installments evidenced and

represented by the Certificates, would enable the Remarketing Agent to sell the Certificates on such day at a price equal to the principal amount thereof plus accrued interest; provided, however, that if for any reason the Weekly Interest Rate cannot be determined, the Weekly Interest Rate for the next succeeding week shall remain at the then-existing rate. The first Weekly Interest Rate determined for each Weekly Interest Rate Period shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on Wednesday and ending on the next succeeding Tuesday, unless such Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on such last day.

Term Interest Rate

During each Term Interest Rate Period, the Certificates shall bear interest at the Term Interest Rate, which shall be determined by the Remarketing Agent not later than 4:00 p.m., New York City time, on any Business Day preceding the first day of such Term Interest Rate Period. The Term Interest Rate shall be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Certificates known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if established for the Interest Installments evidenced and represented by the Certificates, would enable the Remarketing Agent to sell the Certificates on such Business Day at a price equal to the principal amount thereof; provided, however, that if for any reason the Term Interest Rate cannot be determined for any Term Interest Rate Period, the interest rate on the Certificates shall convert to a Weekly Interest Rate.

THE FOREGOING PROVISIONS NOTWITHSTANDING, IN NO EVENT SHALL THE INTEREST RATE BORNE BY THE CERTIFICATES AT ANY TIME EXCEED THE MAXIMUM RATE (AS DEFINED IN THE TRUST AGREEMENT).

Salomon Smith Barney Inc. has been appointed as initial Remarketing Agent for the Certificates. The Remarketing Agent may be removed and replaced in accordance with the provisions of the Remarketing Agreement and the Trust Agreement. The Trustee has been appointed the Tender Agent.

Determination of the interest rate by the Remarketing Agent shall be conclusive and binding upon the registered owners of the Certificates, the City and the Trustee.

Demand Purchase of Certificates

During any Weekly Interest Rate Period, any Certificate or portions thereof in Authorized Denominations shall be purchased at the option of the Owner thereof, or with respect to Book-Entry Certificates, at the option of the Direct Participant with an ownership interest in Book-Entry Certificates, on any Business Day, at a price of 100% of the principal amount thereof, plus accrued interest to the Purchase Date, upon (i) delivery to the Trustee, if the Certificates are Book-Entry Certificates, or otherwise to the Tender Agent, at its corporate trust office of an

irrevocable notice in writing by 5:00 p.m., New York City time, on any Business Day, which states the name of the registered Owner of such Certificate or the Direct Participant for such Certificate, as applicable, payment instructions with respect to the Purchase Price of such Certificate, the principal amount of such Certificate and the date on which the same shall be prepayed or purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent, and (ii) (a) if the Certificates are not Book-Entry Certificates, delivery of such Certificate to the Tender Agent at its corporate trust office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs, at or prior to 12:30 p.m., New York City time, on the date specified in such notice, or (b) if the Certificates are Book-Entry Certificates, upon confirmation by DTC to the Trustee that a Direct Participant with respect to Book-Entry Certificates being purchased has an ownership interest in such Book-Entry Certificates at least equal to the amount specified in such Tender Notice, the transfer, on the registration books of DTC, of the beneficial ownership interest in such Book-Entry Certificates tendered for purchase to the account of the Trustee, or to the account of a Direct Participant acting on behalf of such Trustee.

If moneys sufficient to pay the Purchase Price of Certificates to be purchased pursuant to the previous paragraph or the paragraph headed “Mandatory Tender for Purchase of Certificates” below shall be held by the Trustee or the Tender Agent on the date such Certificates are to be purchased, any Certificates to be so purchased which are not delivered by the Owners thereof to the Tender Agent or transferred on the registration books of DTC, as applicable, on the date specified for purchase thereof will be deemed to have been delivered for purchase, or transferred on the registration books of DTC, as applicable, on such date and to have been purchased. The former Owners of such Certificates, or Direct Participants with respect to Book-Entry Certificates, will thereafter have no rights with respect to such Certificates except to receive payment of the Purchase Price therefor upon surrender of such Certificates to the Tender Agent or the transfer, on the registration books of DTC, of the beneficial interest in such Book-Entry Certificates.

Mandatory Tender for Purchase of Certificates

On (i) the first day of each Interest Rate Period, or (ii) while the Certificates bear interest at a Weekly Interest Rate, on the effective date of any Alternate Liquidity Facility (each hereafter a “Purchase Date”), the Owner or Direct Participant of each Certificate shall tender such Certificate for purchase as provided below and such Certificate shall be purchased or deemed purchased as provided in the Trust Agreement at a Purchase Price equal to the principal amount thereof plus accrued and unpaid interest thereon. Payment of the Purchase Price of such Certificate shall be made by 2:30 p.m., New York City time, in the same manner as payment of Interest Installments evidenced and represented by the Certificates, to the Owner of record, or Direct Participant with respect to Book-Entry Certificates, on the Record Date. If the Certificates are not Book-Entry Certificates, the Owner shall deliver such Certificates no later than 12:30 p.m., New York City time, on the Purchase Date to the Tender Agent at its Principal Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs. If the Certificates are Book-

Entry Certificates, the tendering Direct Participant shall transfer, on the registration books of DTC, the beneficial ownership interests in such Certificates tendered for purchase to the account of the Trustee or a Direct Participant acting on behalf of the Trustee.

To the extent and in the manner permitted by the terms of the Trust Agreement, the provisions of the Trust Agreement may be amended by the parties thereto, but no such amendment shall (1) extend the Certificate Payment Date of this Certificate, or change the payment dates of, or reduce the rate of interest or principal or prepayment premium, if any, evidenced and represented hereby, without the express written consent of the registered owner hereof, or (2) reduce the percentage of Certificates required for the written consent to any amendment, or (3) modify any rights or obligations of the Trustee without its prior written assent thereto.

The Certificates are subject to optional prepayment prior to their respective Certificate Payment Dates, upon notice as provided in the Trust Agreement, from prepayments of Installment Payments made by the City pursuant to the Contract, as a whole or in part (from such Certificate Payment Dates as are designated by the Corporation to the Trustee at the direction of the City or, if the Corporation fails to designate such Certificate Payment Dates, in inverse order of Certificate Payment Date and by lot within a Certificate Payment Date) on any date on or after _____, at the following prepayment prices (expressed as percentages of the principal amount evidenced and represented by Certificates called for prepayment), plus accrued and unpaid interest to the prepayment date:

Prepayment Period (dates inclusive)	Prepayment Price
_____ through _____ _____ and thereafter	_____% _____

Notice of prepayment of any Certificate selected for prepayment shall be mailed by the Trustee not less than thirty (30) days nor more than sixty (60) days before the prepayment date to the registered owner hereof, subject to and in accordance with provisions of the Trust Agreement with respect thereto. If notice of prepayment has been duly given as aforesaid and money for the payment of the prepayment price is held by the Trustee, then this Certificate shall, on the prepayment date designated in such notice, become due and payable, and from and after the date so designated interest evidenced and represented by this Certificate shall cease to accrue, and the registered owner of this Certificate shall have no rights with respect hereto except to receive payment of the prepayment price hereof.

This Certificate is transferable on the books required to be kept for that purpose at the Corporate Trust Office of the Trustee in whose name it is registered, in person or by his duly authorized attorney, upon payment of the charges provided in the Trust Agreement, and upon surrender of this Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee, and thereupon a new Certificate or Certificates of the same Certificate Payment Date evidencing and representing a like aggregate principal amount in authorized denominations will be delivered to the transferee. This Certificate may be exchanged at the Corporate Trust Office of the Trustee, upon payment of the

charges provided in the Trust Agreement, for Certificates evidencing and representing a like aggregate principal amount of Certificates of the same Certificate Payment Date of other authorized denominations. The Trustee may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of the interest and principal and prepayment premium, if any, evidenced and represented hereby and for all other purposes, whether this Certificate shall be overdue or not, and the Trustee shall not be affected by any notice or knowledge to the contrary; and payment of the interest and principal and prepayment premium, if any, evidenced and represented by this Certificate shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on this Certificate to the extent of the sum or sums so paid.

The Certificates each evidence and represent a proportionate interest in the Installment Payments to be held in trust by the Trustee pursuant to the Trust Agreement in an amount equal to the aggregate principal amount of Certificates originally executed and delivered by the Trustee pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the disbursement thereof for or to the purposes and on the conditions and terms set forth therein. The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from the Net Revenues of the Electric System as provided in the Contract. The general fund of the City is not liable for, and neither the faith and credit nor the taxing power of the City is pledged to, the payment of the Installment Payments under the Contract. The City may incur other obligations payable on a parity with the Installment Payments in accordance with the Contract.

The Trustee has no obligation or liability to the Certificate owners for the payment of the interest or principal or the prepayment premiums, if any, evidenced and represented by the Certificates; but rather the Trustee's sole obligations are those stated in the Trust Agreement.

No member, officer or employee of the Corporation shall be individually or personally liable for the payment of the interest or principal or prepayment premiums, if any, evidenced and represented by the Certificates by reason of their delivery, but nothing herein contained shall relieve any such member, officer or employee from the performance of any official duty provided by applicable provisions of law or hereby.

The Trust Agreement prescribes the manner in which it may be discharged and after which the Certificates shall no longer be secured by or entitled to the benefits of the Trust Agreement.

THIS IS TO FURTHER CERTIFY that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement, to have been performed, to have happened and to exist precedent to and in connection with the execution and delivery of this Certificate, have been performed, have happened and do exist in regular and due time, form and manner as required by law, and that the Trustee is duly authorized to execute and deliver this Certificate, and that the amount of this Certificate, together with all other Certificates executed and delivered under the Trust Agreement, is not in excess of the amount of Certificates authorized to be executed and delivered thereunder.

IN WITNESS WHEREOF, this Certificate has been executed by the manual signature of an authorized signatory of the Trustee as of the date below.

EXECUTION
DATE: _____

BNY WESTERN TRUST COMPANY,
as Trustee

By: _____
Authorized Signatory

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Certificate Insurer") has issued a policy containing the following provisions, such policy being on file at the office of BNY Western Trust Company in Los Angeles, California.

The Certificate Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the City of BNY Western Trust Company, as Trustee, or its successor (the "Trustee") of an amount equal to (i) the principal (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest evidenced and represented by the Certificates (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional prepayment or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Certificates" shall mean:

ELECTRIC SYSTEM REVENUE
VARIABLE RATE DEMAND
CERTIFICATE OF PARTICIPATION,
2002 SERIES A
Evidencing a Proportionate Interest
of the Owner Hereof in Certain Installment
Payments to be made by the City of Lodi, California

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Certificate Insurer from the Trustee or any owner of an Certificate the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Certificates or presentment of such other proof of ownership of the Certificates, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Certificates as are paid by the Insurer, and appropriate instruments to effect the appointment of the Certificate Insurer as an agent for such owners of the Certificates in any legal proceeding related to payment of Insured Amounts on the Certificates, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the Insured

Amounts due on such Certificates, less any amount held by the Trustee for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Certificate.

As used herein, the term "owner" shall mean the registered owner of any Certificate as indicated in the registration books maintained by the Trustee, the City or any designee of the City for such purpose. The term owner shall not include the City or any party whose agreement with the City constitutes the underlying security for the Certificates.

Any service of process on the Certificate Insurer may be made to the Certificate Insurer at its officers located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Certificates.

In the event the Certificate Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

MBIA Insurance Corporation

[FORM OF ASSIGNMENT TO APPEAR ON CERTIFICATES]

For value received the undersigned hereby sells, assigns and transfers unto _____
_____ (Taxpayer Identification Number: _____) the within Certificate and
all rights thereunder, and hereby irrevocably constitutes and appoints _____
attorney to transfer the within Certificate on the books kept for registration thereof, with full
power of substitution in the premises.

Dated: _____

Note: The signature to this Assignment must correspond with the name as written on the face of
the Certificate in every particular, without alteration or enlargement or any change
whatever.

Signature Guaranteed: _____

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

EXHIBIT B

FORM OF SERIES B CERTIFICATE

**ELECTRIC SYSTEM REVENUE
CERTIFICATE OF PARTICIPATION,
2002 TAXABLE SERIES B**

**Evidencing and Representing a Proportionate Interest of the Owner Hereof
in Certain Payments to be made by the
CITY OF LODI**

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

No. R- _____ Final Compounded Amount: \$ _____

Yield to Certificate Payment Date	Certificate Payment Date	Dated Date	CUSIP
%	_____	_____	

REGISTERED OWNER: [CEDE & CO.]

INITIAL AMOUNT: \$ _____

FINAL COMPOUNDED AMOUNT: \$ _____

THIS IS TO CERTIFY that the registered owner set forth above of this Electric System Revenue Certificate of Participation, 2002 Taxable Series B (the "Certificate"), is the owner of a proportionate interest in the rights to receive certain Schedule B Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Installment Purchase Contract executed and entered into as of January 1, 2002, by and between the City of Lodi, a municipal corporation organized and existing under and by virtue of the Constitution and laws of the State of California (the "City") and the Lodi Public Improvement Corporation, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation") (which Installment Purchase Contract is referred to herein as the "Contract"), all of which rights to receive such Payments have been assigned by the Corporation to BNY Western Trust Company, a banking corporation duly organized and existing under and by virtue of the laws of the State of California, or any

other association or corporation which may at any time be substituted in place of the original trustee as provided in the Trust Agreement hereinafter mentioned (the "Trustee"). Capitalized terms used in this Certificate not otherwise defined herein shall have the meanings given such terms in the Trust Agreement hereinafter mentioned or in the Contract.

The registered owner of this Certificate is entitled to receive, subject to the terms of the Contract and any right of prepayment prior thereto hereinafter provided for, on the Certificate Payment Date (as that term is defined in the Trust Agreement hereinafter mentioned, and herein a "Certificate Payment Date") set forth above, upon surrender of this Certificate on such Certificate Payment Date or on the date of prepayment prior thereto at the Corporate Trust Office of the Trustee, the principal amount set forth above, representing the registered owner's proportionate share of the Payments constituting principal installments with respect to Certificates becoming due and payable on such Certificate Payment Date or on the date of prepayment prior thereto, and to receive an interest installment on such principal installment at the rate per annum specified above (based on a 360-day year of twelve 30-day months) on _____, 2002, and semiannually thereafter on _____ and _____ in each year (each, an "Interest Payment Date") to the respective Certificate Payment Date or date of prepayment prior thereto. The registered owner of this Certificate as shown in the registration books maintained by the Trustee as of the close of business on the applicable Record Date) is entitled to receive such registered owner's proportionate share of the Installment Payments evidenced and represented by this Certificate from the Interest Payment Date next preceding the date of execution hereof by the Trustee; unless such date of execution is after a Record Date and on or before the following Interest Payment Date, in which event from such Interest Payment Date, or unless such date of execution is on or before _____, 2002, in which event from the dated date specified above); provided that if at the time of execution of this Certificate, interest evidenced and represented by the Certificates is then in default, interest shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Certificates. Interest evidenced and represented by this Certificate due on or before the Certificate Payment Date or prior prepayment of this Certificate shall be payable in lawful money of the United States of America, by check mailed on such Interest Payment Date by first-class mail to the registered owner hereof; provided, that if the registered owner hereof shall be the owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Certificates, upon the written request of the registered owner hereof received by the Trustee prior to the applicable record date (which such request shall remain in effect until rescinded in writing by such registered owner), interest shall be paid by wire transfer in immediately available funds. The principal evidenced and represented hereby is payable in lawful money of the United States of America at the Corporate Trust Office of the Trustee.

This Certificate is one of the duly authorized certificates of participation with Initial Amounts aggregating _____ million _____ hundred _____ thousand _____ dollars (\$ _____) in principal amount, which have been executed by the Trustee under and pursuant to the provisions of a Trust Agreement, dated as of January 1, 2002 (the "Trust Agreement") between the Corporation and the Trustee. Copies of the Trust Agreement are on file at the Corporate Trust Office of the Trustee and reference is hereby made to the Trust Agreement and to any and all amendments thereof and supplements thereto for a description of the agreements, conditions, covenants and terms of the Certificates, for the nature, extent and manner of enforcement of such agreements, conditions, covenants and terms, for the

rights and remedies of the registered owners of the Certificates with respect thereto and for the other agreements, conditions, covenants and terms upon which the Certificates are executed and delivered thereunder.

To the extent and in the manner permitted by the terms of the Trust Agreement, the provisions of the Trust Agreement may be amended by the parties thereto, but no such amendment shall (1) extend the Certificate Payment Date of this Certificate, or change the payment dates of, or reduce the rate of interest or principal or prepayment premium, if any, evidenced and represented hereby, without the express written consent of the registered owner hereof, or (2) reduce the percentage of Certificates required for the written consent to any amendment, or (3) modify any rights or obligations of the Trustee without its prior written assent thereto.

The Certificates are subject to optional prepayment prior to their respective Certificate Payment Dates, upon notice as provided in the Trust Agreement, from prepayments of Installment Payments made by the City pursuant to the Contract, as a whole or in part (from such Certificate Payment Dates as are designated by the Corporation to the Trustee at the direction of the City or, if the Corporation fails to designate such Certificate Payment Dates, in inverse order of Certificate Payment Date and by lot within a Certificate Payment Date) on any date on or after _____, _____, at the following prepayment prices (expressed as percentages of the Accreted Value evidenced and represented by Certificates called for prepayment), plus accrued and unpaid interest to the prepayment date:

Prepayment Period (dates inclusive)	Prepayment Price
_____ through _____ _____ and thereafter	_____ %

The Certificates are subject to mandatory prepayment prior to their Certificate Payment Date, in part, on _____ 1, _____ and on each _____ 1 thereafter in a principal amount equal to the Principal Installments of the Schedule B Installment Payments due pursuant to the Contract on such date at a prepayment price equal to the principal amount of the Certificates to be prepaid plus accrued but unpaid interest thereon to the prepayment date, without premium.

Notice of prepayment of any Certificate selected for prepayment shall be mailed by the Trustee not less than thirty (30) days nor more than sixty (60) days before the prepayment date to the registered owner hereof, subject to and in accordance with provisions of the Trust Agreement with respect thereto. If notice of prepayment has been duly given as aforesaid and money for the payment of the prepayment price is held by the Trustee, then this Certificate shall, on the prepayment date designated in such notice, become due and payable, and from and after the date so designated interest evidenced and represented by this Certificate shall cease to accrue, and the registered owner of this Certificate shall have no rights with respect hereto except to receive payment of the prepayment price hereof.

This Certificate is transferable on the books required to be kept for that purpose at the Corporate Trust Office of the Trustee in whose name it is registered, in person or by his duly authorized attorney, upon payment of the charges provided in the Trust Agreement, and upon surrender of this Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee, and thereupon a new Certificate or Certificates of the same Certificate Payment Date evidencing and representing a like aggregate principal amount in authorized denominations will be delivered to the transferee. This Certificate may be exchanged at the Corporate Trust Office of the Trustee, upon payment of the charges provided in the Trust Agreement, for Certificates evidencing and representing a like aggregate principal amount of Certificates of the same Certificate Payment Date of other authorized denominations. The Trustee may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of the interest and principal and prepayment premium, if any, evidenced and represented hereby and for all other purposes, whether this Certificate shall be overdue or not, and the Trustee shall not be affected by any notice or knowledge to the contrary; and payment of the interest and principal and prepayment premium, if any, evidenced and represented by this Certificate shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on this Certificate to the extent of the sum or sums so paid.

The Certificates each evidence and represent a proportionate interest in the Installment Payments to be held in trust by the Trustee pursuant to the Trust Agreement in an amount equal to the aggregate principal amount of Certificates originally executed and delivered by the Trustee pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the disbursement thereof for or to the purposes and on the conditions and terms set forth therein. The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from the Net Revenues of the Electric System as provided in the Contract. The general fund of the City is not liable for, and neither the faith and credit nor the taxing power of the City is pledged to, the payment of the Installment Payments under the Contract. The City may incur other obligations payable on a parity with the Installment Payments in accordance with the Contract.

The Trustee has no obligation or liability to the Certificate owners for the payment of the interest or principal or the prepayment premiums, if any, evidenced and represented by the Certificates; but rather the Trustee's sole obligations are those stated in the Trust Agreement.

No member, officer or employee of the Corporation shall be individually or personally liable for the payment of the interest or principal or prepayment premiums, if any, evidenced and represented by the Certificates by reason of their delivery, but nothing herein contained shall relieve any such member, officer or employee from the performance of any official duty provided by applicable provisions of law or hereby.

The Trust Agreement prescribes the manner in which it may be discharged and after which the Certificates shall no longer be secured by or entitled to the benefits of the Trust Agreement.

THIS IS TO FURTHER CERTIFY that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement, to have been

performed, to have happened and to exist precedent to and in connection with the execution and delivery of this Certificate, have been performed, have happened and do exist in regular and due time, form and manner as required by law, and that the Trustee is duly authorized to execute and deliver this Certificate, and that the amount of this Certificate, together with all other Certificates executed and delivered under the Trust Agreement, is not in excess of the amount of Certificates authorized to be executed and delivered thereunder.

IN WITNESS WHEREOF, this Certificate has been executed by the manual signature of an authorized signatory of the Trustee as of the date below.

EXECUTION

DATE: _____

BNY WESTERN TRUST COMPANY,
as Trustee

By: _____

Authorized Signatory

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Certificate Insurer") has issued a policy containing the following provisions, such policy being on file at the office of BNY Western Trust Company in Los Angeles, California.

The Certificate Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the City of BNY Western Trust Company, as Trustee, or its successor (the "Trustee") of an amount equal to (i) the principal (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest evidenced and represented by the Certificates (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Certificates" shall mean:

§ _____
ELECTRIC SYSTEM REVENUE
CERTIFICATE OF PARTICIPATION,
2002 TAXABLE SERIES B
Evidencing and Representing a Proportionate Interest of the Owner Hereof
in Certain Payments to be made by the
City of Lodi, California

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Certificate Insurer from the Trustee or any owner of an Certificate the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Certificates or presentment of such other proof of ownership of the Certificates, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Certificates as are paid by the Insurer, and appropriate instruments to effect the appointment of the Certificate Insurer as an agent for such owners of the Certificates in any legal proceeding related to payment of Insured Amounts on the Certificates, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the Insured

Amounts due on such Certificates, less any amount held by the Trustee for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Certificate.

As used herein, the term "owner" shall mean the registered owner of any Certificate as indicated in the books maintained by the Trustee, the City or any designee of the City for such purpose. The term owner shall not include the City or any party whose agreement with the City constitutes the underlying security for the Certificates.

Any service of process on the Certificate Insurer may be made to the Certificate Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Certificates.

In the event the Certificate Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

MBIA Insurance Corporation

[FORM OF ASSIGNMENT TO APPEAR ON CERTIFICATES]

For value received the undersigned hereby sells, assigns and transfers unto _____
_____ (Taxpayer Identification Number: _____) the within Certificate and
all rights thereunder, and hereby irrevocably constitutes and appoints _____
attorney to transfer the within Certificate on the books kept for registration thereof, with full
power of substitution in the premises.

Dated: _____

Note: The signature to this Assignment must correspond with the name as written on the face of
the Certificate in every particular, without alteration or enlargement or any change
whatever.

Signature Guaranteed: _____

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

[STATEMENT OF INSURANCE]

Electric System Revenue Certificates of Participation
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA

\$00,000,000
2002 Variable Rate Demand Series A

\$00,000,000
2002 Taxable Series B

CERTIFICATE PURCHASE CONTRACT

_____, 2002

City of Lodi
Lodi, California

Ladies and Gentlemen:

The undersigned, Salomon Smith Barney Inc., as underwriter (the "Underwriter"), offers to enter into this Certificate Purchase Contract (the "Purchase Contract") with the City of Lodi, California (the "City") which, upon the City's acceptance of this offer, will be binding upon the City and upon the Underwriter. This offer is made subject to the City's written acceptance hereof on or before 11:00 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 Underwriter upon written notice (by telegraph or otherwise) delivered to the City at any time prior to the acceptance hereof by the City. Capitalized terms used herein not otherwise defined should have meanings ascribed to such terms in the hereinafter referenced Trust Agreement or the 2002 Contract.

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase and the City hereby agrees to cause the sale and delivery to the Underwriter, all (but not less than all) of \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A (the "2002A Certificates") and \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Taxable Series B (the "2002B Certificates" and, together with the 2002A Certificates, the "2002 Certificates"), evidencing the proportionate interests of the owners thereof in certain installment payments (the "Installment Payments") to be made by the City under the terms of an

Installment Purchase Contract, dated as of January 1, 2002 (the "2002 Contract"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). The 2002 Certificates shall be executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2002 (the "Trust Agreement"), by and among the City, the Corporation and BNY Western Trust Company, as trustee (the "Trustee"). The 2002 Certificates shall be dated the date of delivery thereof and shall mature on the dates and in the amounts set forth in the Official Statement. The aggregate purchase price for the 2002 Certificates shall be \$_____ (representing the \$_____ aggregate principal amount of the 2002 Certificates less \$_____ of Underwriter's discount and less \$_____ original issue discount with respect to the 2002B Certificates) plus accrued interest with respect to the 2002B Certificates to the Closing Date (as hereinafter defined).

The 2002A Certificates shall be dated the date of delivery thereof and shall bear interest at the rates as determined from time to time pursuant to the Trust Agreement. The 2002B Certificates shall be dated _____, 2000 and shall have the maturities and evidence interest at the rates per annum shown on Exhibit A hereto. Interest evidenced by the 2002B Certificates shall be payable on _____, 2002 and semiannually thereafter on _____ and _____ of each year. The 2002 Certificates shall be payable and shall be subject to prepayment and tender prior to maturity as provided in the Trust Agreement.

The 2002A Certificates are being executed and delivered to provide funds (i) to refund the City's outstanding \$_____ principal amount (including accreted value of capital appreciation certificates as of December 31, 2001) of Electric System Revenue Certificates of Participation 1999 Series A Current Interest Certificates and 1999 Series B Capital Appreciation Certificates (collectively, the "Refunded 1999 Certificates"), and (ii) to pay costs of delivery of the 2002 Certificates. The City intends to deposit a portion of the proceeds of the 2002B Certificates in its _____ Fund to be applied to certain power purchase costs of the City and/or other lawful purposes.

Pursuant to an Escrow Agreement, dated as of January 1, 2002 (the "Escrow Agreement"), by and between the City and BNY Western Trust Company, as escrow agent (the "Escrow Agent"), a portion of the proceeds of the 2002A Certificates, together with other available moneys, will be deposited into an escrow fund and applied to the purchase of certain federal securities, the principal of and interest on which will be sufficient (i) to pay the interest due on the current interest Refunded 1999 Certificates to and including January 15, 2009 and (ii) to prepay on January 15, 2009 the Refunded 1999 Certificates at a prepayment price equal to 101% of the principal amount or accreted value thereof. Upon such deposit, the Refunded 1999 Certificates will no longer be deemed to be outstanding except as to the rights of the owners of such Refunded 1999 Certificates to receive payment from the amounts on deposit in the escrow fund therefor.

Payment of the principal of and interest represented by the 2002 Certificates as the same shall become due (not including acceleration or prepayment, except scheduled mandatory sinking fund prepayment) will be insured by a municipal bond insurance policy (the "Policy") to be issued by _____ (the "Insurer") simultaneously with the delivery of the 2002 Certificates.

Liquidity for the purchase of 2002A Certificates which are delivered to the Trustee pursuant to an optional tender or are subject to mandatory purchase but are not remarketed will be provided pursuant to a Liquidity Facility issued under and pursuant to a Standby Bond Purchase Agreement, dated as of January 1, 2002 (the "Liquidity Agreement"), among the City, the Trustee and _____ (the "Bank").

Salomon Smith Barney Inc. will act as remarketing agent for the 2002A Certificates pursuant to a Remarketing Agreement, dated as of January 1, 2002 (together, the "Remarketing Agreement"), by and between the City and Salomon Smith Barney Inc.

Concurrently with the issuance of the 2002A Certificates, the City will enter into a swap agreement (the "Swap Agreement") with Salomon Smith Barney Holdings Inc. (the "Swap Provider") for the purpose of converting the floating interest payments the City is required to make on the 2002A Certificates into substantially fixed rate payments.

The City will undertake pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events, if material. As description of this undertaking is set forth in Preliminary Official Statement (as hereinafter defined) and will also be set forth in the final Official Statement (as hereinafter defined). The City has never failed in any previous undertaking related to such continuing disclosure.

2. Closing. At 8:00 A.M., California time, on _____, 2002 or on such other date as may be mutually agreed upon by the City and the Underwriter (the "Closing Date"), the City, subject to the terms and conditions hereof, will cause the sale and delivery of the 2002 Certificates to the Underwriter, duly executed, together with the other documents hereinafter mentioned, and, subject to the terms and conditions hereof, the Underwriter will accept such delivery and pay the purchase price of the 2002 Certificates as set forth in Section 1 hereof in immediately available funds (such delivery and payment being herein referred to as the "Closing"). Sale, delivery and payment as aforesaid shall be made at the offices of Orrick, Herrington & Sutcliffe LLP, 777 South Figueroa Street, Suite 3200, Los Angeles, California 90017 or at such other place as shall have been mutually agreed upon by the City and the Underwriter, except that the 2002 Certificates shall be delivered in New York, New York, at such place and in such manner as shall have been mutually agreed upon by the City and the Underwriter. The 2002 Certificates shall be delivered to the Underwriter through the book-entry system of The Depository Trust Company.

3. Offering. It shall be a condition to the City's obligation to cause the sale and delivery of the 2002 Certificates to the Underwriter and to the Underwriter's obligation to purchase, accept delivery of and pay for the 2002 Certificates that the entire \$_____ aggregate initial principal amount of the 2002 Certificates shall be executed, sold and delivered by the Trustee and purchased, accepted and paid for by the Underwriter at the Closing. The Underwriter agrees to make a bona fide public offering of all of the 2002 Certificates at not in excess of the initial public offering prices set forth on the inside cover page of the Official Statement. The Underwriter reserves the right to change, subsequent to the initial public offering, such initial offering prices as the Underwriter shall deem necessary in connection with the marketing of the 2002 Certificates.

4. Use and Preparation of Documents. The City ratifies, confirms and approves the use by the Underwriter prior to the date hereof of the Preliminary Official Statement of the City dated _____, 2002 relating to the 2002 Certificates (which, together with all appendices thereto, is referred to herein as the "Preliminary Official Statement"). The City has deemed final the Preliminary Official Statement as of the date thereof for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12. The City hereby acknowledges that the Preliminary Official Statement has been made available to investors on Internet at _____. The City hereby agrees to deliver or cause to be delivered to the Underwriter, within seven business days of the date hereof, copies of the final official statement dated the date hereof (including all information permitted to be omitted by Rule 15c2-12 and any amendments or supplements to such official statement as have been approved by the City and the Underwriter) (the "Official Statement") in sufficient quantity to enable the Underwriter to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The City hereby approves of the use and distribution by the Underwriter of the Official Statement in connection with the offer and sale of the 2002 Certificates. At the time of or prior to the Closing Date, the Underwriter shall file a copy of the Official Statement with the Municipal Securities Rulemaking Board and with a nationally recognized municipal securities information repository. The Underwriter shall advise the City of the date and repository of such filing. The City hereby authorizes the use by the Underwriter of the Trust Agreement, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Continuing Disclosure Agreement and the Remarketing Agreement in connection with the public offering and sale of the 2002 Certificates.

5. Representations, Warranties and Agreements. The City hereby represents, warrants and agrees as follows:

(a) The City has and on the Closing Date will have full legal right, power and authority to (i) enter into this Purchase Contract, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Swap Agreement, (ii) cause the sale, execution and delivery of the 2002 Certificates to the Underwriter as provided herein, (iii) carry out and consummate the transactions contemplated by this Purchase Contract, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Swap Agreement, the Trust Agreement, the Continuing Disclosure Agreement and the Official Statement, and (iv) execute and deliver the Official Statement;

(b) By all necessary official action of the City prior to or concurrently with the acceptance hereof, the City has duly authorized, approved, ratified and confirmed the preparation and distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement and has duly authorized and approved the execution, delivery and performance by the City of the obligations in connection with the execution and delivery of the 2002 Certificates on its part contained in this Purchase Contract, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Swap Agreement and the consummation by the City of all other transactions contemplated by this Purchase Contract, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement, the Swap Agreement and the 2002 Contract in connection with the execution and

delivery of the 2002 Certificates; the City has complied or will at the Closing be in compliance in all material respects with the obligations in connection with the execution and delivery of the 2002 Certificates contained in this Purchase Contract, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Swap Agreement;

(c) The City is not in any material respect in breach of or default under any applicable constitutional provision, 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 2002 Contract) 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, to the City's knowledge, no event has occurred and is continuing that, 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 2002 Certificates, this Purchase Contract, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Swap Agreement 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 or other instrument to which the City is a party or to which the City or any of its property or assets otherwise is subject, nor will any such execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City or under the terms of any such constitutional provision, law, regulation or instrument, except as provided in the Trust Agreement, the 2002 Contract and the Escrow Agreement;

(d) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter that are required for the due authorization by or that would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations in connection with the execution and delivery of the 2002 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 2002 Certificates; and, except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter that are required for the due authorization by or that would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations under the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement, the Swap Agreement or this Purchase Contract have been duly obtained;

(e) Between the date of this Purchase Contract and the date of the Closing, the City will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money or incur any material liabilities, direct or contingent, payable from Net Revenues of the Electric System, nor does the City reasonably anticipate that there will there be any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the Electric System;

(f) 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, 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 2002 Certificates or the collection of the Net Revenues of the Electric System of the City to be used to pay the Installment Payments, or the pledge of and lien on the Net Revenues of the Electric System or contesting or affecting, as to the City, the validity or enforceability of the 2002 Certificates, this Purchase Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement, the Swap Agreement, the 2002 Contract or the Trust Agreement or contesting the tax-exempt status of interest represented by the 2002A Certificates, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the City or any authority for the execution and delivery of the 2002 Certificates, or in any way contesting or challenging the consummation of the transactions contemplated hereby, or that might result in a material adverse change in the financial condition of the City or that might materially adversely affect the Net Revenues of the Electric System of the City; nor is there any known 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 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement, the Swap Agreement or this Purchase Contract or the execution by the Trustee of the 2002 Certificates;

(g) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the 2002 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 Underwriter may designate and (ii) to determine the eligibility of the 2002 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 2002 Certificates; provided, however, that the City shall not be required to qualify to do business or consent to service of process in connection with any such qualification or determination in any jurisdiction;

(h) As of the date thereof, the Preliminary Official Statement did not, except as revised by the Official Statement and any supplement or amendment prepared pursuant to paragraph (j) below, contain any untrue statement of a material fact;

(i) As of the date thereof and at all times subsequent thereto, to and including the date that is 25 days following the End of the Underwriting Period (as such term is hereinafter defined) for the 2002 Certificates, the Official Statement did not and will not contain any untrue statement of a material fact or omit 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;

(j) If, between the date hereof and the date that is 25 days after the End of the Underwriting Period for the 2002 Certificates, an event occurs that would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or

necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the City will notify the Underwriter and the City, and, if, in the opinion of the Underwriter or its counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will cooperate in the preparation of an amendment or supplement to the Official Statement in a form and manner approved by the Underwriter and shall pay all expenses thereby incurred. For the purposes of this subsection, between the date hereof and the date that is 25 days after the End of the Underwriting Period for the 2002 Certificates, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(k) If the information contained in the Official Statement is amended or supplemented pursuant to paragraph (j) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date that is 25 days after the End of the Underwriting Period for the 2002 Certificates, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading;

(l) After the Closing, the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter reasonably shall object in writing or that shall be disapproved by counsel for the Underwriter;

(m) As used herein and for the purposes of the foregoing, the term "End of the Underwriting Period" for the 2002 Certificates shall mean the earlier of (i) the Closing Date, unless the City shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date, (ii) the date on which the End of the Underwriting Period for the 2002 Certificates has occurred under Rule 15c2-12, provided, however, that the City may treat as the End of the Underwriting Period for the 2002 Certificates the date specified as such in a notice from the Underwriter stating the date that is the End of the Underwriting Period, which date in no event shall be 25 days after the Closing Date; and

(n) The City will apply the proceeds from the sale of the 2002 Certificates for the purposes specified in the Official Statement.

6. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the City contained herein and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the City of its obligations hereunder, both as of the date hereof and as of the Closing Date. Accordingly, the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the 2002 Certificates shall be conditioned, at the option of the Underwriter, upon the performance by the City of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing and also shall be subject to the following additional conditions:

(a) The Underwriter shall receive, within seven business days of the date hereof, copies of the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Underwriter) in such reasonable quantity as the Underwriter shall have requested. Prior to or simultaneously with the execution of this Purchase Contract, the Underwriter shall have received a letter, dated the date of the Preliminary Official Statement, addressed to the Underwriter, consenting to the posting of the Preliminary Official Statement on the _____ website, substantially in the form of Exhibit I hereto;

(b) The representations and warranties of the City contained herein shall be true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing 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 are accurate;

(c) At the time of the Closing, the Trust Agreement, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Swap Agreement shall have been duly authorized, executed and delivered by the respective parties thereto, and the Official Statement shall have been duly authorized, executed and delivered by the City, all in substantially the forms heretofore submitted to the Underwriter, with only such changes as shall have been agreed to in writing by the Underwriter, and shall be in full force and effect; 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 Orrick, Herrington & Sutcliffe LLP, Los Angeles, California (“Special Counsel”), and Sidley Austin Brown & Wood LLP, Los Angeles, California, counsel to the Underwriter (“Underwriter’s Counsel”), shall be necessary or appropriate in connection with the transactions contemplated hereby;

(d) Between the date hereof and the Closing Date, the market price or marketability, at the initial offering price set forth in the Official Statement, of the 2002 Certificates shall not have been materially adversely affected in the reasonable judgment of the Underwriter (evidenced by a written notice to the City and the Trustee terminating the obligation of the Underwriter to accept delivery of and make any payment for the 2002 Certificates) by reason of any of the following:

(1) an amendment to the Constitution of the United States or the State of California shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the legislature of any state having jurisdiction of the subject matter, or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by either such Committee by any member thereof or presented as an option for consideration by either

such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State of California or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made, or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State of California authority with respect to federal or State of California taxation upon revenues or other income of the general character to be derived by the City or upon interest received with respect to obligations of the general character of the 2002A Certificates that, in the reasonable judgment of the Underwriter, directly or indirectly may have the purpose or effect of affecting the tax status of the City, its property or income, its securities (including the 2002A Certificates) or the interest with respect thereto, or any tax exemption granted or authorized by State of California legislation or materially and adversely affecting the market for the 2002 Certificates or the market price generally of obligations of the general character of the 2002 Certificates;

(2) legislation enacted, introduced in the Congress or recommended for passage by the President of the United States, or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made by or on behalf of the Securities and Exchange Commission or by any other governmental agency having jurisdiction of the subject matter to the effect that obligations of the general character of the 2002 Certificates, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Trust Agreement is not exempt from qualification under the Trust Indenture Act of 1939, as amended;

(3) the declaration of war or escalation 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;

(4) 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;

(5) 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 2002 Certificates or obligations of the general character of the 2002 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 Underwriter;

(6) 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 2002 Certificates or the execution, offering or sale of the 2002 Certificates, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(7) the withdrawal or downgrading of any rating of the 2002 Certificates by a national rating agency; or

(8) any event occurring, or information becoming known that, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(e) At or prior to the Closing Date, the Underwriter shall have received the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) The Official Statement and each supplement or amendment, if any, thereto executed on behalf of the City by a duly authorized officer of the City;

(2) Copies of the Trust Agreement, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Swap Agreement, each duly executed and delivered by the respective parties thereto;

(3) The approving opinion of Special Counsel, dated the Closing Date and addressed to the City, in substantially the form attached to the Official Statement as Appendix E thereto;

(4) The supplemental opinion of Special Counsel, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit B;

(5) The opinion of Special Counsel, dated the Closing Date and addressed to the City, the Underwriter and the Trustee, to the effect that upon the execution and delivery of the 2002 Certificates and the application of the proceeds thereof in accordance with the Trust Agreement, the Refunded 1999 Certificates will be deemed to have been paid within the meaning of the trust agreement pursuant to which such Refunded 1999 Certificates were delivered;

(6) An opinion of counsel to the Corporation, dated the Closing Date and addressed to the City and Underwriter, in substantially the form attached hereto as Exhibit C;

(7) An opinion of the City Attorney of the City, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit D;

(8) An opinion of Underwriter's Counsel, dated the Closing Date and addressed to the Underwriter, to the effect that (a) the 2002 Certificates are exempt from registration under the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended; and (b) based upon their participation, as Underwriter's Counsel, in the preparation of the Official Statement and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to the attention of such counsel that would cause them to believe that the Official Statement (excluding therefrom the financial or statistical data or forecasts, the information concerning the Insurer, the Policy, the Bank, the Liquidity Facility, The Depository Trust Company and the book-entry system, and Appendices B through F included in the Official Statement, as to which no opinion need be expressed), as of its date and the Closing Date, contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

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

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

(11) A certified copy of the general resolution of the Trustee and Escrow Agent authorizing the execution and delivery of the Trust Agreement, the Escrow Agreement and the 2002 Certificates, together with a certificate to the effect that:

(i) The Trustee and Escrow Agent is a banking corporation existing under the laws of the State of California;

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

(iii) The Trustee's and the Escrow Agent's actions in executing and delivering the Trust Agreement and the Escrow Agreement, respectively, 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 or the Escrow Agent is a party or any administrative or judicial decision by which the Trustee or the Escrow Agent is bound;

(12) An opinion of counsel to the Trustee and the Escrow Agent, dated the Closing Date and addressed to the City and the Underwriter, to the effect that:

(i) The Trust Agreement and the Escrow Agreement, have been duly authorized, executed and delivered by the Trustee and the Escrow Agent, respectively, and, assuming due authorization, execution and delivery by the other parties thereto, the Trust Agreement and the Escrow Agreement each constitutes a legal, valid and binding obligation of the Trustee and the Escrow Agent, respectively, 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; and

(ii) The 2002 Certificates have been duly executed and delivered by the Trustee;

(13) A certified copy of the resolution of the Corporation authorizing the execution and delivery of the Trust Agreement and the 2002 Contract;

(14) A certified copy of the resolution of the City authorizing the execution and delivery of the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Swap Agreement, the Continuing Disclosure Agreement and this Purchase Contract;

(15) Evidence that any ratings on the 2002 Certificates are in full force and effect as of the Closing Date;

(16) A copy of any Preliminary Blue Sky Survey and Legal Investment Survey with respect to the 2002 Certificates, prepared by Underwriter's Counsel;

(17) A copy of the excerpted audited financial statements of the City included as Appendix B to the Official Statement;

(18) The Bond Insurance Policies, each duly executed and issued by the Insurer;

(19) An opinion of counsel to the Insurer, dated the Closing Date and addressed to the Underwriter and the City, in form and substance satisfactory to the Underwriter, together with a certificate of the Insurer in the form and substance satisfactory to the Underwriter; and

(20) The opinion(s) of counsel to the Bank, dated the date of Closing, in substantially the form(s) attached hereto as Exhibit G;

(21) A certificate of the Bank, dated the date of Closing, in substantially the form attached hereto as Exhibit H;

(22) The opinions of Special Counsel and the City Attorney, dated the date of Closing, addressed to the Swap Provider, relating to the Swap Agreement, in substantially the forms previously submitted to the Underwriter;

(23) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter, Special Counsel or Underwriter's Counsel reasonably may request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the City's representations and warranties contained herein and of the statements and information contained in the Official Statement and of 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 Trust Agreement, the Continuing Disclosure Agreement and the 2002 Contract.

(e) Prior to or simultaneously with the execution of this Purchase Contract, the Underwriter shall have received from the City a letter, dated the date of the Preliminary Official Statement, addressed to the Underwriter, consenting to the posting of the Preliminary Official Statement at the _____ website, substantially in the form attached hereto as Exhibit I.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the 2002 Certificates contained in this Purchase Contract or if the obligations of the Underwriter to purchase, accept delivery of and pay for the 2002 Certificates shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract and all obligations of the Underwriter hereunder may be terminated by the Underwriter at or at any time prior to the Closing Date by written notice to the Trustee and the City, and neither the Underwriter nor the City shall have any further obligations hereunder. In the event that the Underwriter fails (other than for a reason permitted by this Purchase Contract) to accept and pay for the 2002 Certificates at the Closing, the amount of one percent (1%) of the initial principal amount of the 2002 Certificates shall be paid by the Underwriters, as liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriter and the acceptance of such amount shall constitute a full release and discharge of all claims and rights of the City against the Underwriter as result of such failure and such default.

7. Expenses.

(a) The Underwriter 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, printing and distribution of the Trust Agreement, the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Swap Agreement, the Continuing Disclosure Agreement, the Preliminary Official Statement, the Official Statement and any supplements or amendments thereto (including the word processing costs of Underwriter's Counsel in preparing the Preliminary Official Statement and the Official Statement); (ii) the cost of preparing and printing the 2002 Certificates; (iii) the fees and disbursements of Special Counsel and the fees and expenses of counsel to the City; (iv) the fees and disbursements of the Bank and any engineers, accountants and other experts, consultants or

advisors retained by the City; (v) fees for bond ratings (which include fees of rating agencies and travel expenses of the City); and (vi) any premium for bond insurance, if any.

(b) The Underwriter shall pay: (i) the cost of preparation and printing of this Purchase Contract, the Preliminary Blue Sky Survey and the Legal Investment Survey; (ii) all advertising expenses and Blue Sky filing fees in connection with the public offering of the 2002 Certificates; (iii) fees, if any, payable to the California Debt Investment and Advisory Commission in connection with the execution and delivery of the 2002 Certificates; and (iv) all other expenses incurred by the Underwriter in connection with the public offering of the 2002 Certificates, including the fees and disbursements of Underwriter's Counsel (except as provided above).

8. 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 to: City of Lodi, Electric Utility Department, 1331 South Ham Lane, Lodi, California 95242, Attention: Electric Utility Director, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to: Salomon Smith Barney Inc., 350 California Street, 21st Floor, San Francisco, California 94104.

9. Parties in Interest. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including the successors or assigns of the Underwriter), and no other person shall acquire or have any right hereunder or by virtue hereof. All of the City'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 Underwriter; (ii) delivery of and payment for the 2002 Certificates pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

10. Effectiveness and Counterpart Signatures. This Purchase Contract shall become effective upon the execution of the acceptance hereof by an authorized officer of the City 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 together shall constitute but one and the same instrument.

11. 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.

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

Very truly yours,

SALOMON SMITH BARNEY INC.

By: _____
Title: _____

Accepted:
CITY OF LODI

By: _____
Title: _____

EXHIBIT A

MATURITY SCHEDULE

\$ _____ 2002A Certificates due _____, ____ - Price 100%

\$ _____ 2002 B Certificates

<u>Payment Date (_____)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
	\$		

FORM OF SUPPLEMENTAL OPINION
OF ORRICK, HERRINGTON & SUTCLIFFE LLP

[Closing Date]

Salomon Smith Barney Inc.
San Francisco, California

Electric System Revenue Certificates of Participation,
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
City of Lodi, California

(Supplemental Opinion)

Ladies and Gentlemen:

This opinion is addressed to you, as the Underwriter, pursuant to Section 6(e)(4) of the Certificate Purchase Contract, dated _____, 2002 (the "Purchase Contract"), between the City of Lodi, California (the "City") and you, providing for the purchase of \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A (the "2002A Certificates") and \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Taxable Series B (the "2002B Certificates" and, together with the 2002A Certificates, the "2002 Certificates"). The 2002 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2002 (the "Trust Agreement"), by and among the City, the Lodi Public Improvement Corporation (the "Corporation") and BNY Western Trust Company, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the respective meanings ascribed thereto in the Trust Agreement or, if not defined in the Trust Agreement, in the Purchase Contract.

In addition to the opinions set forth in our final legal opinion concerning the validity of the 2002 Certificates and certain other matters, dated the date hereof and addressed to the City (but which may be relied upon by yourselves to the same extent as if such opinion were addressed to you), and based on and subject to the matters referred to in the second through fifth paragraphs of such final legal opinion (which are hereby incorporated herein by reference), and in reliance thereon, as of the date hereof, we are of the following opinions or conclusions:

1. The Purchase Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Official Statement have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by and validity against the other parties thereto, are valid and binding

agreements of the City, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, arrangement and other laws affecting creditors' rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases, and by the limitations on legal remedies against municipal corporations in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained therein.

2. The 2002 Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

3. The statements contained in the Official Statement under the captions "INTRODUCTION," "THE 2002 CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 CERTIFICATES," "TAX MATTERS," "APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS", "APPENDIX E – PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT," and "APPENDIX F – PROPOSED FORM OF OPINION OF SPECIAL COUNSEL," insofar as such statements purport to summarize certain provisions of the 2002 Certificates, the Trust Agreement, the 2002 Contract, the Escrow Agreement, the Continuing Disclosure Agreement and our opinion concerning certain federal tax matters relating to the 2002 Certificates, are accurate in all material respects.

This letter is furnished by us as special counsel. No attorney-client relationship has existed or exists between our firm and you in connection with the 2002 Certificates or by virtue of this letter. We disclaim any obligation to update this letter. This letter is delivered to you as Underwriter of the 2002 Certificates and is solely for your benefit as such Underwriter and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to and may not be relied upon by owners of the 2002 Certificates.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

FORM OF OPINION OF COUNSEL TO THE CORPORATION

[Closing Date]

Salomon Smith Barney Inc.
San Francisco, California

Electric System Revenue Certificates of Participation,
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
City of Lodi, California

Ladies and Gentlemen:

I have acted as counsel to the Lodi Public Improvement Corporation, a California nonprofit public benefit corporation (the "Corporation"), in connection with the execution and delivery of that certain Installment Purchase Contract, dated as of January 1, 2002 (the "2002 Contract"), between the Corporation and the City of Lodi (the "City") and that certain Trust Agreement, dated as of January 1, 2002 (the "Trust Agreement"), by and among the City, the Corporation and BNY Western Trust Company, as trustee thereunder (the "Trustee"). Unless otherwise defined herein, the terms defined in the Trust Agreement and the 2002 Contract 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 2002 Contract, (b) the Trust Agreement (collectively, the "Agreements") and (c) the Articles of Incorporation and Bylaws of the Corporation.

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; and
2. The Corporation has full corporate power and authority to execute and deliver the Agreements, and the Agreements each have 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 by the application of equitable principles if equitable remedies are sought.

Respectfully submitted,

Randall A. Hays, Esq.
Counsel to the Corporation

FORM OF OPINION OF CITY ATTORNEY

[Closing Date]

Salomon Smith Barney Inc.
San Francisco, California

Electric System Revenue Certificates of Participation,
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
City of Lodi, California

Ladies and Gentlemen:

I have served as counsel to the City of Lodi (the "City") in connection with the execution, delivery and sale of the \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A (the "2002A Certificates") and \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Taxable Series B Certificates (the "2002B Certificates" and, together with the 2002A Certificates, the "2002 Certificates"). As such counsel, I have examined and am familiar with (i) those documents relating to the existence, organization and operation of the City; (ii) all necessary documentation of the City relating to the authorization, execution and delivery of (a) the Installment Purchase Contract, dated as of January 1, 2002 (the "2002 Contract"), between the Lodi Public Improvement Corporation (the "Corporation") and the City, (b) the Trust Agreement, dated as of January 1, 2002 (the "Trust Agreement"), by and among the City, the Corporation and BNY Western Trust Company, as trustee thereunder (the "Trustee"), (c) the Escrow Agreement, dated as of January 1, 2002 (the "Escrow Agreement"), by and between the City and BNY Western Trust Company, as escrow agent, (d) the Standby Bond Purchase Agreement, dated as of January 1, 2002 (the "Liquidity Agreement"), by and between the City and _____, (the "Bank"), (e) the Remarketing Agreement, dated as of January 1, 2002 (the "Remarketing Agreement"), by and between the City and Salomon Smith Barney Inc., as remarketing agent, and (f) the Continuing Disclosure Agreement, dated as of January 1, 2002 (the "Continuing Disclosure Agreement"), by and between the City and the Trustee; and (iii) an Official Statement of the City, dated _____, 2002 (the "Official Statement"), relating to the 2002 Certificates. Terms used herein that are defined in the Official Statement shall have the meanings specified therein.

I am of the opinion that:

1. The City is a general law city, duly created, organized and existing under the Constitution and laws of the State of California and duly qualified to furnish electric service within said City.

2. The City has the authority and right to execute, deliver and perform the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Purchase Contract, and the City has complied with the provisions of applicable law in all matters relating to the transactions contemplated by the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Purchase Contract.

3. The 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Purchase Contract have been duly authorized, executed and delivered by the City, are in full force and effect and, assuming that the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Purchase Contract constitute the legal, valid and binding agreements of the other respective parties thereto, constitute the legal, valid and binding agreements of the City enforceable against it in accordance with their terms, except, in each case, as enforceability may be limited by laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought.

4. 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 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement or the Purchase Contract, or the performance by the City of its obligations thereunder or the execution and delivery, on the part of the City, of the 2002 Certificates. Under the laws of the State of California, the City has the authority to determine, fix, impose and collect rates and charges for electric service and is not presently subject to the regulatory jurisdiction of any state, regional or local governmental regulatory authority.

5. The execution and delivery of the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement and the Purchase Contract 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, or commitment, agreement or other instrument to which the City 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 City or any of its officers in their respective capacities as such are subject or any provision of the laws of the State of California relating to the City and its affairs.

6. Based upon my participation in the preparation of the Official Statement and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to my attention that would lead me to believe that the Official Statement (excluding therefrom the financial statements, the statistical data and the information concerning The Depository Trust Company, the book-entry system, the Bank and the Liquidity Facility, the Insurer and the Policy included therein and in

Appendices B through F thereto, as to which no opinion is expressed), as of its date and the date hereof, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

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 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) that questions the powers of the City referred to in paragraph 2 above or in connection with the transactions contemplated by the Official Statement, or the validity of the proceedings taken by the City in connection with the authorization, execution or delivery of the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement or the Purchase Contract, or wherein any unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the 2002 Contract, the Trust Agreement, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement, the Purchase Contract or the Official Statement, or that, in any way, would adversely affect the validity or enforceability of the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement or the Purchase Contract or, in any material respect, the ability of the City to perform its obligations under the 2002 Contract, the Escrow Agreement, the Liquidity Agreement, the Remarketing Agreement, the Continuing Disclosure Agreement or the Purchase Contract.

Respectfully submitted,

Randall A. Hays, Esq.
City Attorney

FORM OF CERTIFICATE OF THE CORPORATION

I, _____, the President of the Lodi Public Improvement Corporation (the "Corporation"), hereby certify as follows:

1. The Corporation has full legal right, power and authority to (i) enter into the Trust Agreement and the 2002 Contract and (ii) carry out and consummate the transactions contemplated by the Trust Agreement and the 2002 Contract;

2. By all necessary corporate action of the Corporation prior to or concurrently herewith, the Corporation has duly authorized and approved the execution and delivery and the performance by the Corporation of the obligations in connection with the execution and delivery of the 2002 Certificates on its part contained in the 2002 Contract and the Trust Agreement, and the consummation by it of all other transactions contemplated by the 2002 Contract and the Trust Agreement in connection with the execution and delivery of the 2002 Certificates; the Corporation has complied in all material respects with the obligations in connection with the execution and delivery of the 2002 Certificates on its part contained in the 2002 Contract and the Trust Agreement;

3. 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 that, 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 2002 Contract and the Trust Agreement 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 Trust Agreement and the 2002 Contract;

4. 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, 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 2002 Contract or the Trust Agreement; nor to my knowledge is there any 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 Trust Agreement or the 2002 Contract;

5. The information contained under the caption "THE CORPORATION" in the Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect.

6. This certificate is provided pursuant to Section 6(e)(9) of that certain Certificate Purchase Contract by and between the City of Lodi, California (the "City"), and Salomon Smith Barney Inc. All capitalized terms used herein that otherwise are not defined shall have the same meanings as in such Certificate Purchase Contract.

Dated: _____, 2002

LODI PUBLIC IMPROVEMENT CORPORATION

By: _____

President

CERTIFICATE OF THE CITY

I, H. Dixon Flynn, the City Manager, of the City of Lodi, California (the "City"), hereby certify as follows:

1. The representations and warranties of the City contained in the Certificate Purchase Contract, dated _____, 200_ (the "Purchase Contract"), between the City and Salomon Smith Barney Inc. with respect to the sale by the City of \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A Certificates and \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Taxable Series B (collectively, the "2002 Certificates"), 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 my 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 2002 Certificates or the collection of the Net Revenues of the Electric System of the City to be used to pay the principal and interest represented by the 2002 Certificates, or the covenants in the 2002 Contract with respect to Net Revenues of the Electric System of the City, or the pledge of Net Revenues of the Electric System pursuant to the 2002 Contract, or contesting the tax-exempt status of interest represented by the 2002 Certificates, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto, or contesting the powers of the Trustee for the execution of the 2002 Certificates; nor to my knowledge is there any 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 2002 Contract, the Liquidity Agreement, the Remarketing Agreement, the Escrow Agreement, the Continuing Disclosure Agreement or the Purchase Contract.

3. To the best of my knowledge, no event affecting the City has occurred since the date of the Official Statement that should be disclosed in the Official Statement so that the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that has not been disclosed in a supplement or amendment to the Official Statement.

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 Purchase Contract with respect to the execution and delivery of the 2002 Certificates.

5. Between the date of the Purchase Contract and the date hereof, the City has not offered or issued any bonds, notes or other obligations for borrowed money, or incurred any

material liabilities, direct or contingent payable from the Net Revenues of the Electric System, other than with the written consent of Salomon Smith Barney Inc., nor has there been any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the Electric System.

6. All capitalized terms used herein that otherwise are not defined shall have the same meanings as in the Purchase Contract.

Dated: _____, 2002.

CITY OF LODI

By: _____
H. Dixon Flynn
City Manager

FORM OF OPINION OF BANK COUNSEL

_____, 2002

City of Lodi, California

BNY Western Trust Company,
as Trustee

Salomon Smith Barney Inc.

[Rating Agencies]

[Insurer]

Re: Electric System Revenue Certificates of Participation
2002 Variable Rate Demand Series A
Evidencing the Proportionate Interests of the Owners Thereof in Certain
Installment Payments to be Made by the City of Lodi, California

Ladies and Gentlemen:

We have acted as counsel to _____ (the “**Bank**”) in connection with the Standby Bond Purchase Agreement dated as of January 1, 2002, among the City, _____, as Trustee, and the Bank (the “**Agreement**”). Terms used herein and not otherwise defined shall have the meaning given thereto in the Agreement.

We have examined and are familiar with the Agreement and have examined such other documents, corporate records, certificates of corporate officers and other instruments and materials as we have deemed necessary to render the opinions expressed herein. We have also conducted an investigation of such other matters of law and fact as we have deemed necessary or advisable for purposes of this opinion. In making such investigation, we have assumed the authenticity of all original documents submitted to us as conformed copies or photocopies of original documents, and that the signatures (other than those on behalf of the Bank) on all documents are genuine. As to matters of fact material to our opinion, we have relied upon representations of officers of the Bank and of public officials as we have deemed necessary for

the purpose of rendering this opinion, without verifying the same by independent investigation. With respect to our reliance on such representations, certificates and opinions, nothing has come to our attention which would indicate that our reliance is not justified.

Based upon the foregoing and subject to the qualifications set forth below, it is our opinion that under the laws of the State of _____ and the Federal laws of the United States:

(1) The Bank is a national banking association duly organized, validly existing and in good standing under the National Bank Act, 12 U.S.C. § 1 et seq. and has the requisite power and authority to execute and deliver the Agreement, and to perform its obligations thereunder.

(2) The execution and delivery by the Bank of the Agreement, and the performance by the Bank of its obligations thereunder, are not inconsistent with its Articles of Association or By-laws, do not contravene any law, government rule or regulation or judgment or order known to us and applicable to the Bank, of the State of _____ or any political subdivision thereof or the United States of America or require the consent or approval of, the giving of notices to, the registration with or the taking of any action in respect of or by, any governmental authority or agency of the State of _____ or the United States of America relating specifically to banks or banking associations.

(3) The Agreement has been duly authorized, executed and delivered by the Bank and constitutes the valid and binding obligation of the Bank enforceable against the Bank in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws affecting the rights of creditors and by general principles of equity.

This opinion is furnished by us, as counsel to the Bank, solely for the benefit of the addressees upon the understanding that we are not assuming any professional responsibility to any other person.

Very truly yours,

OFFICER'S CERTIFICATE OF [LIQUIDITY BANK]

Electric System Revenue Certificates of Participation,
2002 Variable Rate Demand Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the

City of Lodi, California

The undersigned hereby certifies, in connection with the issuance by _____ (the "Bank"), of Liquidity Facilities pertaining to the above-captioned Certificates of Participation (the "Certificates"), that:

1. The undersigned is an officer of the Bank indicated under his signature below and is duly authorized to execute this Certificate.

2. The Bank has furnished the information concerning the Bank contained under the caption "THE BANK" (the "Bank Information") in the Official Statement, dated _____, 2002, relating to the Certificates (the "Official Statement") for inclusion in the Official Statement; and the Bank has authorized and consented to the inclusion of the Bank Information in the Official Statement.

3. To the best knowledge of the undersigned officer of the Bank, the Bank Information is true and correct in all material respects.

IN WITNESS WHEREOF, the undersigned has hereunto signed his name this ____ day of _____, 2002.

By: _____
Title: _____

FORM OF LETTER TO UNDERWRITER

Salomon Smith Barney Inc.
San Francisco, California

Ladies and Gentlemen:

With respect to the proposed sale to you of the \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A (the "2002A Certificates") and \$00,000,000 aggregate principal amount of Electric System Revenue Certificates of Participation 2002 Taxable Series B (the "2002B Certificates" and, together with the 2002A Certificates, the "2002 Certificates"), the City of Lodi (the "City") has delivered to you a Preliminary Official Statement, dated _____, 2002, relating to the 2002 Certificates (the "Preliminary Official Statement"). The City, for purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, deems the Preliminary Official Statement to be final as of its date, except for the omission of no more than the following information: the offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, dates of mandatory sinking fund payments, delivery date, ratings and any other terms of the 2002 Certificates relating to such matters.

The City hereby approves the use and the distribution by the Underwriter of the Preliminary Official Statement and the posting and distribution of the Preliminary Official Statement through the website address established by _____.

Sincerely,

CITY OF LODI, CALIFORNIA

By: _____

Name: _____

Title: _____

Electric System Revenue Certificates of Participation
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA
2002 Variable Rate Demand Series A

REMARKETING AGREEMENT

This REMARKETING AGREEMENT is dated as of January 1, 2002 (this "Agreement"), by and between the City of Lodi, California (the "City") and Salomon Smith Barney, Inc. (the "Remarketing Agent").

The Electric System Revenue Certificates of Participation, 2002 Variable Rate Demand Series A (the "2002A Certificates") evidence the proportionate interests of the Owners thereof in certain installment payments (the "Schedule A Installment Payments") to be made by the City under the terms of the Installment Purchase Contract, dated as of January 1, 2002 (the "2002 Contract"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the 2002 Contract, the City will make the Schedule A Installment Payments to the Corporation from Net Revenues of the City's Electric System. The 2002A Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2002 (the "Trust Agreement"), by and among the City, the Corporation and BNY Western Trust Company, as trustee (the "Trustee"). All capitalized terms used herein and not defined herein shall have the meanings specified in the Trust Agreement, unless the context otherwise requires.

In consideration of the mutual agreements set forth herein, the parties hereto agree as follows:

SECTION 1. Appointment of Remarketing Agent; Responsibilities of Remarketing Agent.

(a) Subject to the terms and conditions herein contained, the City hereby appoints the Remarketing Agent as the exclusive remarketing agent for the 2002A Certificates, and the Remarketing Agent hereby accepts such appointment in connection with the offering and sale of the 2002A Certificates from time to time in the secondary market subsequent to the initial offering, issuance and sale of the 2002A Certificates.

(b) In its capacity as Remarketing Agent, upon notice (A) from the Tender Agent that it has received notice from a Beneficial Owner (through its Direct Participant in DTC) pursuant to Section 2.04(A) of the Trust Agreement, or (B) from the Tender Agent of a mandatory tender for purchase pursuant to Section 2.05 of the Trust Agreement, in each case given pursuant to and in accordance with the Trust Agreement, the Remarketing Agent shall offer for sale and use its best efforts to remarket any 2002A Certificates which are the subject of

any such notice at a price of not less than 100 percent of the principal amount thereof plus accrued interest, subject, in all respects, to the terms and conditions of the Trust Agreement.

In accordance with the provisions of Section 2.06(B) of the Trust Agreement, the Remarketing Agent shall give the Tender Agent and the Trustee written or telephonic notice (promptly confirmed by telex or telecopier) not later than 4:00 p.m., New York City time, on the Business Day preceding the Business Day on which the 2002A Certificates are to be purchased pursuant to Sections 2.04(A) or 2.05 of the Trust Agreement of the aggregate principal amount of the 2002A Certificates subject to purchase which have not been remarketed. By 11:00 a.m., New York City time, on the Purchase Date (as defined in the Trust Agreement), the Remarketing Agent shall (1) cause the Purchase Price (as defined in the Trust Agreement) of the 2002A Certificates to be delivered to the Tender Agent or Trustee, as applicable, and (2) give telephonic or telegraphic notice, by 11:30 a.m. New York City time on the Purchase Date, promptly confirmed by a written notice, to the Bond Registrar, the Tender Agent and the Trustee on each date on which 2002A Certificates shall have been purchased pursuant to Section 2.06 of the Trust Agreement, specifying the principal amount of the 2002A Certificates, if any, sold by it pursuant to Section 2.06 of the Trust Agreement, along with a list of the purchasers showing the names and denominations in which such 2002A Certificates shall be registered, and if known to it, the addresses and social security or taxpayer identification numbers of such purchasers.

(c) The City agrees with the Remarketing Agent that, unless this Remarketing Agreement has been previously terminated pursuant to the terms hereof, the Remarketing Agent shall act as exclusive remarketing agent with respect to the 2002A Certificates on the terms and conditions herein contained at all times, including any remarketing of the 2002A Certificates in connection with, or in anticipation of, the establishment of a Term Interest Rate Period extending to the final maturity of the 2002A Certificates.

(d) It is understood and agreed that the Remarketing Agent's responsibilities hereunder will include (i) the solicitation of purchases of 2002A Certificates from investors able to purchase securities comparable to the 2002A Certificates in large denominations; provided, however, that, with respect to 2002A Certificates being purchased in connection with the establishment of a Term Interest Rate Period, the Remarketing Agent need not be restricted to investors able to purchase securities in large denominations; (ii) effecting and processing such purchases; (iii) billing and receiving payment for 2002A Certificates purchased; (iv) causing the proceeds from the secondary market sale of the 2002A Certificates to be transferred to the Tender Agent for deposit in the Remarketing Account held by the Tender Agent pursuant to the Tender Agent Agreement; and (v) performing such other related functions as may be requested by the City and agreed to by the Remarketing Agent. The Remarketing Agent will keep records of trades and make trade confirmations in accordance with prudent industry practices.

(e) The Remarketing Agent agrees that, so long as it is the Remarketing Agent under this Remarketing Agreement, it will perform the obligations contemplated to be performed by the Remarketing Agent under the Trust Agreement, including, without limitation, its obligations under Sections 2.03, 2.06, 6.06, 6.07 and 6.08 of the Trust Agreement. The Remarketing Agent agrees to furnish to the Trustee and the Tender Agent the information with respect to each rate of interest and Interest Rate Period as required by Section 2.06(B) of the Trust Agreement.

SECTION 2. Payment of Fees and Expenses. In consideration of the services to be performed by the Remarketing Agent under this Remarketing Agreement, the City agrees to pay to the Remarketing Agent the following fees:

(a) an annual fee equal to _____ percent of the weighted average daily principal amount of 2002A Certificates outstanding during such periods in which the 2002A Certificates shall bear interest at a Weekly Interest Rate;

(b) in connection with, or in anticipation of, the establishment of a Term Interest Rate Period, an amount as shall be agreed to by the 2002 City and the Remarketing Agent at that time; and

(c) expenses reasonably incurred by the Remarketing Agent in connection with its services hereunder, including reasonable expenses in connection with preparation of a new Official Statement or other offering materials as provided in Section 4.

Payment of the fees and expenses referred to in clause (a) of the first sentence of this Section 2 shall be made by the City as soon as practicable upon receipt of an invoice therefor from the Remarketing Agent, such invoice to be sent quarterly in arrears. Payment of the fee referred to in clause (b) of the first sentence of this Section 2 shall be made by the City on the effective date of the establishment of a Term Interest Rate Period and shall include all reasonable costs relating to the preparation of any disclosure documents in connection with the establishment of a Term Interest Rate Period. The Remarketing Agent will not incur the expenses referred to in clause (c) of the first sentence of this Section 2 without the prior approval of the City.

SECTION 3. The 2002A Certificates. As more fully described in the Trust Agreement, the 2002A Certificates will be delivered, subject to the terms and conditions of the Trust Agreement, in the form of fully registered 2002A Certificates in the denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof during a Weekly Interest Rate Period and in the denomination of \$5,000 and any integral multiples thereof during a Term Interest Rate Period. The 2002A Certificates shall initially bear interest at a Weekly Interest Rate determined by the Remarketing Agent on the date of issuance of the 2002A Certificates.

SECTION 4. Furnishing of Offering Materials.

(a) The City agrees to furnish the Remarketing Agent with as many copies as the Remarketing Agent may reasonably request of the Official Statement, dated _____, 2002 (the "Official Statement"), and such other information associated with the City and the 2002A Certificates as the Remarketing Agent shall reasonably request from time to time.

(b) The City agrees to cooperate with the Remarketing Agent in the preparation of a new Official Statement or other offering material for the 2002A Certificates in the event the Remarketing Agent reasonably determines that the preparation and distribution of such Official Statement or offering material is desirable in connection with remarketing the 2002A Certificates.

(c) If, at any time during the term of this Remarketing Agreement, any event known to the City relating to or affecting the 2002A Certificates, the City, the Corporation, the Liquidity Provider, the Insurer or this Remarketing Agreement shall occur which might affect the correctness or completeness of any statement of a material fact contained in the Official Statement, as amended, the City will promptly notify the Remarketing Agent in writing of the circumstances and details of such event. The City agrees to prepare an amendment or supplement to the Official Statement, at its own expense, if in the judgment of the City or the Remarketing Agent such amendment or supplement is necessary to ensure that at all times the Official Statement, as amended or supplemented, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(d) In connection with the remarketing of the 2002A Certificates as a result of, or in anticipation of, (i) an expiration or termination of the Liquidity Facility or any Alternate Liquidity Facility, or (ii) an establishment of a Term Interest Rate Period, the City shall prepare or caused to be prepared any disclosure documents (including continuing disclosure undertakings required by the rules and regulations of the Securities and Exchange Commission) which in the reasonable opinion of the Remarketing Agent or the City are necessary or desirable. All costs incurred in connection with the preparation of such disclosure documents shall be borne by the City.

SECTION 5. Representations and Warranties of the City. The representations and warranties of the City set forth in the Certificate Purchase Contract (the "Purchase Contract"), dated _____, 2002, relating to the 2002A Certificates are incorporated by reference herein.

SECTION 6. Conditions to Remarketing Agent's Obligations. The obligations of the Remarketing Agent under this Agreement have been undertaken in reliance on, and shall be subject to, the due performance by the City of its obligations and agreements to be performed hereunder and to the accuracy of and compliance with the representations, warranties and agreements of the City contained or incorporated by reference herein, on and as of the date of delivery of this Agreement and on and as of each date on which 2002A Certificates are to be remarketed pursuant to this Agreement. The obligations of the Remarketing Agent hereunder with respect to each date on 2002A Certificates are to be remarketed pursuant to this Agreement are also subject, in the discretion of the Remarketing Agent, to the following further conditions that (i) the 2002A Certificates, Liquidity Facility, any Alternate Liquidity Facility and the Trust Agreement shall be in full force and effect and shall not have been amended, modified or supplemented in any way which would materially and adversely affect the 2002A Certificates, except as may have been agreed to in writing by the Remarketing Agent, that no Event of Default and no event which, with the passage of time or the giving of notice or both, would constitute an Event of Default, under the Trust Agreement shall have occurred and be continuing, and that there shall be in full force and effect such additional resolutions, agreements, certificates (including such certificates as may be required by regulations of the Internal Revenue Service in order to establish the exclusion from gross income of interest on the 2002A Certificates for federal income tax purposes) and opinions which are reasonably required by Bond Counsel and counsel for the Remarketing Agent and which shall be reasonably satisfactory in form and substance to Bond Counsel and counsel for the Remarketing Agent, (ii) at or prior to the closing

date for the 2002A Certificates, the Remarketing Agent shall have received copies of all closing documents required by, and delivered pursuant to, the Purchase Agreement relating to the 2002A Certificates, and (iii) there shall have been no material adverse change in the condition (financial or otherwise) of the City since the date of the Official Statement.

SECTION 7. Term and Termination of Agreement.

(a) (i) This Agreement shall become effective upon its execution by the Remarketing Agent and the City and shall continue in full force and effect until the establishment of a Term Interest Rate Period extending to the final maturity of 2002A Certificates.

(ii) In accordance with the provisions of Section 6.07 of the Trust Agreement, (A) the Remarketing Agent may at any time resign by notifying the City, the Trustee, the Tender Agent and the Liquidity Provider at least 30 days before the effective date of such resignation. The City may, and upon a showing by the Liquidity Provider of reasonable cause, shall remove the Remarketing Agent upon 30 days' written notice and with the advice and consent of the City and the Liquidity Provider, which consent shall not be unreasonably withheld, appoint a successor by notifying the Remarketing Agent, the Liquidity Provider and the Trustee, provided such notice may be waived if the Remarketing Agent is unable or ceasing to perform its duties. No removal or resignation shall be effective until the successor has delivered an acceptance of its appointment to the Trustee.

(b) In addition to the provisions of subsection (a) hereof, the Remarketing Agent may suspend its obligations under this Agreement at any time by notifying the Liquidity Provider, the Trustee and the City in writing or by telecopy of its election so to do, if:

(i) Legislation shall be favorably reported by a committee of the House of Representatives or the Senate of the Congress of the United States or be introduced by committee, by amendment or otherwise, in, or be enacted by, the House of Representatives or the Senate, or be recommended by the President of the United States or by committee of the House of Representatives or the Senate to the Congress of the United States for passage by the Congress of the United States, or a decision by a court established under Article III of the Constitution of the United States or the United States Tax Court shall be rendered or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed having the purpose or effect of imposing federal income taxation, or any other event shall have occurred which results in the imposition of federal income taxation, upon revenues or other income of the general character to be derived by the City (or by any similar bodies) or causing interest received on the 2000A Certificates not to be excluded from gross income for purposes of federal income taxation; or

(ii) Legislation shall be favorably reported by a committee of the House of Representatives or the Senate of the Congress of the United States or be introduced by committee, by amendment or otherwise, in, or be enacted by, the House of

Representatives or the Senate, or be recommended by the President of the United States or by committee of the House of Representatives or the Senate to the Congress of the United States for passage by the Congress of the United States, or a decision by a court of the United States shall be rendered, or stop order, ruling, regulation or official statement by, or on behalf of, the United States Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed, to the effect that the offering or sale of obligations of the general character of the 2002A Certificates or the issuance of the Liquidity Facility, is or would be in violation of any provision of the Securities Act of 1933, as amended (the "Securities Act") and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or that the Trust Agreement shall be required to be qualified under the Trust Agreement Act of 1939, as amended and as then in effect (the "1939 Act"), or with the purpose or effect of otherwise prohibiting the offering or sale of obligations of the general character of the 2002A Certificates, or the 2002A Certificates, as contemplated hereby, without registration under the Securities Act or qualification of the 1939 Act, as amended; or

(iii) Any information shall have become known, which, in the Remarketing Agent's reasonable opinion, makes untrue, incorrect or misleading in any material respect any statement or information contained in the Official Statement, as then supplemented or amended in accordance with Section 4, or causes the Official Statement, as so supplemented or amended, to contain an untrue, incorrect or misleading statement of a material fact or to omit to state a material fact required to be stated therein or necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(iv) Except as provided in clauses (i) and (ii) of this Section 7(b), any legislation, resolution, ordinance, rule or regulation shall be introduced in, or be enacted by, any federal governmental body, department or agency of the United States or the State of California, or a decision by any court of competent jurisdiction within the United States or the State of California shall be rendered, which, in the Remarketing Agent's reasonable opinion, materially adversely affects the marketability of the 2002A Certificates; or

(v) Additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; or

(vi) Any governmental authority shall impose, as to the 2002A Certificates, or obligations of the general character of the 2002A Certificates, any material restrictions not now in force, or increase materially those now in force; or

(vii) A general banking moratorium shall have been established by federal, California or New York authorities; or

(viii) The short-term rating of the 2002A Certificates shall have been down-graded to a rating below _____ by Fitch or any equivalent short-term rating if the 2002A Certificates are then rated by Fitch, or down-graded to a rating below

_____ by S&P or any equivalent short-term rating if the 2002A Certificates are then rated by S&P, or withdrawn by any of such national rating services if the 2002A Certificates are then rated by any of such national rating services, which, in the Remarketing Agent's reasonable opinion, materially adversely affects the marketability of the 2002A Certificates; or

(ix) A war involving the United States shall have been declared, or any existing conflict involving the armed forces of the United States shall have escalated, or any other national emergency relating to the effective operation of government or the financial community shall have occurred, which, in the Remarketing Agent's reasonable opinion, materially adversely affects the marketability of the 2002A Certificates; or

(x) Any event, including without limitation, the bankruptcy or default of any City of, or obligor on, tax-exempt securities shall have occurred which in the Remarketing Agent's reasonable opinion makes the marketing of securities of the general character of the 2002A Certificates impossible over an extended period of time.

SECTION 8. Indemnification.

(a) In connection with any remarketing of the 2002A Certificates, the City shall and hereby does indemnify and hold harmless the Remarketing Agent and its officers, directors and employees and each person, if any, who controls the Remarketing Agent within the meaning of the Securities Act of 1933, as amended (the "Act") (collectively, the "Indemnified Parties"), to the extent permitted under applicable law, against any losses, claims, damages or liabilities, joint or several, to which the Indemnified Parties may become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Official Statement, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein 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 or (ii) the representations and warranties incorporated in Section 5 hereof being untrue at the time of remarketing of any 2002 Certificate pursuant hereto; and will reimburse the Indemnified Parties for any legal or other expenses reasonably incurred by the Indemnified Parties in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the City will not be liable in any such case to any Indemnified Party to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any of such documents, or under the caption "Underwriting" in reliance upon and in conformity with written information furnished to the City with respect to the Remarketing Agent or a controlling person of the Remarketing Agent, the Remarketing Agent, specifically for use therein; and provided further that the indemnity provision contained in this subparagraph (a) with respect to the Official Statement or any amendment or supplement thereto shall not inure to the benefit of the Remarketing Agent (or to the benefit of any person controlling the Remarketing Agent) with respect to any such loss, claim, damage, liability or action asserted by any person if a copy of the Official Statement (as amended or supplemented) not containing the untrue statement or alleged untrue statement or omission or alleged omission that is the basis of the loss, claim, damage, liability or action for which indemnification is sought was available to the

Remarketing Agent and was not properly mailed, delivered or given to such person. This indemnity provision will be in addition to any liability which the City may otherwise have.

(b) Promptly after receipt by an Indemnified Party under this Section 8 of notice of the commencement of any action, such Indemnified Party will, if a claim in respect thereof is to be made against the City under this Section 8, notify the City in writing of the commencement thereof, but the omission so to notify the City will not relieve it from any liability which it may have to any Indemnified Party otherwise than under this Section 8 except to the extent that the City is able to demonstrate actual prejudice in not being so notified. In case any such action is brought against any Indemnified Party, and it notifies the City of the commencement thereof, the City will be entitled to participate in, and, to the extent that it may wish, jointly with any other indemnifying party, similarly notified, to assume the defense thereof so long as its interests are not adverse to those of the Indemnified Party, with counsel reasonably satisfactory to such Indemnified Party, and after notice from the City to such Indemnified Party of its election to assume the defense thereof, the City will not be liable to such Indemnified Party under this Section 8 for any legal or other expenses subsequently incurred by such Indemnified Party in connection with the defense thereof other than reasonable costs of investigation. Upon assumption by the City of the defense of any such action or proceeding, the Indemnified Party shall have the right to participate in such action or proceeding and to retain its own counsel but the City shall not be liable for any legal expenses of other counsel subsequently incurred by such Indemnified Party in connection with the defense thereof unless (i) the City has agreed to pay such fees and expenses, (ii) the City shall have failed to employ counsel reasonably satisfactory to the Indemnified Party in a timely manner, or (iii) the Indemnified Party shall have been advised by counsel that there are actual or potential conflicting interests between the City and the Indemnified Party, including situations in which there are one or more legal defenses available to the Indemnified Party that are different from or additional to those available to the City. If the City does not elect to assume the defense of any such suit, it will reimburse the Indemnified Parties for the reasonable fees and expenses of any counsel retained by them. In the event that the parties to any such action (including impleaded parties) include one or more indemnifying parties and one or more Indemnified Parties, and one or more Indemnified Parties shall have been advised by counsel reasonably satisfactory to the Underwriter and the City that there may be one or more legal defenses available to any of the Indemnified Parties, which are different from, additional to, or in conflict with those available to any of the indemnifying parties, the indemnifying parties will reimburse the Indemnified Parties for the reasonable fees and expenses of any counsel retained by the Indemnified Parties (it being understood that the indemnifying parties shall not, in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for all Indemnified Parties, which firm shall be designated by the Indemnified Parties, the Remarketing Agent or the City, as the case may be). Each indemnifying party agrees promptly to notify each Indemnified Party of the commencement of any litigation or proceedings against it in connection with the remarketing of the 2002A Certificates. The City shall not consent to the terms of any compromise or settlement of any action defended by the City in accordance with the foregoing without the prior consent of the Indemnified Party. No indemnifying party shall be liable under this Section 8 for the amount of any compromise or settlement of any action unless such compromise or settlement has been approved in writing by such indemnifying party, which approval shall not be unreasonably withheld. The indemnity agreements contained in this

Section 8 shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Remarketing Agent, or the delivery of and any payment for any 2002A Certificates hereunder, and shall survive the termination or cancellation of this Remarketing Agreement.

(c) If the indemnification provided for in subparagraph (a) of this Section 8 is unavailable, because of limitations imposed by securities laws or for any other reason, to a party that would otherwise have been an Indemnified Party under subparagraph (a) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each party that would have been an indemnifying party thereunder shall, in lieu of indemnifying such Indemnified Party, contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion so that the Remarketing Agent is responsible for that portion represented by the percentage that the Remarketing Agent's commission with respect to such remarketing bears to the aggregate principal amount of such 2002A Certificates being remarketed and the City is responsible for the balance; provided, however, that no person guilty of fraudulent misrepresentation within the meaning of Section 11(f) of the Act be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation within the meaning of Section 11(f) of the Act. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages or liabilities (or actions in respect thereon referred to above in this subparagraph (c) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claims (which shall be limited as provided in subparagraph (b) above if the indemnifying party has assumed the defense of any such action in accordance with the provisions thereof).

SECTION 9. Dealing in 2002A Certificates by Remarketing Agent. The Remarketing Agent, in its individual capacity, either as principal or agent, may buy, sell, own, hold and deal in any of the 2002A Certificates, and may join in any action which any Bondholder may be entitled to take with like effect as if it did not act in any capacity hereunder. The Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the City and may act as depository, trustee or agent for any committee or body of Bondholders or other obligations of the City, as freely as if it did not act in any capacity hereunder.

SECTION 10. Intention of Parties. It is the express intention of the parties hereto that no purchase, sale or transfer of any 2002A Certificates, as herein provided, shall constitute or be construed to be the extinguishment of any Bond or the indebtedness evidenced thereby or the reissuance of any 2002A Certificates or the refunding of any indebtedness represented thereby.

SECTION 11. Remarketing Agent Not Acting as Underwriter. It is understood and agreed by both parties hereto that the Remarketing Agent is only obligated hereunder to use its best efforts to solicit indications of interest on the part of purchasers of any tendered 2002A Certificates. The Remarketing Agent shall be construed to be acting as agent only for and on behalf of the owners from time to time of the 2002A Certificates.

SECTION 12. Notices, Etc. The provisions of Section 11.08 of the Trust Agreement with respect to the service of any notice, request, complaint, demand or other paper under this

Agreement to the City, the Liquidity Provider, the Remarketing Agent, the Tender Agent and the Trustee are incorporated herein by reference.

SECTION 13. Miscellaneous.

(a) The obligations of the respective parties hereto may not be assigned or delegated to any other person without the consent of the other parties hereto. This Agreement will inure to the benefit of and be binding upon the City and the Remarketing Agent and their respective successors and assigns, and will not confer any rights upon any other person, partnership, association or corporation other than persons, if any, controlling the Remarketing Agent or the City within the meaning of the Securities Act. The terms “successors” and “assigns” shall not include any purchaser of any of the 2002A Certificates merely because of such purchase.

(b) All of the representations, warranties and agreements of the City in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of the Remarketing Agent; (ii) delivery of and any payment for any 2002A Certificates hereunder; or (iii) termination or cancellation of this Agreement.

(c) Section headings have been inserted in this Agreement as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Agreement and will not be used in the interpretation of any provisions of this Agreement.

(d) If any provisions of this Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Agreement invalid, inoperative or unenforceable to any extent whatever.

(e) Whenever any time of day or particular hour is specified herein, such time or hour shall be determined on the basis of Eastern Standard Time or Eastern Daylight Savings Time, whichever is then in effect in New York City, New York.

(f) This Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same document.

(g) This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

(h) The Remarketing Agent shall provide Fitch, if the 2002A Certificates are then rated by Fitch, and S&P, if the 2002A Certificates are then rated by S&P, as appropriate, with prior written notice of any amendments to this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

CITY OF LODI, CALIFORNIA

By: _____
Name:
Title:

SALOMON SMITH BARNEY INC.

By: _____
Name:
Title:

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Lodi, California (the "City") and BNY Western Trust Company, as trustee (the "Trustee"), in connection with the execution and delivery of the City of Lodi Electric System Revenue Certificates of Participation 2002 Taxable Series B in the aggregate principal amount of \$00,000,000 (the "2002 Certificates"). The 2002 Certificates are being issued pursuant to a Trust Agreement dated as of January 1, 2002 (the "Trust Agreement"), by and among the City, the Lodi Public Improvement Corporation (the "Corporation") and the Trustee. The City and the Trustee hereby covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Trustee for the benefit of the Owners and Beneficial Owners of the 2002 Certificates and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any 2002 Certificates (including persons holding 2002 Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2002 Certificates for federal income tax purposes.

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

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

"Owner" shall mean either the registered owners of the 2002 Certificates, or, if the 2002 Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit A attached hereto.

“Participating Underwriter” shall mean any of the original underwriters of the 2002 Certificates required to comply with the Rule in connection with offering of the 2002 Certificates.

“Repository” shall mean each National Repository and each State Repository, if any.

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

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the City’s Fiscal Year, commencing with the report for the 2001-02 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year changes for the City, the City shall give notice of such change in the manner provided under Section 5 hereof.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide its Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall notify the City of such failure to receive the Annual Report. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached hereto as Exhibit B.

(d) The Dissemination Agent shall:

(i) determine prior to the date for providing the Annual Report for such year the name and address of each National Repository and each State Repository, if any; and

(ii) file a report with the City (and if the Dissemination Agent is not the Trustee, the Trustee) certifying, to the extent it can confirm the same, that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided. The Dissemination Agent shall have no responsibility for the content of any Annual Report.

SECTION 4. Content of Annual Reports.

(a) The City's Annual Report shall contain or include by reference the following:

(i) The audited financial statements of the City for the most recently completed Fiscal Year, prepared in accordance with generally accepted accounting principles for governmental enterprises as prescribed from time to time by any regulatory body with jurisdiction over the City and by the Governmental Accounting Standards Board;

(ii) Updated information comparable to the information in the chart entitled "City of Lodi Electric Utility Department Power Supply Resources" as it appears in the Official Statement, dated _____, 2002, relating to the 2002 Certificates (the "Official Statement");

(iii) Updated information comparable to the information in the chart entitled "City of Lodi Electric Utility Department Rate Changes" as it appears in the Official Statement;

(iv) Updated information comparable to the information in the chart entitled "City of Lodi Electric Utility Department Customers, Sales, Revenues and Demand" as it appears in the Official Statement;

(v) Updated information, to the extent deemed by the City to be not proprietary information, comparable to the information in the chart entitled "City of Lodi Electric Utility Department Largest Customers" as it appears in the Official Statement;

(vi) Updated information comparable to the information in the chart entitled "City of Lodi Electric Utility Department Outstanding Debt of Joint Powers Agencies" as it appears in the Official Statement; and

(vii) Updated information comparable to the information in the charts entitled "City of Lodi Electric System Summary of Revenues and Expenses," as it appears in the Official Statement.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or public entities related

thereto, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2002 Certificates, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) modifications to rights of 2002 Certificateholders;
- (iv) optional, contingent or unscheduled 2002 Certificate prepayments;
- (v) defeasances;
- (vi) rating changes;
- (vii) adverse tax opinions or events affecting the tax-exempt status of the 2002 Certificates;
- (viii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (ix) unscheduled draws on the credit enhancements reflecting financial difficulties;
- (x) substitution of the credit or liquidity providers or their failure to perform; or
- (xi) release, substitution or sale of property securing repayment of the 2002 Certificates.

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

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

(d) If the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board or the National Repositories and to the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected 2002 Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The obligations of the City and the Trustee under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2002 Certificates.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be BNY Western Trust Company. The Dissemination Agent may resign by providing thirty days' written notice to the City. If at any time there is no designated Dissemination Agent appointed by the City or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the City shall be the Dissemination Agent and shall undertake or assume its obligations hereunder. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the City which does not impose any greater duties nor any greater risk of liability on the Trustee), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2002 Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2002 Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the 2002 Certificates in the same manner as provided in the Trust Agreement with respect to amendments to the Trust Agreement which require the consent of Owners, or (ii) does not, in the opinion of

nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the 2002 Certificates.

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

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report.

SECTION 10. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of outstanding 2002 Certificates, shall), but only to the extent funds in an amount satisfactory to the Dissemination Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Dissemination Agent whatsoever, including, without limitation, fees and expenses of its attorneys, or any Owner or Beneficial Owner of the 2002 Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Section 5.02 of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Trustee thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: _____, 2002

CITY OF LODI

By: _____
H. Dixon Flynn
City Manager

APPROVED AS TO FORM:

Randall A. Hays
City Attorney

ATTEST:

Susan J. Blackston
City Clerk

BNY WESTERN TRUST COMPANY,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of _____, 2002:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, NJ 08558
E-MAIL: Munis@Bloomberg.com
PHONE (609) 279-3225
FAX (609) 279-5962

FT Interactive Data

Attn: NRMSIR
100 Williams Street
New York, NY 10038
E-MAIL: NRMSIR@FTID.com
PHONE (212) 771-6999
FAX (212) 771-7390 (Secondary Market
Information)
(212) 771-7391 (Primary Market
Information)

Standard & Poor's J.J. Kenny Repository

55 Water Street, 45th Floor
New York, NY 10041
E-MAIL: nrmsir_repository@sandp.com
PHONE (212) 438-4595
FAX (212) 438-3975

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
E-MAIL: nrmsir@dpcdata.com
PHONE (201) 346-0701
FAX (201) 947-0107

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF LODI, CALIFORNIA

Name of Issue: ELECTRIC SYSTEM REVENUE CERTIFICATES OF PARTICIPATION, 2002 TAXABLE SERIES B

Date of Issuance: _____, 2002

NOTICE IS HEREBY GIVEN that the City of Lodi, California (the "City") has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Agreement, dated _____, 2002, between the City and BNY Western Trust Company, as trustee. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

BNY WESTERN TRUST COMPANY,
as trustee, on behalf of the City of Lodi

By: _____
Title: _____

cc: City of Lodi

ESCROW AGREEMENT

Between

CITY OF LODI, CALIFORNIA

and

BNY WESTERN TRUST COMPANY, as Trustee

Dated as of January 1, 2002

Relating to

Electric System Revenue Certificates of Participation
1999 Series A Current Interest Certificates
and
1999 Series B Capital Appreciation Certificates

TABLE OF CONTENTS

	Page
SECTION 1. Definitions.....	2
SECTION 2. The Escrow Fund.....	3
SECTION 3. Use and Investment of Moneys.....	3
SECTION 4. Payment of Certificate Escrow Requirements.....	5
SECTION 5. Irrevocable Instructions to Mail Notices.....	5
SECTION 6. Termination of Obligations.....	5
SECTION 7. Unclaimed Moneys.....	6
SECTION 8. Performance of Duties.....	6
SECTION 9. Trustee’s Authority to Make Investments.....	6
SECTION 10. Indemnity.....	6
SECTION 11. Responsibilities of Trustee.....	7
SECTION 12. Amendments.....	7
SECTION 13. Term.....	8
SECTION 14. Compensation.....	8
SECTION 15. Severability.....	8
SECTION 16. Counterparts.....	8
SECTION 17. Governing Law.....	8
SECTION 18. Assignment.....	8
<u>EXHIBIT 1</u> DEFEASANCE SECURITIES TO BE INITIALLY CREDITED TO THE ESCROW FUND.....	Exhibit 1-1
<u>EXHIBIT 2</u> FORM OF NOTICE OF ADVANCE DEFEASANCE.....	Exhibit 2-1
<u>EXHIBIT 3</u> FORM OF NOTICE OF REDEMPTION.....	Exhibit 3-1

ESCROW AGREEMENT

Relating to

Electric System Revenue Certificates of Participation 1999 Series A Current Interest Certificates and 1999 Series B Capital Appreciation Certificates

THIS ESCROW AGREEMENT, dated as of January 1, 2002, by and between the City of Lodi, a municipal corporation duly organized and existing under and by virtue of the laws of the State of California (the "City") and BNY Western Trust Company, a banking corporation duly organized and existing under and by virtue of the laws of the State of California, as trustee (the "Trustee") under the Trust Agreement (the "Trust Agreement"), dated as of December 1, 1999, between the Lodi Public Improvement Corporation and the Trustee,

WITNESSETH:

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

WHEREAS, the City has established the Electric System (capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to Section 1) to serve the inhabitants of the City; and

WHEREAS, pursuant to the Contract, the Corporation has sold the Existing Facilities to the City and the City has agreed to make the Payments as the purchase price of the Existing Facilities; and

WHEREAS, pursuant to the Trust Agreement, the Trustee has executed and delivered the Electric System Revenue Certificates of Participation 1999 Series A Current Interest Certificates which are Outstanding in the principal amount of \$25,310,000 and has executed and delivered the Electric System Revenue Certificates of Participation 1999 Series B Capital Appreciation Certificates which are Outstanding in the Accreted Value of \$ _____ (as of _____), in each case evidencing and representing the proportionate interests of the Owners thereof in Payments to be made by the City pursuant to the Contract; and

WHEREAS, CITY has determined to provide for the prepayment of the Payments pursuant to subsection (c) of Section 9.01 of the Contract and the defeasance of the Trust Agreement pursuant to Section 9.01 thereof as herein set forth; and

WHEREAS, the Certificates are subject to prepayment on the Prepayment Date at the Prepayment Price; and

WHEREAS, the City has determined to prepay the Certificates on the Prepayment Date at the Prepayment Price in accordance with the provisions of Section 9.01 of the Contract; and

WHEREAS, to provide for the payment of the Certificate Escrow Requirements, the City has directed the Trustee to purchase the Exhibit 1 Securities at the prices and from the vendors set forth in said Exhibit 1 for deposit in and to the credit of the Escrow Fund; and

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the City and the Trustee agree as follows:

SECTION 1. Definitions. Unless otherwise defined herein, capitalized terms shall have the meanings herein given such terms in the Trust Agreement or if not defined in the Trust Agreement, shall have the meanings given such terms in the Contract.

In addition, the following terms shall, unless the context otherwise requires, have the meanings set forth below.

“Accountant’s Report” shall mean, as of any time, a report of an Independent Certified Public Accountant to the effect that principal of and interest on the Defeasance Securities held or to be held, as applicable, in the Escrow Fund, when paid will provide, without any reinvestment, money which, together with the money on deposit in the Escrow Fund will be sufficient to pay when due all Certificate Escrow Requirements then remaining to be paid pursuant to Section 4 hereof.

“Approving Opinion” shall mean, with respect to any action pursuant to this Agreement requiring such an opinion, an Opinion of Counsel to the effect that such action will not cause the Interest Installments of the Schedule A Payments or any portion of the Principal Installment of the Schedule B Payments to be includable in gross income under the Code for federal income tax purposes.

“Certificate Escrow Requirements” shall mean the interest payable with respect to the Series A Certificates on each Interest Payment Date from [July] 15, 2002 to and including the Prepayment Date and the Prepayment Price for the Certificates due on the Prepayment Date.

“Escrow Fund” shall mean the fund established pursuant to Section 2(a) of this Agreement.

“Exhibit 1 Securities” shall mean the Defeasance Securities described in Exhibit 1 to this Agreement.

“Defeasance Securities” shall mean Defeasance Securities which satisfy the conditions specified in Section 9.02(b) of the Trust Agreement, Section 9.01(c) of the Contract and the following conditions:

1. Stripped direct obligations of the United States must have been stripped by the U.S. Treasury itself.

2. Stripped interest components of Resolution Funding Corporation obligations must have been stripped by request to the Federal Reserve Bank of New York in book-entry form.

“Prepayment Date” shall mean January 15, 2009.

“Prepayment Price” shall mean, with respect to the Series A Certificates, an amount equal to one hundred one percent (101%) of the principal amount of the Series A Certificates plus accrued and unpaid interest evidenced and represented by the Series A Certificates to the Prepayment Date; and, with respect to the Series B Certificates, an amount equal to one hundred one percent (101%) of the Accreted Value of the Series B Certificates as of the Prepayment Date.

SECTION 2. The Escrow Fund.

(a) There is hereby established with the Trustee a fund designated the “City of Lodi 1999 Electric System Revenue Certificates of Participation Escrow Fund” to be held in irrevocable escrow by the Trustee separate and apart from all other funds of the City and the Trustee and to be applied solely as provided in this Agreement.

Subject to the provisions of this Agreement, amounts in the Escrow Fund shall be applied solely to the payments of the Certificate Escrow Requirements. All Defeasance Securities purchased with moneys in the Escrow Fund shall be held for the credit of the Escrow Fund and all payments, including without limitation, all principal and interest payments, with respect to such Defeasance Securities shall be deposited upon receipt by the Trustee into the Escrow Fund. Pursuant to Section 9.02 of the Trust Agreement, all amounts in the Escrow Fund and all Defeasance Securities purchased with moneys in the Escrow Fund shall be held in trust by the Trustee for the Owners of the Certificates to make the payments of the Certificate Escrow Requirements.

(b) The City has caused the sum of \$ _____ to be deposited in the Escrow Fund.

(c) Of the moneys deposited in the Escrow Fund pursuant to subsection (b) above, \$ _____ is sufficient to purchase, and shall be applied to the purchase of, the Exhibit 1 Securities from the vendor(s) and at the prices specified in Exhibit 1 hereto, leaving an uninvested cash balance of \$ _____. The principal, together with the interest due or to become due on the Exhibit 1 Securities and any uninvested cash then held by the Trustee in the Escrow Fund, will be sufficient to pay all the Certificate Escrow Requirements.

SECTION 3. Use and Investment of Moneys.

(a) The Trustee acknowledges receipt of the moneys described in Section 2(b) and agrees to apply \$ _____ of such moneys on January __, 2002 to the purchase of the Exhibit 1 Securities from the vendor(s) and at the prices set forth in Exhibit 1 hereto upon receipt of an Accountant’s Report with respect to the sufficiency of the Exhibit 1 Securities and uninvested cash to pay the Certificate Escrow Requirements and an Approving Opinion with

respect to the purchase of the Exhibit 1 Securities. Except as provided in Section 3(b) or Section 3(c) hereof, the balance of the moneys described in Section 2(b) or otherwise held by the Trustee under this Agreement shall be held uninvested in the Escrow Fund.

(b) Upon the written direction of the City, but subject to the conditions and limitations herein set forth, the Trustee shall purchase substitute Defeasance Securities for the Defeasance Securities then held in the Escrow Fund with the proceeds derived from the sale, transfer, redemption or other disposition of Defeasance Securities then on deposit in the Escrow Fund, any uninvested money then held by the Trustee hereunder and any other moneys transferred to the Trustee for deposit in the Escrow Fund for such purpose. Such sale, transfer, redemption or other disposition of Defeasance Securities then on deposit in the Escrow Fund and substitution of other Defeasance Securities shall be effected by the Trustee upon the written direction of the City but only by a simultaneous transaction and only upon receipt by the Trustee of: (i) an Accountant's Report with respect to the sufficiency of the Defeasance Securities to be on deposit in the Escrow Fund upon such substitution; and (ii) an Approving Opinion with respect to such substitution.

(c) Upon the written direction of the City, but subject to the conditions and limitations herein set forth, the Trustee will apply any moneys received from the maturing principal of or interest on or other investment income from any Defeasance Securities held in the Escrow Fund, or the proceeds from any sale, transfer, redemption or other disposition of Defeasance Securities pursuant to Section 3(c) not required for the purposes of said Section, as follows: (i) to the extent such moneys will not be required at any time for the purpose of making a payment of Certificate Escrow Requirements, as certified by an Accountant's Report delivered to the Trustee, such moneys shall be paid over upon the direction of the City as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing the Certificates or otherwise existing hereunder or under the Trust Agreement; and (ii) to the extent such moneys will be required for the purpose of making a payment of Certificate Escrow Requirements, shall, to the extent practicable, be invested or reinvested in Defeasance Securities maturing on or before the date when such moneys will be required to make payments of Certificate Escrow Requirements; provided the Trustee shall have received an Accountant's Report with respect to such investment and reinvestment and an Approving Opinion with respect to such investment or reinvestment.

(d) Except as provided in this Section 3, the moneys or Defeasance Securities deposited with the Trustee pursuant to this Agreement and the principal of, or payments of interest on or other investment income from, any such Defeasance Securities shall not be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the Certificate Escrow Requirements.

(e) The Trustee shall hold all moneys and Defeasance Securities in the Escrow Fund on behalf of the Owners of the Certificates until such moneys and Defeasance Securities are used and applied as provided in this Agreement.

(f) The Trustee shall not be held liable for investment losses resulting from compliance with the provisions of this Agreement.

SECTION 4. Payment of Certificate Escrow Requirements. From the maturing principal of the Defeasance Securities held in the Escrow Fund and the interest, investment income and other earnings thereon and any uninvested money then held in the Escrow Fund, the City hereby irrevocably instructs the Trustee to pay to the Owners entitled thereto pursuant to the Trust Agreement: (i) on each Interest Payment Date for the Series A Certificates from [July] 15, 2002 to and including the Prepayment Date, the interest due on the Series A Certificates on such Interest Payment Date; and (ii) on the Prepayment Date, the Prepayment Price of the Certificates.

SECTION 5. Irrevocable Instructions to Mail Notices.

(a) The City hereby irrevocably instructs the Trustee to give the notices provided in Section 9.01 of the Trust Agreement that the deposit contemplated by said Section has been made. The form of the notice to be so given and mailed is attached hereto as Exhibit 2.

(b) The City hereby irrevocably designates the Certificates for prior prepayment on the Prepayment Date from moneys in the Escrow Fund. Pursuant to subsection (b) of Section 9.02 of the Trust Agreement, the Trustee is irrevocably directed to give notice of the prepayment of the Certificates on the Prepayment Date as provided in Section 2.07 of the Trust Agreement. The form of the notice required to be mailed pursuant to Section 2.07 of the Trust Agreement is attached hereto as Exhibit 3.

SECTION 6. Termination of Obligations. As provided in Section 9.01 of the Contract and Section 9.01 of the Trust Agreement, upon the purchase of the Exhibit 1 Securities as provided in Section 3 hereof, the delivery of an Accountant's Report with respect to the sufficiency of the Exhibit 1 Securities and an Approving Opinion with respect to the purchase of the Exhibit 1 Securities, and the giving of the irrevocable instructions to the Trustee to make the payments of the Certificate Escrow Requirements and to give notices as provided in Section 5 hereof, all obligations of the City under the Contract shall cease, terminate and become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have the money and Defeasance Securities in the Escrow Fund applied to the payment of the Certificate Escrow Requirements as herein set forth), and the obligations created by the Trust Agreement shall cease, terminate and become void except for the right of the Owners and the obligation of the Trustee to apply the moneys and Defeasance Securities in the Escrow Fund to the payment of the Certificates as set forth in the Trust Agreement, which moneys and Defeasance Securities shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the Principal Installments and Interest Installments and premium, if any, evidenced and represented by the Certificates, and after such payment, the Trust Agreement shall become void and satisfied.

Notwithstanding the provision for payment of the Payments pursuant to Section 9.01 of the Contract, and the discharge of the obligations under the Trust Agreement as provided in Section 9.01 thereof, the provisions of the Trust Agreement relating to record dates, medium of payment, registration, transfer, exchange and replacement shall continue to apply to the Certificates.

SECTION 7. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any money held by the Trustee hereunder for the payment and discharge of any of the Certificates which remains unclaimed for two (2) years after the Prepayment Date, shall be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the City for the payment of the Payments evidenced and represented by the Certificates; provided, however, that before being required to make any such payment to the City, the Trustee shall at the request of and at the expense of the City, cause to be mailed to all Owners and the Securities Depositories and the Information Services a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the City.

SECTION 8. Performance of Duties. The Trustee agrees to perform the duties set forth herein and agrees that the time of receipt of the irrevocable instructions to the Trustee herein provided, and the form thereof, are satisfactory to it.

SECTION 9. Trustee's Authority to Make Investments. The Trustee shall have no power or duty to invest any funds held under this Agreement except as provided in Section 3 hereof. The Trustee shall have no power or duty to transfer or otherwise dispose of the moneys held hereunder except as provided in this Agreement.

SECTION 10. Indemnity. The City hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Trustee and its respective successors, assigns, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Trustee at any time (whether or not also indemnified against the same by the City or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities deposited therein, the purchase of any securities to be purchased pursuant hereto, the retention of such securities or the proceeds thereof and any payment, transfer or other application of moneys or securities by the Trustee in accordance with the provisions of this Agreement; provided, however, that the City shall not be required to indemnify the Trustee against the Trustee's own negligence or willful misconduct or the negligence or willful misconduct of the Trustee's respective successors, assigns, agents and employees or the material breach by the Trustee of the terms of this Agreement. In no event shall the City or the Trustee be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement.

SECTION 11. Responsibilities of Trustee. The Trustee and its respective successors, assigns, agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Agreement, the

establishment of the Escrow Fund, the acceptance of the moneys or any securities deposited therein, the purchase of the securities to be purchased pursuant hereto, the retention of such securities or the proceeds thereof, the sufficiency of the securities or any uninvested moneys held hereunder to accomplish the defeasance of the Payments, or any payment, transfer or other application of moneys or securities by the Trustee in accordance with the provisions of this Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Trustee made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the City, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the sufficiency of the securities to be purchased pursuant hereto and any uninvested moneys to accomplish the defeasance of the Payments pursuant to the Contract or to the validity of this Agreement as to the City and, except as otherwise provided herein, the Trustee shall incur no liability in respect thereof. The Trustee shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Trustee shall be determined by the express provisions of this Agreement. The Trustee may consult with counsel, who may or may not be counsel to the City, and in reliance upon an Opinion of Counsel of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter (except the matters set forth herein as specifically requiring an Accountant's Report or an Approving Opinion) may be deemed to be conclusively established by a certificate signed by the City. Whenever the Trustee shall deem it necessary or desirable that a matter specifically requiring an Accountant's Report or an Approving Opinion be proved or established prior to taking, suffering, or omitting any such action, such matter may be established only by such an Accountant's Report or such Approving Opinion.

SECTION 12. Amendments. This Agreement is irrevocable and no promise hereby may be amended except as specifically set forth herein. The City and the Trustee may, without the consent of, or notice to, the Owners of the Certificates, amend this Agreement or enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of the Owners of the Certificates and as shall not be inconsistent with the terms and provisions of this Agreement, Section 9.01 of the Contract or Section 9.01 or Section 9.02 of the Trust Agreement, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Agreement; (ii) to grant to, or confer upon, the Trustee for the benefit of the Owners of the Certificates any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such Owners or the Trustee; and (iii) to include under this Agreement additional funds, securities or properties. The Trustee shall be entitled to rely conclusively upon an Opinion of Counsel with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the Owners of the Certificates or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 13. Term. This Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of (i) the Prepayment Date or (ii) the date

upon which no unclaimed moneys remain on deposit with the Trustee pursuant to Section 7 of this Agreement.

SECTION 14. Compensation. The City agrees to pay the fees and expenses of the Trustee in performing its obligations hereunder as provided in a separate agreement between the City and the Trustee; provided, however, that under no circumstances shall the Trustee be entitled to any lien whatsoever on any moneys or Defeasance Securities in the Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Trustee under this Agreement, under the Trust Agreement or otherwise.

SECTION 15. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the City or the Trustee to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement. The City shall send notice of any such determination to Moody's Investors Service.

SECTION 16. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 17. Governing Law. This Agreement shall be construed under the laws of the State of California.

SECTION 18. Assignment. This Agreement shall not be assigned by the Trustee or any successor thereto without the prior written consent of the City.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

CITY OF LODI

By: _____
H. Dixon Flynn
City Manager

BNY WESTERN TRUST COMPANY,
as Trustee

By: _____
Authorized Signatory

**DEFEASANCE SECURITIES
TO BE INITIALLY CREDITED TO
THE ESCROW FUND**

<u>Description</u>	<u>Principal Amount</u>	<u>Coupon</u>	<u>Purchase Price</u>	<u>Maturity</u>	<u>Vendor</u>
--------------------	-----------------------------	---------------	---------------------------	-----------------	---------------

NOTICE OF ADVANCE DEFEASANCE

CITY OF LODI

**ELECTRIC SYSTEM REVENUE CERTIFICATES OF PARTICIPATION
1999 SERIES A CURRENT INTEREST CERTIFICATES AND
1999 SERIES B CAPITAL APPRECIATION CERTIFICATES**

Bearing the following CUSIP Numbers*:

NOTICE IS HEREBY GIVEN to the owners of the Electric System Revenue Certificates of Participation 1999 Series A Current Interest Certificates (the "1999A Current Interest Certificates") and Electric System Revenue Certificates of Participation 1999 Series B Capital Appreciation Certificates (the "1999B Capital Appreciation Certificates" and collectively with the 1999A Current Interest Certificates, the "Certificates"), evidencing and representing the proportionate interests of the Owners thereof in the Payments to be made by the City of Lodi, California (the "City"), under the terms of an Installment Purchase Contract, dated as of August 1, 1999 between the City and the Lodi Public Improvement Corporation (the "Corporation")

that the City has caused to be deposited with BNY Western Trust Company, San Francisco, California, the Trustee for said Certificates, cash and certain investments, the principal of and interest on which when due, will provide moneys sufficient to pay: (i) on January 15, 2009 the prepayment price of the 1999A Current Interest Certificates equal to one hundred one percent (101%) of the principal amount thereof; (ii) on January 15, 2009, the prepayment price of the 1999B Capital Appreciation Certificates equal to one hundred one percent (101%) of the Accreted Value of the 1999B Capital Appreciation Certificates as of January 15, 2009; and (iii) the interest due on the 1999A Current Interest Certificates on each interest payment date from [July] 15, 2002 to and including January 15, 2009. As a result of such deposit, said Certificates are deemed to have been paid in accordance with the applicable provisions of the Trust Agreement, dated as of August 1, 1999, between the City and BNY Western Trust Company, as Trustee, pursuant to which such Certificates have been delivered and that such Trust Agreement has been released in accordance with the provisions thereof.

On the aforementioned prepayment date, there shall become due and payable upon presentation and surrender of such Certificates at the office of BNY Western Trust Company, located at _____, San Francisco, California, or its successor, the above-mentioned prepayment price of such Certificates, together with the unpaid interest accrued on the 1999A Current Interest Certificates to such date, and from and after the aforementioned prepayment date, interest on such Certificates shall cease to accrue or accrete and compound, as applicable.

DATED this ____ day of _____, ____.

CITY OF LODI

By BNY Western Trust Company,
as Trustee

NOTICE OF PREPAYMENT

**NORTHERN CALIFORNIA POWER AGENCY
COMBUSTION TURBINE PROJECT NUMBER ONE REVENUE BONDS,
1989 REFUNDING SERIES A**

**Maturing in the Years
and Bearing the CUSIP Number Set Forth Below**

CITY OF LODI

**ELECTRIC SYSTEM REVENUE CERTIFICATES OF PARTICIPATION
1999 SERIES A CURRENT INTEREST CERTIFICATES AND
1999 SERIES B CAPITAL APPRECIATION CERTIFICATES**

Bearing the following CUSIP Numbers:

NOTICE IS HEREBY GIVEN to the owners of the Electric System Revenue Certificates of Participation 1999 Series A Current Interest Certificates (the "1999A Current Interest Certificates") and Electric System Revenue Certificates of Participation 1999 Series B Capital Appreciation Certificates (the "1999B Capital Appreciation Certificates" and collectively with the 1999A Current Interest Certificates, the "Certificates"), evidencing and representing the proportionate interests of the Owners thereof in the Payments to be made by the City of Lodi, California (the "City"), under the terms of an Installment Purchase Contract, dated as of August 1, 1999 between the City and the Lodi Public Improvement Corporation (the "Corporation")

that such Certificates have been called for prepayment, prior to maturity, on January 15, 2009 at a prepayment price equal to (i) with respect to the 1999A Current Interest Certificates, one hundred one percent (101%) of the principal amount thereof plus accrued and unpaid interest with respect thereto to January 15, 2009; and (ii) with respect to the 1999B Capital Appreciation Certificates, one hundred one percent (101%) of the Accreted Value of the 1999B Capital Appreciation Certificates as of January 15, 2009.

On the aforementioned prepayment date, there shall become due and payable upon presentation and surrender of such Certificates at the office of BNY Western Trust Company, located at _____, San Francisco, California, or its successor, the above-mentioned prepayment price of such Certificates, together with the unpaid interest accrued on the

1999A Current Interest Certificates to such date, and from and after the aforementioned prepayment date, interest on such Certificates shall cease to accrue or accrete and compound, as applicable.

DATED this ____ day of _____, ____.

CITY OF LODI

By BNY Western Trust Company,
as Trustee

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY ____, 2002

NEW ISSUE - FULL BOOK-ENTRY ONLY

Ratings: (See "Ratings")

Electric System Revenue Certificates of Participation
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA

\$ _____ *
2002 Variable Rate Demand Series A

\$ _____ *
2002 Taxable Series B

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

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

The Electric System Revenue Certificates of Participation, 2002 Variable Rate Demand Series A (the "2002A Certificates") and 2002 Taxable Series B (the "2002B Certificates" and, collectively with the 2002A Certificates, the "2002 Certificates") evidence the proportionate interests of the Owners thereof in the Schedule A Installment Payments and the Schedule B Installment Payments (collectively, the "Installment Payments") to be made by the City of Lodi, California (the "City"), under the terms of the Installment Purchase Contract, dated as of January 1, 2002 (the "2002 Contract"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the 2002 Contract, the City will make the Installment Payments to the Corporation from Net Revenues of the City's Electric System.

The 2002A Certificates are being sold to provide funds (i) to refund the City's outstanding \$ _____ principal amount (including accreted value of capital appreciation certificates as of December 31, 2001) of Electric System Revenue Certificates of Participation 1999 Series A Current Interest Certificates and 1999 Series B Capital Appreciation Certificates (collectively, the "Refunded 1999 Certificates") of the City and (ii) to pay costs of delivery of the 2002 Certificates. The City intends to deposit the proceeds of the 2002B Certificates in its _____ Fund to be applied to certain power purchase costs of the City and/or other lawful purposes. See "PLAN OF FINANCE" herein.

The 2002 Certificates will be delivered in fully registered form and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2002 Certificates. Purchasers of interests in the 2002 Certificates will not receive securities certificates representing their interests in the 2002 Certificates purchased. Principal, premium, if any, and interest represented by the 2002 Certificates are payable by BNY Western Trust Company, as Trustee, to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2002 Certificates, as described herein.

The 2002A Certificates will initially bear interest at the rate determined by the Underwriter on or prior to the Closing Date from and including the Closing Date to and including the first Tuesday following the Closing Date and thereafter will bear interest at a variable rate determined weekly (the "Weekly Interest Rate") by Salomon Smith Barney Inc., the initial Remarketing Agent. The 2002A Certificates are deliverable in the minimum denomination of \$100,000 or any integral multiple of \$5,000 above such amount during a Weekly Interest Rate Period. During any Weekly Interest Rate Period, interest on the 2002A Certificates will be payable on the first Wednesday of each month commencing ____, 2002 (or the next succeeding Business Day if any such Wednesday is not a Business Day). The interest rate on the 2002A Certificates may be converted to a Term Interest Rate for a period of one year or more as set forth in the Trust Agreement and further described herein. THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE CERTAIN INFORMATION WITH RESPECT TO THE 2002A CERTIFICATES (INCLUDING THE TERMS OF SUCH 2002A CERTIFICATES) AFTER CONVERSION TO A TERM INTEREST RATE PERIOD.

The 2002B Certificate initially will be delivered in denominations of \$5,000 principal amount or any integral multiple thereof. Interest represented by the 2002B Certificates is payable semiannually on _____ and _____ of each year, commencing _____, 2002.

The 2002A Certificates are subject to purchase at the option of the Owner thereof, mandatory tender for purchase and mandatory and optional prepayment prior to their stated maturity date, and the 2002B Certificates are subject to optional prepayment prior to their stated maturity date, at the prices, on the terms and upon the occurrence of the events, as described herein. See "THE 2002 CERTIFICATES - 2002A Certificates-Mandatory Tender for Purchase of 2002A Certificates" and "—Prepayment Provisions" herein.

Under a Liquidity Facility issued by _____ (the "Bank"), with respect to the 2002A Certificates, the Bank is obligated, subject to certain conditions set forth therein, to pay the Purchase Price of 2002A Certificates tendered or deemed tendered for purchase but not remarketed. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE BANK TO PURCHASE 2002A CERTIFICATES TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED AND, IN SOME OF SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO SUCH OWNERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH 2002A CERTIFICATES.

Payment of the principal of and interest represented by each Series of the 2002 Certificates when due (not including acceleration or prepayment, except scheduled mandatory sinking fund prepayment) will be insured under separate municipal bond insurance policies to be issued by _____ simultaneously with the delivery of the 2002 Certificates. Payment of the Purchase Price of the 2002A Certificates by the Trustee (as described herein) shall not be so insured.

[log]

The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from Net Revenues of the City's Electric System, as provided in the 2002 Contract. The general fund of the City is not liable for and neither the faith and credit nor the taxing power of the City is pledged to the payment of the Installment Payments. The City may incur other obligations payable from Net Revenues on a parity with the Installment Payments in accordance with the 2002 Contract, as described herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other things, compliance with certain covenants, the interest component of each Schedule A Installment Payment paid by the City under the 2002 Contract and received by the Owners of the 2002A Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Special Counsel observes that the interest component of each Schedule A Installment Payment paid by the City under the 2002 Contract and received by the Owners of the 2002A Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest component is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. In the further opinion of Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, the interest component of each Schedule A Installment Payment and Schedule B Installment Payment paid by the City under the 2002 Contract and received by the Owners of the 2002A Certificates and the 2002B Certificates is exempt from present State of California personal income taxes. Special Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of the 2002 Certificates, or the accrual or receipt of the interest with respect to, the 2002 Certificates.

See "TAX MATTERS" herein.

The 2002 Certificates are offered when, as and if executed and delivered to the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Sidley Austin Brown & Wood LLP, Los Angeles, California, and for the City by the City Attorney of the City of Lodi. It is expected that the 2002 Certificates in definitive form will be available for delivery in New York, New York through the DTC book-entry system on or about _____, 2002.

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

SALOMON SMITH BARNEY

Dated: _____, 2002

* Preliminary, subject to change.

MATURITY SCHEDULE*

Dated: Date of Delivery

\$ _____ **2002A Variable Rate Demand Certificates** due _____, ____ – **Price 100%**

Dated: January __, 2001

Due: _____, as shown below

\$ _____ **2002B Taxable Certificates**

<u>Maturity</u> <u>(_____)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>Maturity</u> <u>(January 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
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(Plus Accrued Interest)

* Preliminary, subject to change.

CITY OF LODI, CALIFORNIA

City Council

Phil Pennino, Mayor
Susan Hitchcock, Mayor Pro Tem
Alan Nakanishi, Councilmember
Emily Howard, Councilmember
Keith Land, Councilmember

City Officials

H. Dixon Flynn, City Manager
Janet Keeter, Deputy City Manager
Susan J. Blackston, City Clerk
Randall A. Hays, City Attorney
Vicky McAthie, Finance Director/Treasurer
Alan N. Vallow, Director of Electric Utility

LODI PUBLIC IMPROVEMENT CORPORATION

Board of Directors

Phil Pennino
Susan Hitchcock
Alan Nakanishi
Emily Howard
Keith Land

SPECIAL SERVICES

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California
Special Counsel

Public Financial Management, Inc.
San Francisco, California
Financial Advisor

BNY Western Trust Company
San Francisco, California
Trustee

Verification Agent

KPMG Peat Marwick LLP
San Francisco, California
Independent Auditors

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2002 Certificates by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Statements contained in this Official Statement that include forecasts, estimates or matters of opinion, whether or not expressly stated as such, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the City and by other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriter. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall create, under any circumstances, any implication that there has been no change in affairs of the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2002 CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2002 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "CITY'S OPERATIONS SINCE DEREGULATION OF THE CALIFORNIA ENERGY MARKETS," "RECENT DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" and "RATE REGULATION" in this Official Statement.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
Purpose.....	1
Security and Sources of Payment for the 2002 Certificates.....	1
Rate Covenant.....	2
Reserve Fund.....	2
Bond Insurance.....	2
Liquidity Facilities.....	2
Other Matters.....	2
PLAN OF FINANCE.....	3
Refunding of 1999 Certificates.....	3
Swap Agreement for the 2002 Certificates.....	3
ESTIMATED SOURCES AND USES OF FUNDS.....	4
THE 2002 CERTIFICATES.....	4
General.....	4
Determination of Interest Rate on the 2002 Certificates.....	4
Purchase of 2002 Certificates on Demand of Owner.....	6
Mandatory Tender for Purchase of 2002 Certificates.....	6
Purchase and Remarketing of 2002 Certificates.....	7
Prepayment Provisions.....	9
SECURITY AND SOURCES OF PAYMENT FOR THE 2002 CERTIFICATES.....	12
Installment Payments.....	12
Defined Terms.....	13
Pledge of Net Revenues.....	14
Rate Covenant.....	14
Reserve Fund.....	14
Application of Revenues.....	15
Take-or-Pay Obligations.....	16
Swap Agreement.....	16
Additional Parity Obligations.....	16
Limitation on Remedies.....	17
BOND INSURANCE.....	17
THE LIQUIDITY FACILITY.....	17
THE BANK.....	17
THE ELECTRIC SYSTEM.....	17
History.....	17
Service Area.....	18
Employees.....	18
Insurance.....	18
Investment Policy.....	18
Organization and Management.....	19
Power Supply Resources.....	20
Wholesale Power Trading.....	28
Interconnections, Transmission and Distribution Facilities.....	29
Future Capital Expenditures.....	29
Rates and Charges.....	29
Customers, Sales, Revenues and Demand.....	31
Largest Customers.....	31
Outstanding Obligations.....	31
Significant Accounting Policies.....	32
CITY'S OPERATIONS SINCE DEREGULATION OF THE CALIFORNIA ENERGY MARKETS.....	33
Stranded Costs and Direct Access.....	34
Debt Reduction Initiatives.....	34

Establishment of a Competitive Transition Charge.....	34
Rate Actions and Customer Contracts.....	35
RECENT DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS.....	35
Background; Electric Market Deregulation.....	35
Developments Since the Deregulation of the California Energy Markets.....	36
OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY.....	39
Energy Policy Act of 1992.....	39
Changes in Federal Regulation of Electric Utilities.....	40
Proposed Federal Deregulation and Tax Legislation.....	41
Other Factors.....	41
RATE REGULATION.....	41
THE CORPORATION.....	43
CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS.....	43
California Constitution Articles XIII A and XIII B.....	43
Constitutional Changes in California.....	43
TAX MATTERS.....	44
2002A Certificates.....	44
2002B Certificates.....	45
ABSENCE OF LITIGATION.....	45
APPROVAL OF LEGALITY.....	45
RATINGS.....	45
FINANCIAL ADVISOR.....	46
UNDERWRITING.....	46
VERIFICATION.....	46
GENERAL PURPOSE FINANCIAL STATEMENTS.....	46
EXECUTION AND DELIVERY.....	47
APPENDIX A - THE CITY OF LODI.....	A-1
APPENDIX B - EXCERPTS OF AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2001.....	B-1
APPENDIX C - BOOK-ENTRY ONLY SYSTEM.....	C-1
APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.....	D-1
APPENDIX E - PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT.....	E-1
APPENDIX F - PROPOSED FORM OF OPINION OF SPECIAL COUNSEL.....	F-1
APPENDIX G - SPECIMEN MUNICIPAL BOND INSURANCE POLICY.....	G-1

OFFICIAL STATEMENT

Relating to

**Electric System Revenue Certificates of Participation
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA**

\$ _____*
2002 Variable Rate Demand Series A

\$ _____*
2002 Taxable Series B

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2002 Certificates to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See "APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

Purpose

The purpose of this Official Statement (which includes the cover page and the appendices attached hereto) is to provide certain information concerning the sale and delivery of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A (the "2002A Certificates") and Electric System Revenue Certificates of Participation 2002 Taxable Series B (the "2002B Certificates" and collectively with the 2002A Certificates, the "2002 Certificates"), in the aggregate principal amount of \$ _____*, comprised of \$ _____* aggregate principal amount of 2002A Certificates and \$ _____* aggregate principal amount of 2002B Certificates. The 2002 Certificates evidence the proportionate interests of the registered owners (the "Owners") thereof in Schedule A Installments Payments and Schedule B Installment Payments (collectively, the "Installment Payments") to be made by the City of Lodi, California (the "City"), under the terms of an Installment Purchase Contract, dated as of January 1, 2002 (the "2002 Contract"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the 2002 Contract, the City will make the Installment Payments to the Corporation from Net Revenues of the City's electric system (the "Electric System").

The 2002 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2002 (the "Trust Agreement"), by and among the City, the Corporation and BNY Western Trust Company, as trustee thereunder (the "Trustee"). The 2002A Certificates are being sold to provide funds (i) to refund the City's outstanding \$ _____ principal amount (including accreted value of capital appreciation certificates as of December 31, 2001) Electric System Revenue Certificates of Participation 1999 Series A Current Interest Certificates and 1999 Series B Capital Appreciation Certificates (collectively, the "Refunded 1999 Certificates") of the City and (ii) to pay costs of delivery of the 2002 Certificates, as more fully described herein. The City intends to deposit a portion of the proceeds of the 2002B Certificates in its _____ Fund to be applied to certain power purchase costs of the City and/or other lawful purposes. See "PLAN OF FINANCE" herein.

Security and Sources of Payment for the 2002 Certificates

The obligation of the City to make the Installment Payments pursuant to the 2002 Contract is a special obligation payable solely from and secured solely by Net Revenues of the City's Electric System. The City may incur additional obligations payable from Net Revenues on a parity with the Installment Payments ("Parity Obligations"), subject to the terms and conditions set forth in the 2002 Contract.

* Preliminary, subject to change.

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

Rate Covenant

Pursuant to the 2002 Contract, the City covenants that, at all times, it will fix, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year, which rates and charges will be at least sufficient to yield Adjusted Annual Net Revenues for such Fiscal Year equal to at least 110% of the Adjusted Annual Debt Service for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 CERTIFICATES—Rate Covenant" herein.

Reserve Fund

A Reserve Fund is established with the Trustee pursuant to the Trust Agreement in an amount equal to the Reserve Requirement (as defined in the Trust Agreement). Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the 2002 Certificates in the event amounts on deposit in the Debt Service Fund are insufficient therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 CERTIFICATES—Reserve Fund" herein.

Bond Insurance

Payment of the principal of and interest represented by the 2002A Certificates and the 2002B Certificates when due (not including acceleration or prepayments ,except scheduled mandatory sinking fund prepayment) will be insured by respective municipal bond insurance policies (collectively, the "Policy") to be issued by _____ (the "Insurer") simultaneously with the delivery of the 2002A Certificates and the 2002B Certificates. Payment of the Purchase Price of the 2002A Certificates by the Trustee (as described herein) shall not be so insured. See "BOND INSURANCE" herein.

Liquidity Facility

A Liquidity Facility will provide liquidity support for the purchase of 2002A Certificates, initially bearing interest at a Weekly Rate which are delivered to the Trustee pursuant to an optional tender or are subject to mandatory tender for purchase, but are not remarketed by the Remarketing Agent. The initial Liquidity Facility for the 2002A Certificates is a Standby Bond Purchase Agreement, dated as of January 1, 2002, among _____ (the "Bank"), the City and the Trustee. The initial Liquidity Facility will expire on _____, _____, unless sooner terminated or extended, and may be replaced by an Alternate Liquidity Facility, as described herein.

UNDER CERTAIN CIRCUMSTANCES THE OBLIGATION OF THE BANK TO PURCHASE 2002A CERTIFICATES TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED AND, IN SOME OF SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO SUCH OWNERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE 2002A CERTIFICATES TENDERED BY THE OWNERS OF THE 2002A CERTIFICATES THEREOF OR SUBJECT TO MANDATORY PURCHASE. IN ADDITION, THE LIQUIDITY FACILITIES DO NOT PROVIDE SECURITY FOR THE PAYMENT OF PRINCIPAL OF OR INTEREST OR PREMIUM, IF ANY, ON THE 2002A CERTIFICATES.

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder, under any circumstances, shall create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories. Forward looking statements in this Official

Statement are subject to risks and uncertainties, including particularly those relating to competition and electric industry restructuring, and to the economy of the City's service area.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report, or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See "APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

Copies of the Trust Agreement, the 2002 Contract and the Escrow Agreement are available for inspection at the offices of the City Electric Utility Department in Lodi, California, and will be available from the Trustee upon request and payment of duplication costs.

PLAN OF FINANCE

The 2002A Certificates are being executed and delivered to provide funds (i) to refund the Refunded 1999 Certificates, and (ii) to pay costs of delivery of the 2002 Certificates. The City intends to deposit a portion of the proceeds of the 2002B Certificates in its _____ Fund to be applied to certain power purchase costs of the City and/or other lawful purposes.

Refunding of 1999 Certificates

Pursuant to an Escrow Agreement, dated as of January 1, 2002 (the "Escrow Agreement"), by and between the District and the Trustee, a portion of the proceeds of the 2002A Certificates, together with other available moneys, will be deposited into an escrow fund and applied to the purchase of certain federal securities, the principal of and interest on which will be sufficient (i) to pay the interest due on the current interest Refunded 1999 Certificates to and including January 15, 2009 and (ii) to prepay on January 15, 2009 the Refunded 1999 Certificates at a prepayment price equal to 101% of the principal amount or accreted value thereof. Upon such deposit, the Refunded 1999 Certificates will no longer be deemed to be outstanding except as to the rights of the owners of such Refunded 1999 Certificates to receive payment from the amounts on deposit in the escrow fund therefor.

Swap Agreement for the 2002A Certificates

On _____, 2002 the City entered into an interest rate swap agreement in the form of an ISDA Master Agreement, Schedule and Confirmation (the "Swap Agreement") on parity with the 2002A Certificates with Smith Barney Holdings Inc. in a notional amount of \$___ million for the purposes of converting the floating rate interest payments the City is obligated to make with respect to the 2002A Certificates into substantially fixed rate payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 CERTIFICATES – Swap Agreement" herein.

Additional Financing Anticipated

The City anticipates the execution of approximately \$45 million of additional electric system revenue certificates of participation in early 2002 to finance the costs of acquisition and construction of a ___MW gas-fired simple cycle combustion turbine project proposed by the City. [In the event the City determines to proceed with the construction turbine project, the City expects that the output of the project will be sold to the Department of Water Resources of the State of California.]

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the 2002 Certificates (excluding accrued interest) are as follows:

Sources

Proceeds of the 2002 Certificates.....	\$
Transfer from Refunded 1999 Certificates Funds and Accounts	_____
Total Sources	=====

Uses

Deposit to Escrow Fund.....	\$
Deposit to _____ Fund ⁽¹⁾	_____
Deposit to Reserve Fund ⁽²⁾	_____
Underwriter's Discount.....	_____
Original Issue Discount.....	_____
Costs of Issuance ⁽³⁾	_____
Total.....	=====

-
- (1) Represents amounts to be applied to pay certain power purchase costs of the City and/or other lawful purposes. See "PLAN OF FINANCE" herein.
 - (2) Represents an amount equal to the Reserve Requirement.
 - (3) Includes legal, financing, consulting and Bank fees, Trustee's fees, printing costs, rating agency fees, bond insurance premiums, and other costs incurred in connection with the delivery of the 2002 Certificates.

THE 2002 CERTIFICATES

General

The 2002 Certificates will be executed and delivered in the aggregate principal amount of \$ _____ *, comprised of \$ _____ * aggregate principal amount of 2002A Certificates and \$ _____ * aggregate principal amount of 2002B Certificates. The 2002 Certificates will be prepared as one fully registered certificate for each Series and maturity and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2002 Certificates. Principal, prepayment premium, if any, and interest represented by the 2002 Certificates are payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2002 Certificates. See "APPENDIX C—BOOK-ENTRY ONLY SYSTEM" herein.

2002A Certificates

The 2002A Certificates will be delivered in authorized denominations of (i) during any Weekly Interest Rate Period, \$100,000 or any integral multiple of \$5,000 above such amount and (ii) during any Term Interest Rate Period, \$5,000 or any integral multiple thereof.

Determination of Interest Rate on the 2002A Certificates

The 2002A Certificates shall initially represent interest at a Weekly Interest Rate for Weekly Interest Rate Periods. During a Weekly Interest Rate Period, interest on each 2002A Certificate will be payable monthly, on the

* Preliminary, subject to change.

first Wednesday of each month, commencing on _____, 2002, provided that if any such date is not a Business Day, such interest shall be paid on the next succeeding Business Day.

(a) **Determination of Weekly Interest Rate.** During a Weekly Interest Rate Period, the 2002A Certificates shall represent interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent not later than 5:00 p.m. (New York City time) on Tuesday of each week during such Weekly Interest Rate Period (provided that if such Tuesday is not a Business Day, the Weekly Interest Rate shall be determined by 5:00 p.m., New York City time, on the following Business Day), for the period commencing on the Wednesday of such week. During a Weekly Interest Rate Period, interest represented by the 2002A Certificates shall be computed upon the basis of a 365/366-day year for the number of days actually elapsed. The Weekly Interest Rate for the 2002A Certificates shall be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the 2002A Certificates known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the 2002A Certificates, would enable the Remarketing Agent to sell the 2002A Certificates on such day at a price equal to the principal amount thereof plus accrued interest; provided, however, that if for any reason the Weekly Interest Rate cannot be determined, the Weekly Interest Rate for the next succeeding week shall remain the same as the then-existing rate. The first Weekly Interest Rate determined for each Weekly Interest Rate Period shall apply to the period commencing on the first day of the Weekly Interest Rate Period and ending on the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on a Wednesday and ending on the next succeeding Tuesday, unless the Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on such last day.

If, for any reason, the Weekly Interest Rate on any 2002A Certificates is not established as provided in the Trust Agreement by the Remarketing Agent or no Remarketing Agent shall be serving as such under the Trust Agreement or any Weekly Interest Rate so established is held to be invalid or unenforceable with respect to any such Interest Rate Period, then the interest rate for such Weekly Interest Rate Period shall be 100% of the Weekly Rate Index on the date such Weekly Interest Rate was (or would have been) determined as provided above.

“Weekly Rate Index” is defined in the Trust Agreement as The Bond Market Association Municipal Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, Tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or as otherwise designated by the Bond Market Association; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc., or its successor, the “The Bond Market Association Municipal Index” shall mean such other reasonably comparable index selected by the City.

(b) **Adjustment to Term Interest Rate Period.** The City, by written direction to the Trustee and the Remarketing Agent, accompanied by an Approving Opinion, may elect that the Interest Rate Period for the 2002A Certificates shall be a Term Interest Rate Period, and shall determine the duration of the Term Interest Rate Period (which may be any period of at least one year, provided it ends on a day immediately preceding an Interest Payment Date applicable to the Term Interest Rate Period or the period of time remaining to the Certificate Payment Date of the 2002A Certificates). Such direction shall specify (1) the effective date of such Term Interest Rate Period which shall be (A) an Interest Payment Date not less than forty-five (45) days following the date of receipt by the Trustee of such direction, (B) the Interest Payment Date that is the day next succeeding the last day of the then current Term Interest Rate Period (or the Business Day next succeeding such Interest Payment Date if such Interest Payment Date is not a Business Day) not less than forty-five (45) days following the date of receipt by the Trustee of such direction, or (C) any date on which the 2002A Certificates may be optionally prepaid pursuant to the Trust Agreement not less than forty-five (45) days following the date of receipt by the Trustee of such direction (see “THE 2002 CERTIFICATES – Prepayment Provisions”); and (2) the last day of such Term Interest Rate Period. If, at least forty-five (45) days prior to the last day of any Term Interest Rate Period, the City shall not have elected that the 2002A Certificates bear interest at a Weekly Interest Rate or a new Term Interest Rate during the next succeeding Interest Rate Period, the next succeeding Interest Rate Period shall be a Term Interest Rate Period of the same duration as the immediately preceding Term Interest Rate Period. The City may not adjust to a Term Interest Rate Period unless (i) the Liquidity Facility has been modified to provide interest coverage sufficient to maintain the short-term rating on the 2002A Certificates, and (ii) the remaining term of the Liquidity Facility extends to the Interest Payment Date immediately following the last day of such Term Interest Rate Period.

(c) **Notice of Adjustment to Term Interest Rate Period.** The Trustee shall give notice by mail of each Term Interest Rate Period to the Owners of the 2002A Certificates, the Liquidity Provider and the City not less than thirty (30) days prior to the effective date of such Term Interest Rate Period. Such notice shall state (1) that the interest rate represented by the 2002A Certificates will be adjusted to or continue to be a Term Interest Rate, (2) the effective date of such Term Interest Rate Period, (3) that the 2002A Certificates shall be purchased on such effective date pursuant to the Trust Agreement, (4) the procedures for purchase of the 2002A Certificates, and (5) that on the effective date of such Term Interest Rate Period, the 2002A Certificates will be purchased as described below under "Mandatory Tender for Purchase of 2002A Certificates." THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE CERTAIN INFORMATION WITH RESPECT TO THE 2002A CERTIFICATES (INCLUDING THE TERMS OF SUCH 2002A CERTIFICATES) AFTER CONVERSION TO A TERM INTEREST RATE PERIOD. See "THE 2002A CERTIFICATES – Mandatory Tender for Purchase of 2002A Certificates."

Purchase of 2002A Certificates on Demand of Owner

(a) **Purchase During Weekly Interest Rate Period.** During any Weekly Interest Rate Period, any 2002A Certificate or portions thereof in Authorized Denominations may be tendered for purchase at the option of the Owner thereof or, with respect to Book-Entry Certificates, at the option of the Direct Participant with an ownership interest in Book-Entry Certificate, and shall be purchased on any Business Day, at a price of one hundred percent (100%) of the principal amount thereof, plus accrued and unpaid interest to, but not including, the Purchase Date or the date on which such 2002A Certificate is deemed purchased pursuant to the Trust Agreement, upon (1) delivery to the Trustee at its Corporate Trust Office by 4:00 p.m. (New York City time) on any Business Day, an irrevocable notice in writing (a "Tender Notice") which states the name of the registered Owner or Direct Participant of such 2002 Certificate, payment instructions with respect to the Purchase Price of such 2002A Certificate, the principal amount of such 2002A Certificate to be purchased and the date on which the same shall be purchased (which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee or Tender Agent, as applicable) and (2)(A) if the 2002A Certificates are not Book-Entry Certificates, delivery of such 2002A Certificate to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner thereof with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs, at or prior to 12:30 p.m. (New York City time), on the date specified in such notice, or (B) if the 2002A Certificates are Book-Entry Certificates, upon confirmation by DTC to the Trustee that a Direct Participant with respect to Book-Entry Certificates being purchased has an ownership interest in such Book-Entry Certificate at least equal to the amount specified in such Tender Notice, the transfer on the registration books of DTC, of the beneficial ownership interest in such Book Entry Certificate tendered for purchase to the account of the Trustee, or to the account of a Direct Participant acting on behalf of the Trustee.

(b) **Generally.** If moneys sufficient to pay the Purchase Price of 2002A Certificates to be purchased pursuant to the Trust Agreement shall be held by the Trustee or the Tender Agent on the date such 2002A Certificates are to be purchased, any 2002A Certificates to be so purchased which are not delivered by the Owners thereof to the Tender Agent or transferred on the registration books of DTC, as applicable, on the specified purchase date will be deemed to have been delivered for purchase or transferred on the registration books of DTC, as applicable, on such date and to have been purchased. The former Owners of such 2002A Certificates or Direct Participants with respect to Book-Entry Certificates will thereafter have no rights with respect to such 2002A Certificates except to receive payment of the Purchase Price thereof upon surrender of such 2002A Certificates to the Tender Agent or the transfer, on the registration books of DTC, of the beneficial interest in such Book-Entry 2002A Certificates.

Mandatory Tender for Purchase of 2002A Certificates

The 2002A Certificates shall be subject to mandatory tender for purchase prior to their Certificate Payment Date (but only from the funds available for such purchase as described under "Purchase and Remarketing of 2002A Certificates" below), as set forth below. Such 2002A Certificates shall be remarketed or deemed purchased, as provided in the Trust Agreement at a Purchase Price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the Purchase Date:

(a) **On First Day of Interest Rate Period; Effective Date of Alternate Liquidity Facility.** (1) On the first day of each Interest Rate Period, or (2) on the effective date of an Alternate Liquidity Facility, the Owner or Direct Participant of each 2002A Certificate shall tender such 2002A Certificate for purchase and such 2002A Certificate shall be purchased or deemed purchased at the Purchase Price as provided in the Trust Agreement. Payment of the Purchase Price of such 2002A Certificate shall be made by 2:30 p.m., New York City time, on the Purchase Date, in the same manner as payment of interest on the 2002A Certificates, to the Owner of record or Direct Participant with respect to Book-Entry Certificates. If the 2002A Certificates, are not Book-Entry Certificates, the Owner shall deliver such 2002A Certificates not later than 12:30 p.m., New York City time, on the Purchase Date to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, with the signature guaranteed, in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs. If the 2002A Certificates are Book-Entry Certificates, the tendering Direct Participant shall transfer on the registration books of DTC the beneficial ownership interests in 2002A Certificates tendered for purchase to the account of the Trustee or a Direct Participant acting on behalf of the Trustee. The Trustee shall give the Owners of the 2002A Certificates subject to mandatory tender for purchase as described in this paragraph (a) written notice thereof which shall be mailed not less than fifteen (15) calendar days prior to the Purchase Date.

(b) **Upon Expiration of the Liquidity Facility.** The 2002A Certificates shall be subject to mandatory tender for purchase in whole, at the Purchase Price, in the event that (i) the Liquidity Facility is not renewed or a notice of expected renewal or expected delivery of an Alternate Liquidity Facility is not delivered to the Trustee at least forty (40) days prior to the scheduled expiration of the Liquidity Facility; or (ii) such renewal or Alternate Liquidity Facility is not actually delivered on a Business Day at least ten (10) calendar days prior to such expiration date. Any such purchase shall occur on a date determined by the Trustee which date shall be a Business Day no later than three (3) calendar days prior to the scheduled expiration of the Liquidity Facility. The Trustee shall give the Owners of the 2002A Certificates subject to mandatory tender for purchase written notice thereof which shall be mailed not less than five (5) calendar days prior for to the Purchase Date.

(c) **Upon Event of Default or Termination of the Liquidity Facility.** The 2002A Certificates shall be subject to mandatory tender for purchase in whole, at the Purchase Price, in the event that the Liquidity Provider providing the Liquidity Facility notifies the Trustee in writing of the occurrence of an event of default or termination under the Liquidity Facility. Any such purchase shall occur on a date determined by the Trustee which date shall be a Business Day no later than three (3) calendar days prior to the date when the Liquidity Provider's obligations to purchase the 2002A Certificates or otherwise provide for the Purchase Price thereof shall terminate or be suspended pursuant to the Liquidity Facility as a result of such event of default or termination. The Trustee shall give the Owners of the 2002A Certificates subject to mandatory tender for purchase as described in this paragraph written notice thereof which shall be mailed as soon as practicable after receiving the written notice of an event of default or termination from the Liquidity Provider referred to above.

Purchase and Remarketing of 2002A Certificates

(a) **Generally.** The Trustee shall purchase, but only from the funds made available from the sources listed below, 2002A Certificates tendered for purchase or subject to mandatory tender for purchase pursuant to the Trust Agreement at the option of the Owners thereof by 2:30 p.m. (New York City time) (11:30 a.m. California time) on the date such 2002A Certificates are required to be purchased at the Purchase Price as provided in the Trust Agreement. Funds for the payment of such Purchase Price shall be derived from the following sources in the order of priority indicated:

(i) the proceeds of the sale of the 2002A Certificates (but only such remarketing proceeds as are received from purchasers of the 2002A Certificates) furnished to the Tender Agent or the Trustee, as applicable, by the Remarketing Agent; provided, however, that such proceeds shall not have been derived from the City; and

(ii) moneys furnished to the Tender Agent representing the proceeds of a draw under the Liquidity Facility.

(b) **Remarketing of 2002A Certificates.** The Remarketing Agent shall determine the rate of interest on the 2002A Certificates and shall furnish to the Trustee and the Tender Agent in a timely manner all information necessary for the Tender Agent and the Trustee to carry out their respective duties under the Trust Agreement, including, but not limited to, the interest rates applicable to all 2002A Certificates. The Remarketing Agent shall, pursuant to the Remarketing Agreement, use its best efforts to sell any 2002A Certificates tendered for purchase to new purchasers.

(c) **Delivery of Remarketed 2002A Certificates.** The Trustee and the Tender Agent each shall hold all 2002A Certificates delivered to them for purchase in trust for the benefit of the respective Owners which shall have so delivered such 2002A Certificates or for the Direct Participants who have transferred their interest in the Book-Entry Certificates until moneys representing the Purchase Price of such 2002A Certificates shall have been delivered to or for the account of or to the order of such Owners or Direct Participants. The Trustee and the Tender Agent each shall hold all moneys for the purchase of 2002A Certificates, including any moneys representing the premium, if any, to be paid in connection with the purchase of 2002A Certificates (which shall be held separate and apart from other moneys held for the purchase of 2002A Certificates or the payment of the principal of, premium, if any, and interest on the 2002A Certificates) in trust in non-commingled funds for the benefit of the Person which shall have so delivered such moneys until 2002A Certificates purchased with such moneys shall have been delivered to or for account of such Person. 2002A Certificates purchased with moneys obtained by a drawing on the Liquidity Facility ("Pledged Certificates"), shall be held by the Tender Agent or registered in the name of the Liquidity Provider on the registration books of DTC with respect to Book-Entry Certificates. The proceeds of any remarketing of Pledged Certificates shall be delivered to the Trustee and transferred to the Liquidity Provider. Upon receipt by the Trustee of funds representing the proceeds of the remarketing of Pledged Certificates, 2002A Certificates in place of such Pledged Certificates so purchased shall be made available for pick-up by the Remarketing Agent for subsequent delivery to the purchasers thereof, or the ownership interest shall be transferred to the new Direct Participants on the books of DTC. Prior to or simultaneously with such delivery, the proceeds of such remarketing shall have been or shall be delivered to the Trustee and transferred to the Liquidity Provider and the Trustee and the Tender Agent shall have received written confirmation from the Liquidity Provider of the reinstatement of the Liquidity Facility.

If any 2002A Certificate is tendered after a notice of prepayment is given for such 2002A Certificate, the Remarketing Agent will give the prepayment notice to any purchaser of such 2002A Certificate or to DTC, if a Book-Entry Certificate and the purchaser (including a Direct Participant) shall acknowledge receipt of such prepayment notice.

(d) **Draws Upon the Liquidity Facility.** The Trustee shall draw on the Liquidity Facility in an amount necessary and in sufficient time (including on the Business Day prior to the date funds are required for purchase if such a draw is required to receive sufficient amount for such purchase on a timely basis on the date of purchase) so as to provide to the Trustee or the Tender Agent, as the case may be, the balance of the funds needed to purchase tendered 2002A Certificates. The Trustee shall take into account remarketing proceeds actually received from the Remarketing Agent by the Trustee or the Tender Agent, as applicable, as provided in the Trust Agreement.

(e) **Delivery of Proceeds of Sale.** The proceeds of the remarketing of any 2002A Certificates shall be transferred to the Tender Agent or the Trustee, as applicable, no later than 12:30 p.m. (New York City time) on the Purchase Date and, upon receipt thereof, the Tender Agent or the Trustee, as applicable, shall immediately apply such proceeds to the payment of the Purchase Price of 2002A Certificates to the Owners thereof pursuant to the Trust Agreement by making Pledged Certificates available for delivery to the Remarketing Agent which are registered pursuant to the instructions of the Remarketing Agent or directing the transfer on the registration books of DTC pursuant to the instructions of the Remarketing Agent or, in the case of the remarketing of 2002A Certificates which constitute Pledged Certificates, as provided in the Trust Agreement. In making payments to the Liquidity Provider, the Trustee may conclusively assume that the Liquidity Provider has not been repaid from any other sources. To the extent that the Liquidity Provider is repaid with proceeds of the sale of Pledged Certificates by the Remarketing Agent, new 2002A Certificates shall be registered and delivered (or ownership interests transferred) as provided in the Trust Agreement.

(f) **Unclaimed Moneys.** The Tender Agent shall, at the end of the fifth Business Day after the Purchase Date, transfer all funds then held on hand by virtue of the fact that 2002A Certificates deemed tendered on such date were not presented for purchase to the Tender Agent to be held in a segregated account for the 2002A Certificates to

be designated the "Unclaimed Moneys Account" and to hold the same in trust uninvested for the payment of the Purchase Price thereof to the former Owners of such 2002A Certificates. The Tender Agent shall pay such Purchase Price from such amounts by check of the Tender Agent or draft made payable to the party entitled to such payment as soon as practicable after such party surrenders the 2002A Certificate or Certificates so deemed purchased to the Tender Agent. Any such moneys so held in trust by the Tender Agent shall be held uninvested until paid to the person entitled thereto as provided in the Trust Agreement.

Whenever the 2002A Certificates are not Book-Entry Certificates, all references in this section to the Trustee shall instead mean the Tender Agent, as the context may require.

2002B Certificates

The 2002B Certificates will be delivered in authorized denominations of \$5,000 or any integral multiple thereof. Interest represented by the 2002B Certificates is payable on _____, 2002 and, thereafter, on each _____ and _____ (each, an "Interest Payment Date" for the 2002B Certificates), computed on the basis of a 360-day year comprised of twelve 30-day months. The 2002B Certificates will be dated _____, 2002, will mature on the dates and in the principal amounts and represent interest at the rates, all as set forth on the inside front cover of this Official Statement.

Prepayment Provisions

2002A Certificates

The 2002A Certificates shall be subject to prepayment prior to their Certificate Payment Date as set forth below:

Optional Prepayment during Weekly Interest Rate Period. On any Interest Payment Date during a Weekly Interest Rate Period and on the first day of any Term Interest Rate Period, the 2002A Certificates may be prepaid in whole or in part by the Trustee, but only upon the request of the City pursuant to the 2002 Contract, at a prepayment price equal to the principal amount thereof, without premium.

Optional Prepayment During Term Interest Rate Period. During any Term Interest Rate Period, the 2002A Certificates also shall be subject to prepayment in whole or in part, but only upon the request of the City pursuant to the 2002 Contract, at the times (measured from the first day of the applicable Term Interest Rate Period), and at the prepayment prices (expressed as percentages of principal amount) set forth below, plus accrued interest, if any, to the prepayment date:

Length of Term Interest Rate Period or Length of Time to Maturity	Prepayment Dates and Prices
Greater than 17 years	At any time on or after the 10 th anniversary of the commencement date of such Interest Rate Period at 101% declining ½% annually to 100%
Greater than 10 and less than or equal to 17 years	At any time on or after the 5 th anniversary of the commencement date of such Interest Rate Period at 101% declining ½% annually to 100%
Greater than 8 and less than or equal to 10 years	At any time on or after the 5 th anniversary of the commencement date of such Interest Rate Period at 101% declining ½% annually to 100%

Length of Term Interest Rate Period or Length of Time to Maturity	Prepayment Dates and Prices
Greater than 6 and less than or equal to 8 years	At any time on or after the 3 rd anniversary of the commencement date of such Interest Rate Period at 101% declining ½% annually to 100%
Greater than 4 and less than or equal to 6 years	At any time on or after the 2 nd anniversary of the commencement date of such Interest Rate Period at 101% declining ½% annually to 100%
Greater than 3 and less than or equal to 4 years	At any time on or after the 2 nd anniversary of the commencement date of such Interest Rate Period at 100½% declining ½% annually to 100%
Greater than 2 and less than or equal to 3 years	At any time on or after the 1 st anniversary of the commencement date of such Interest Rate Period at 100½% declining ½% annually to 100%
Greater than 1 and less than or equal to 2 years	At any time on or after the 1 st anniversary of the commencement date of such Interest Rate Period at 100%
Less than or equal to 1 year	On the Interest Payment Date which is at least six months after the commencement date of such Interest Rate Period at 100%

If the City delivers an Approving Opinion of Bond Counsel to the Trustee with respect to such change, the City may provide a different schedule of optional prepayment dates and prices.

If the 2002A Certificates are to be adjusted to a Weekly Interest Rate Period pursuant to, and in accordance with the Trust Agreement before the end of a Term Interest Rate Period, the City shall be required to pay the Owners of the 2002A Certificates, as a portion of the Purchase Price of the 2002A Certificates, the premium, as stated above, that would apply if the 2002A Certificates were prepaid on the date of such adjustment.

Mandatory Prepayment. The 2002A Certificates shall be subject to mandatory prepayment prior to their Certificate Payment Date, in part, on _____ 1, _____ and on each _____ 1 thereafter, in a principal amount equal to the principal installments of the Schedule A Installment Payments due pursuant to the Trust Agreement on such date, at a prepayment price equal to the principal amount of the 2002A Certificates to be prepaid, plus accrued but unpaid interest thereon to the prepayment date, without premium, as set forth below:

2002A Certificates	
Prepayment Date	Prepayment
(_____)	Amount

2002B Certificates

Optional Prepayment. The 2002B Certificates are subject to optional prepayment prior to their respective stated maturity dates, upon notice as provided in the Trust Agreement, from prepayments of Schedule B Installment Payments made by the City pursuant to the 2002 Contract, as a whole or in part (from such maturities as are designated by the Corporation to the Trustee at the direction of the City or, if the Corporation fails to designate such maturities, in inverse order of maturity and by lot within a maturity) on any date on or after January 1, ____ at the following prepayment prices (expressed as percentages of the principal amount evidenced by the 2002B Certificates called for prepayment), plus accrued and unpaid interest evidenced thereby to the prepayment date:

<u>Prepayment Period</u> (dates inclusive)	<u>Prepayment</u> <u>Price</u>
January 1, ____ through December 31, ____	%
January 1, ____ and thereafter	

Notice of Prepayment

Notice of prepayment shall be mailed by the Trustee to (i) the respective Owners of the 2002 Certificates designated for prepayment at their addresses on the registration books not less than thirty (30) days nor more than sixty (60) days prior to the prepayment date maintained by the Trustee, (ii) the Tender Agent, (iii) the Securities Depositories, and (iv) one or more Information Services. Each notice of prepayment shall state the date of such notice, prepayment price, the place of prepayment, the CUSIP number, if any, and if less than all of the 2002 Certificates of any one Series are to be prepaid, the distinctive certificate numbers of the 2002 Certificates of such Series to be prepaid, and in the case of 2002 Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said 2002 Certificates the prepayment price thereof or of said specified portion of the principal amount thereof to be prepaid and that from and after such prepayment date interest thereon shall cease to accrue, and shall require that such 2002 Certificates be then surrendered. Failure to receive such notice nor any defect therein shall invalidate the proceedings taken in connection with such refunding or affect the sufficiency of such prepayment.

In the event that a notice of prepayment is being given for an optional prepayment during a Weekly Interest Rate Period, which prepayment is occurring due to a refunding of the 2002 Certificates of a Series, such notice of prepayment shall state, at the direction of the City, that the prepayment is conditioned on the issuance and delivery of the refunding securities and shall further state, at the direction of the City, that in the event that such refunding securities are not issued and delivered, such prepayment notice shall be automatically rescinded and shall be null and void.

Selection of Certificates for Prepayment

If less than all Outstanding 2002 Certificates of any particular Series are to be prepaid at any one time, the Trustee shall select the portions of the 2002 Certificates of such Series to be prepaid by lot in a manner which the Trustee deems to be fair. For purposes of selecting 2002 Certificates to be prepaid, 2002 Certificates of each Series shall be deemed to be composed of \$5,000 multiples and any such multiple of principal amount as may be separately prepaid, subject to the requirement that the unpaid balance of any 2002 Certificate prepaid in part must be in an authorized denomination.

Effect of Prepayment

If notice of prepayment has been duly given as aforesaid, and money for the payment of the prepayment price of, the 2002 Certificates (or portions thereof) so called for prepayment is held by the Trustee, then on the prepayment date designated in such notice, the 2002 Certificates (or portions thereof) so called for prepayment shall become due and payable, and from and after the prepayment date so designated, interest on the 2002 Certificates so called for prepayment shall cease to accrue, such 2002 Certificates (or portions thereof) shall cease to be entitled to

any benefit or security under the Trust Agreement, and the Owners of such 2002 Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof from the money held by the Trustee for such purpose.

SECURITY AND SOURCES OF PAYMENT FOR THE 2002 CERTIFICATES

Installment Payments

The 2002 Certificates evidence and represent the proportionate interests of the Owners in the Installment Payments to be made by the City to the Corporation pursuant to the 2002 Contract. The 2002 Contract provides that the City's obligation to pay the Installment Payments, subject to the provisions of the 2002 Contract relating to defeasance, are absolute and unconditional, and, until such time as the Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2002 Contract), the City will not discontinue or suspend any Installment Payments required to be paid by the City under the 2002 Contract when due, whether or not the Electric System or any part thereof is completed, is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such Installment Payments are not subject to reduction, whether by offset, abatement or otherwise, and are not conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever. Notwithstanding anything contained in the 2002 Contract, however, the City is not required to advance any moneys derived from any source of income other than the Net Revenues of the Electric System for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by the City contained in the 2002 Contract.

As discussed under the headings "THE ELECTRIC SYSTEM—Power Supply Resources" and "—Interconnections, Transmission and Distribution Facilities" and "—Outstanding Obligations," the City participates in certain joint powers agencies. Obligations of the City under its financing agreements with these joint powers agencies constitute operating expenses of the Electric System payable prior to the Installment Payments.

The City has from time to time entered into certain other power purchase agreements. Generally, the City has entered into such power purchase agreements solely or primarily for use within its own system. However, from time to time the City has entered into purchases for resale. The City's obligations under such agreements also constitute Maintenance and Operation Costs payable prior to the Installment Payments. See "THE ELECTRIC SYSTEM—Wholesale Power Trading" herein.

Pursuant to the Trust Agreement, the Corporation transfers, assigns and sets over to the Trustee, subject to the provisions of the Trust Agreement, all of the Installment Payments and any and all rights and privileges the Corporation has under the 2002 Contract (other than its rights to indemnification), including without limitation the right to collect and receive directly all of the Installment Payments and the right to enforce the provisions of the 2002 Contract. The Trust Agreement provides that the Installment Payments collected or received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation, as the agent of the Trustee, and shall forthwith be paid by the Corporation to the Trustee. The Trustee also shall, subject to the provisions of the Trust Agreement, take all steps, actions and proceedings required to be taken, as provided in any opinion of counsel delivered to the Trustee, reasonably necessary to maintain in force for the benefit of the Owners of the 2002 Certificates the Trustee's rights in and priority to the following security granted to it for the payment of the 2002 Certificates: the Trustee's rights, as assignee of the Installment Payments and as beneficiary of any other rights to security for the 2002 Certificates, that the Trustee may receive in the future.

The Trust Agreement provides that all of the Installment Payments received by the Trustee shall be deposited immediately in the Debt Service Fund. All of the Installment Payments shall be held in trust by the Trustee for the benefit of the Owners of the 2002 Certificates but shall be disbursed, allocated and applied solely for the uses and purposes provided in the Trust Agreement.

Defined Terms

For the purposes of the Trust Agreement and the 2002 Contract, the following terms are given the following meanings:

“Available Reserves” is defined to mean, as of any date of calculation, the amount of unrestricted funds in the Electric Revenue Fund designated as “Available Reserves” for purposes of the 2002 Contract by the City and then available to pay Maintenance and Operation Costs and/or Annual Debt Service, which may include transfers to the Electric Revenue Fund from the Rate Stabilization Fund or any other fund that is legally available for deposit in the Electric Revenue Fund.

“City Transfers” is defined to mean any payments from Revenues to the City for payments-in-lieu of taxes, transfers to the General Fund or similar payments but shall not include any item constituting a Maintenance and Operation Cost of the Electric System.

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

“Maintenance and Operation Costs” is defined to mean the costs paid or incurred by the City for maintaining and operating the Electric System, including but not limited to (a) all costs of electric energy and power generated or purchased by the City for resale, costs of transmission, fuel supply and water supply in connection with the foregoing, (b) all expenses of management and repair and other expenses necessary to maintain and preserve the Electric System in good repair and working order, (c) all administrative costs of the City that are charged directly or apportioned to the operation of the Electric System, such as salaries and wages of employees, overhead, taxes and insurance premiums, (d) all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the 2002 Contract or any resolution authorizing the execution of the 2002 Contract or the issuance of any Parity Obligations or of such Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, remarketing agent or surety costs for the 2002 Contract or Parity Obligations, letter of credit fees relating to the Installment Payments or Parity Obligations, fees and expenses of Independent Certified Public Accountants and Independent Engineers, (e) all amounts required to be paid by the City under contracts with a joint powers agency for the purchase of capacity, energy, transmission capability or any other commodity or service in connection with the foregoing, which contract requires payments to be made by the City thereunder to be treated as maintenance and operation costs of the Electric System, (f) all deposits to be made to the Rebate Fund pursuant to the Tax Certificate and all deposits in comparable accounts established with respect to Parity Obligations required to be deposited pursuant to the proceedings authorizing such Parity Obligations, and (g) any other cost or expense which, in accordance with Generally Accepted Accounting Principles, is to be treated as a cost of operating or maintaining the Electric System but excluding depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles and City Transfers. See “Take-or-Pay Obligations” below.

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

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

For definitions of additional terms used in the 2002 Contract, see “APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS” herein.

Pledge of Net Revenues

Pursuant to the 2002 Contract, all Net Revenues of the Electric System and all moneys on deposit in the Electric Revenue Fund are irrevocably pledged to the payment of the Installment Payments and all other payments under the 2002 Contract, which pledge shall be on a parity with any pledge of Net Revenues or of moneys in the Electric Revenue Fund securing Parity Obligations. The 2002 Contract provides that such pledge constitutes a first pledge of and charge and lien upon the Net Revenues of the Electric System and moneys in the Electric Revenue Fund for the payment of the amounts due with respect to the 2002 Contract and all other Parity Obligations in accordance with the terms of the 2002 Contract and such Parity Obligations.

Rate Covenant

Pursuant to the 2002 Contract, the City covenants (the “Rate Covenant”) that it will at all times fix, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which will be at least sufficient to yield: (a) Adjusted Annual Revenues for such Fiscal Year at least equal to the sum of the following for such Fiscal Year: (i) Adjusted Maintenance and Operation Costs; (ii) Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations, and (iii) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from the Electric Revenue Fund including all amounts owed to any issuer of a Financial Guaranty then in effect and deposited in the Reserve Fund under the terms of such Financial Guaranty; and (b) Adjusted Annual Net Revenues for such Fiscal Year equal to at least 110% of the Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary but may not reduce the rates and charges then in effect unless the Adjusted Annual Revenues and the Adjusted Annual Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements described in the preceding sentence.

Reserve Fund

Pursuant to the Trust Agreement, the Trustee will establish and maintain the Reserve Fund so long as any 2002 Certificates remain Outstanding. Upon the delivery of the 2002 Certificates, there shall be deposited in the Reserve Fund from the proceeds of the 2002 Certificates an amount equal to the Reserve Requirement.

“Reserve Requirement” is defined in the Trust Agreement to mean “as of any date of determination, the least of (a) 10% of the initial offering price to the public of the 2002 Certificates as determined under the Code, or (b) the greatest Annual Debt Service with respect to the Installment Payments in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Installment Payment is due, or (c) 125% of the sum of the Annual Debt Service with respect to the Installment Payments for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of the 2002 Certificates) and terminating with the last Fiscal Year in which any Installment Payment is due, divided by the number of such Fiscal Years, all as computed and determined by the City and specified in writing to the Trustee; provided, that such requirement (or any portion thereof) may be provided by a policy of municipal bond insurance or surety bonds issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the highest rating category (without regard to qualifiers) by S&P and Moody’s and, if rated by A.M. Best & Company, also in the highest rating category (without regard to qualifiers) by A.M. Best & Company (a “Financial Guaranty”). If at any time obligations insured by the issuer of a Financial Guaranty no longer maintain the required ratings set forth in the definition of “Financial Guaranty” above, the City will provide or cause to be provided cash or a substitute Financial Guaranty meeting such requirements.

Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the 2002 Certificates in the event amounts on deposit in the Debt Service Fund are insufficient therefor.

Application of Revenues

The City agrees and covenants in the 2002 Contract that all Revenues it receives will be deposited when and as received in the Electric Revenue Fund, which the City established and which the City agrees to maintain separate and apart from other moneys of the City so long as any Installment Payments remain unpaid, and all money on deposit in the Electric Revenue Fund shall be applied and used only as provided in the 2002 Contract. The City is to pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Electric Revenue Fund as they become due and payable and all remaining money in the Electric Revenue Fund shall be set aside and deposited by the City at the following times in the following order of priority:

- (1) *Debt Service Fund Deposits.* On or before the third Business Day before each date on which an Installment Payment becomes due and payable under the 2002 Contract, whether on a Payment Date or upon acceleration, the City shall, from the money in the Electric Revenue Fund, deposit in the Debt Service Fund a sum equal to the Installment Payment becoming due and payable under the 2002 Contract on such due date, except that no such deposit need be made to the extent the Trustee then holds money for such purpose in the Debt Service Fund available to pay the Installment Payment to be paid with such deposit. The City also shall, from such remaining moneys in the Electric Revenue Fund, pay to the party entitled thereto or transfer or cause to be transferred to any applicable debt service or other payment fund or account for any Parity Obligations, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, on the dates specified in the proceedings relating to such Parity Obligations, the sum or sums required to be paid or deposited in such debt service or other payment fund or account with respect to principal, premium, if any, and interest on Parity Obligations (or in the case of Parity Payment Agreements, the net payments due) in accordance with the terms of such Parity Obligations.

- (2) *Reserve Fund Deposits.* To the extent that the Reserve Requirement is not being satisfied with a Financial Guaranty or Financial Guaranties, on each date on which an Installment Payment becomes due and payable, the City will, from the remaining money on deposit in the Electric Revenue Fund after deposits and transfers pursuant to paragraph (1) above, transfer to the Trustee for deposit in the Reserve Fund that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement. Any amount transferred to the Trustee for deposit in the Reserve Fund shall be applied first to pay the issuer of each Financial Guaranty that had been drawn on in order to restore each such Financial Guaranty to its full amount. The City also will transfer or cause to be transferred from such remaining moneys in the Electric Revenue Fund to any applicable reserve fund or account for any Parity Obligations for which a separate reserve fund has been funded pursuant to the 2002 Contract, without preference or priority between transfers made in accordance with this sentence and the preceding sentence, and, in the event of any insufficiency of such moneys, ratably without any discrimination or preference that sum or sums, if any, equal to the amount required to be deposited therein in accordance with the terms of such Parity Obligations.

After making the foregoing deposits and transfers in each Fiscal Year, the City shall apply any remaining money in the Electric Revenue Fund, first, to pay any payment of interest then due on amounts drawn under any Financial Guaranty, on a pro rata basis, and, second, for any lawful purpose of the City, including for the payment of any Subordinate Obligations in accordance with the instruments authorizing such Subordinate Obligations; provided, however, that no moneys in the Electric Revenue Fund shall be applied to any purpose not related to the expansion of the facilities or business of the Electric System or replacement of facilities thereof, including the payment of any Subordinate Obligations or City Transfers, in any Fiscal Year unless amounts remaining on deposit

in the Electric Revenue Fund shall be sufficient to make the remaining transfers required to be made in such Fiscal Year with respect to the Installment Payments and Parity Obligations.

Take-or-Pay Obligations

The City has entered into certain power sales contracts for the purchase of energy and certain other agreements for the payment of costs of certain projects in which it is participating, including agreements with the joint powers agencies in which it participates, the Transmission Agency of Northern California ("TANC") and the Northern California Power Agency ("NCPA"). The City's obligations under such agreements constitute a portion of the Maintenance and Operation Costs payable prior to the Installment Payments under the 2002 Contract. Agreements with the joint powers agencies in which the City participates are on a "take-or-pay" basis, which requires payments to be made whether or not projects are completed or operable or whether output from such projects is suspended, interrupted or terminated. The City could enter into additional contracts whose obligations constitute Maintenance and Operation Costs of the City, subject to the rate covenant described above. See "THE ELECTRIC SYSTEM—Outstanding Obligations" herein. Certain agreements with TANC and NCPA contain "step-up" provisions obligating the City to pay a share of the obligations of a defaulting participant, if any. The City's maximum step-up under those agreements, however, is 25% of the City's original obligation for the project. The City's participation and share of debt service obligation (without giving effect to any "step up" provisions) for each of the joint powers agency projects in which it participates are shown on the table titled "Outstanding Debt of Joint Powers Agencies" under "THE ELECTRIC SYSTEM—Outstanding Obligations" herein.

Swap Agreement

On _____, 2002 the City entered into an interest rate swap transaction pursuant to the Swap Agreement on parity with the 2002A Certificates with Smith Barney Holdings Inc. for the purposes of converting the floating rate interest payments the City is obligated to make with respect to the 2002A Certificates into substantially fixed rate payments. In general, the terms of the Swap Agreement provides that, on a same-day net-payment basis determined by reference to a notional amount equal to the principal amount of the 2002A Certificates outstanding, the City will pay a fixed interest rate on the notional amount, based on the scheduled payment of the 2002A Certificates. In return, Smith Barney Holdings Inc. will pay a variable rate of interest equal to _____, on a like notional amount. Amounts received by the City from Smith Barney Holdings Inc. (or its successors or assigns) constitute "Revenues" under the 2002 Contract. The agreement by from Smith Barney Holdings Inc. to make payments under the Swap Agreement does not affect the City's obligation under the 2002 Contract to make the Installment Payments from Net Revenues for the payment of the 2002 Certificates.

Regularly scheduled payments due to Smith Barney Holdings Inc. from the City under the Swap Agreement are payable from and secured by a revised lien on Net Revenues on a parity with the lien for the payment of the Installment Payments and any Parity Obligations. Under certain circumstances, the Swap Agreement is subject to early termination prior to the maturity of the 2002A Certificates, in which event the City may be obligated to make a substantial payment to Smith Barney Holdings Inc. Amounts due to Smith Barney Holdings Inc. upon any early termination of the Swap Agreement constitute subordinate obligations payable from Net Revenues on a basis that is junior and subordinate to the Installment Payments and Parity Obligations.

Additional Parity Obligations

Other than the Refunded 1999 Certificates, the City currently has no outstanding obligations payable from Net Revenues of the Electric System. The City may at any time execute contracts or issue other obligations, the payments of which are payable from the Net Revenues on a parity with the Installment Payments (collectively, "Parity Obligations"), but only subject to the specific conditions set forth in the 2002 Contract, which conditions are precedent to the execution of any such Parity Obligations, including the condition that either:

- (1) During any 12 consecutive calendar months out of the immediately preceding 18 calendar month period, the Adjusted Annual Net Revenues were at least equal to 110% of the Maximum Annual Debt Service for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligations proposed to be executed; or

- (2) As evidenced by a Certificate of the City or an Engineer's Report on file with the City, the projected Adjusted Annual Net Revenues during the succeeding five complete Fiscal Years beginning with the first Fiscal Year following issuance of such Parity Obligations in which interest is not capitalized in whole from the proceeds of Parity Obligations, is at least equal to 110% of the Maximum Annual Debt Service for all unpaid Installment Payments and all existing Parity Obligations plus the Parity Obligations proposed to be executed.

Notwithstanding the foregoing, the 2002 Contract specifies that there shall be no limitations on the ability of the City to execute any Parity Obligation at any time to refund any outstanding Installment Payments and Parity Obligations that results in a net present value savings to the City, inclusive of all costs of such refunding. See "APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE CONTRACT—Parity Obligations and Subordinate Obligations" herein.

Limitation on Remedies

In addition to the limitations on remedies contained in the Trust Agreement and the 2002 Contract, the rights and remedies provided in the Trust Agreement and the 2002 Contract may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the City. No representation is made herein by the City as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix F for a specimen of the Insurer's financial guaranty insurance policy (the "Policy").

[TO COME]

THE LIQUIDITY FACILITY

The following is a summary of certain provisions of the Liquidity Facility. The following summary does not purport to be a full and complete statement of the provisions of the Liquidity Facility, and the Liquidity Facility should be read in full for complete understanding of all the terms and provisions thereof. Copies of the Liquidity Facility may be obtained from the City or the Bank.

[TO COME]

THE BANK

[TO COME]

THE ELECTRIC SYSTEM

History

The City is a general law city in the State of California, was incorporated in 1906, and is located in the San Joaquin Valley of California, 35 miles south of the state capital of Sacramento and 90 miles east of San Francisco. The City's boundaries encompass approximately 12.32 square miles. The City has owned and operated its electric distribution system since 1910. In 1982, the City signed a power purchase contract with the Western Area Power

Administration (“Western”). In order to obtain additional resources to serve its customers, the City joined the Northern California Power Agency (“NCPA”) in 1968. The City participates in several resources developed by NCPA such as geothermal, combustion turbine, transmission and hydroelectric projects. The City also became a member of the Transmission Agency of Northern California (“TANC”) in 1984 and participates in the California—Oregon Transmission Project (the “COTP”). In addition, NCPA Power Supply Resources has developed electric dispatch and transmission capabilities that contribute to the City’s electric utility services. See “NCPA Geysers Transmission Project” below. Ten NCPA members (the City, Alameda, Biggs, Gridley, Healdsburg, Lompoc, Palo Alto, Roseville, Ukiah and Plumas-Sierra, collectively the “Ten Interconnected NCPA Members”), operate under a principles of pooling agreement (the “Principles”). The Principles provide that each of the Ten Interconnected NCPA Members will subject its resources, including Western and its COTP transmission, to the pooled operation by NCPA. In turn, NCPA will dispatch all resources to provide the total electric power requirements of the Ten Interconnected NCPA Members at the lowest reasonable cost consistent with reliability, safety, expedition, prevention of adverse impacts on neighboring utility systems, and all applicable laws and governmental rules, regulations and orders. The pooling of project interests does not alter the obligations of any project participants under their respective project agreements relating to an NCPA project.

Service Area

The Electric System serves the entire area of the City (approximately 12.32 square miles) and has more than ___ miles of overhead lines and more than ___ miles of underground lines. During the fiscal year 2000-01, the Electric System served 26,075 customers, comprised of 22,186 residential customers, 3,745 commercial/industrial customers and 144 other customers. During August 1998, an all-time, historical high peak demand of 124 MW was reached.

Employees

As of June 30, 2001, approximately ___ City employees (___ permanent and ___ contract/temporary) were assigned specifically to the Electric Utility Department. Substantially all of the non-management City personnel assigned to the Electric Utility Department are represented by the International Brotherhood of Electrical Workers, Union 1245 (“IBEW”). The current Memorandum of Understanding with the IBEW expires on December 31, 2002. There have been no strikes or other union work stoppages at the City, including the Electric Utility Department.

Retirement benefits to the City employees, including those assigned to the Electric Utility Department, are provided through the City’s participation in the California Public Employees Retirement System (“PERS”). The City’s Contribution Rate is determined by periodic actuarial calculations based on the benefit formula and the number of employees and their respective salary schedules. As of June 30, 2001, the City had no unfunded pension benefit obligation.

Insurance [Confirm still accurate]

The City’s Electric System boiler and machinery operations are insured by Hartford Steam Boiler for up to \$5 million per occurrence. The City, including the Electric System, is self-insured for general liability for up to \$500,000 and has pooled excess coverage through the California Joint Powers Risk Management Authority for up to \$15 million per occurrence. The City is self-insured for workers’ compensation for up to \$250,000 and has pooled excess coverage through the Local Agency Workers’ Compensation Excess Authority for up to the statutory limit. See Notes to General Purpose Financial Statements for the Year Ended June 30, 2001 included in APPENDIX B to this Official Statement.

Investment Policy

The Electric Revenue Fund, into which all revenues of the Electric System are initially deposited, are required to be invested in certain Permitted Investments, as provided under the 2002 Contract. See “APPENDIX D-SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein. All funds of the City, however, are invested by the City in accordance with the investment guidelines of the California Government Code (Sections 53601 and 53635) and the City’s Investment Policy, which is presented annually to the City Council for approval. Pursuant to the

Investment Policy, the City strives to maintain a level of investment of all idle funds, less required reserves, as near 100% as possible, through daily and projected cash flow determinations. The City's cash management system is designed to monitor and forecast expenditures and revenue accurately in order to enable the City to invest funds to the fullest extent possible.

Idle cash management and investment transactions are the responsibility of the Finance Director/City Treasurer. The Investment Policy, as adopted by the City Council on October 17, 2001 permits investment in the following: U.S. Treasury obligations (bills, notes and bonds); U.S. Government Agency securities and instrumentalities; bankers acceptances; certificates of deposit; negotiable certificates of deposit; commercial paper; California State Local Agency Investment Fund; passbook deposits; mutual funds; and medium term notes. The Investment Policy provides that safety is given the highest priority, followed by liquidity and yield. Investments are selected to achieve a "market average" rate of return, or the annual rate of return on the one-year U.S. Treasury Bill.

The Investment Policy may be changed at any time at the discretion of the City Council (subject to the State of California law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State of California law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the City with respect to investments will not change. All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement, or other amounts held by the City, could have a material adverse effect on the City's finances.

Organization and Management

The City provides electric utility service through its Electric Utility Department. The legal responsibilities and powers of the Electric Utility Department, including the establishment of rates and charges, are exercised through the five-member City Council. The members of the City Council are elected City-wide for staggered four year terms. The City Electric Utility Department is under the direction of the Electric Utility Director who is appointed by the City Manager.

The City Electric Utility Department's main office is located at 1331 South Ham Lane, Lodi, California 95242, (209) 333-6762. For more information about the City and its Electric System, contact Alan Vallow, Electric Utility Director, at the above address and telephone number.

Management of the Electric System is as follows: **[Update]**

ALAN N. VALLOW, Electric Utility Director, received a B.S. in Electrical Engineering from Pennsylvania State University in 1982, a M.S. in Electrical Engineering from the University of Southern California in 1985 and a M.B.A. from Pepperdine University in 1987. Mr. Vallow is a Registered Professional Engineer in the State of California. Mr. Vallow was appointed Electric Utility Director in 1995. Prior to joining the City of Lodi Electric Utility Department, Mr. Vallow served as Director of Legislative and Regulatory Policy for the Los Angeles Department of Water and Power. Mr. Vallow is a member of the California Municipal Utilities Association Board of Directors.

MEL GRANDI, Manager, Electric Services, received a B.S. in Electrical Engineering from California State University, Davis, in 1979. Mr. Grandi is a Registered Professional Engineer in the State of California. Mr. Grandi joined the City of Lodi Electric Utility Department as an Electrical Engineer in 1984 and was advanced to his present position in 1997. Prior to joining the City, Mr. Grandi held the positions of Nuclear Instruments Engineer at Mare Island Naval Shipyard, Vallejo, California, and Test Engineer for General Electric Corporation in Schenectady, New York.

HANS HANSEN, Manager, Engineering and Operations, received his B.S. in Electrical Engineering, Power, with honors from California State University, Sacramento, in 1973. Mr. Hansen is a Registered Professional Engineer in the State of California. Mr. Hansen joined the City of Lodi Electric Utility Department in 1976 as an

Electrical Engineer, was advanced to Assistant Electric Utility Director in 1979 and held that position until 1996 when he assumed his current position. Prior to joining the City, Mr. Hansen held the position of Assistant Engineer, Distribution, with Pacific Gas and Electric Company.

CARL LINDSTROM, Electric Utility Superintendent, joined the City of Lodi Electric Utility Department in 1986. Mr. Lindstrom began his career in 1957 as an apprentice lineman with Connecticut Light and Power, advancing to journeyman status in 1961. Mr. Lindstrom subsequently worked for Lewis H. Conrad Construction Corporation as a General Foreman prior to joining the City of Loveland, Colorado, where he started as General Foreman, ending as Superintendent (Director) of the Loveland electric utility.

Power Supply Resources

The City does not independently own any generation assets but, in addition to power purchased from Western and others, owns a percentage of the capacity and energy of certain NCPA generation projects, as more fully described below. For each of the NCPA projects in which the City participates, the City is obligated to pay, on an unconditional take-or-pay basis, its entitlement share of the debt service on NCPA bonds issued for the project, as well as its share of the operation and maintenance expenses of the project.

The following table sets forth information concerning the City's power supply resources and the energy supplied by each during the calendar year ended December 31, 2001:

**CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
POWER SUPPLY RESOURCES⁽¹⁾**

Source	Capacity Available (MW) ⁽²⁾⁽⁵⁾	Actual Energy (MWh)	% of Total Energy
Purchased Power ⁽³⁾ :			
Western	9.1	52,225	8.7%
NCPA			
Geothermal Project	13.4	126,224	21.1
Hydroelectric Project	24.5	22,100	3.7
Combustion Turbine Project No. 1	42.2	28,643	4.8
Capital Facilities, Unit One	23.8	147,334	24.7
Contracts, Exchanges and Bilaterals	53.3	220,750	37.0
Total	<u>166.3</u>	<u>597,304⁽⁴⁾⁽⁵⁾</u>	<u>100.0%</u>
Total Capacity and Energy Sold at Wholesale	<u>45.9</u>	<u>172,191</u>	
City System Requirement for Retail	<u>120.4</u>	<u>425,103</u>	

- (1) Information for fiscal year ended June 30, 2001.
- (2) Non-coincident capacity available.
- (3) Entitlements, firm allocations and contract amounts.
- (4) Units at Backbone Output.
- (5) Includes native load, exchanges and wholesale market sales.

Source: City of Lodi.

In the fiscal year ended June 30, 2001, the City's net average cost of power delivered to the City Electric System was 8.3 cents per kWh.

Western Purchased Power. The City has an agreement with Western, which expires December 31, 2004, to purchase an aggregate of 4.6 MW of firm non-withdrawable capacity and energy and 8.1 MW of withdrawable energy and capacity. The City also has a withdrawable allocation of additional varying amounts of capacity and energy from the Central Valley Project (the "CVP") based upon the demands of other Western customers. Energy associated with the capacity from Western is scheduled by the City up to the City's monthly load factor. For the fiscal year ended June 30, 2001, the average melded cost of delivered power under contracts with Western was approximately \$21.67 per MWh.

Through 2004, the price of Western power to the City is subject to change based on changes in Western's acquisition costs. Such acquisition costs include, among other things, California Independent System Operator costs for grid management charges and regulatory must run charges, and costs under Western's transmission agreements with PG&E. Under Western's integration agreement with PG&E, any excess Western hydroelectric production is "banked" and returned when Western production is not sufficient to meet customers needs. Western has been withdrawing such power. PG&E asserts that the formula price for such power (which is based on PG&E's remaining thermal power plant's cost of production) is insufficient to allow PG&E to currently recover the cost of purchasing power necessary to replace the amount that is withdrawn.

On March 29, 2001, PG&E filed proposed changes in rates under Contract 2948A, as amended, and other related agreements, pursuant to Section 205 of the Federal Power Act. In its filing, PG&E sought authority from FERC to pass on its costs to purchase power to support Western's hydroelectric resources to Western's customers and to replace the rate methodology which required PG&E to charge rates based on the average cost of its thermal generation. Since PG&E has divested itself of most of its thermal generation to take advantage of certain financial incentives provided in the context of the California electric industry restructuring process, PG&E argued that the rate methodology embodied in Contract 2948A, as amended, was no longer appropriate or just and reasonable and that it prevented PG&E from recovering its full costs of providing service to Western and Western's customers. If allowed to become effective, PG&E's proposed changes in the rates and terms and conditions of service under Contract 2948A, as amended, would have increased Western's costs by hundreds of millions of dollars over the remaining term of the agreement which expires at the end of 2004.

PG&E's filing was vigorously opposed by Western and by most of Western's customers. On May 25, 2001, FERC conditionally accepted PG&E's filing, suspended it for five months, established a refund effective date of October 28, 2001, and set various issues for hearing, including the issue of whether PG&E was contractually barred from making its proposed changes under the Mobile-Sierra doctrine. The matter was referred to a Presiding Judge who bifurcated the issues and set the Mobile-Sierra issue down for hearing as the first phase on crossmotion for summary disposition of the Mobile-Sierra issues.

On September 21, 2001, the Presiding Judge issued an Initial Decision which concluded that PG&E was contractually barred from filing its rate changes under the Mobile-Sierra doctrine. The Initial Decision reserved, for FERC decision, whether the deficiencies in PG&E's filing could be corrected in a Compliance Filing.

The matter was fully briefed to FERC on Exceptions to the Initial Decision taken by all parties. On October 24, 2001, FERC issued an "Order Affirming Initial Decision", in which it affirmed the findings by the Presiding Judge that PG&E lacked the contractual right to make a filing under Section 205 of the Federal Power Act to change the rates, rate methodology and terms and conditions of Contract No. 2948A, as amended. FERC also concluded that, since PG&E was contractually barred from making the filing, it could not correct the deficiencies in its filing through a Compliance Filing. FERC, therefore, rejected PG&E's filing in its entirety.

PG&E has the right to seek rehearing of FERC's October 24, 2001 Order by filing a Request for Rehearing on or before November 23, 2001. If rehearing is denied, PG&E has the procedural right to file a Petition for Review with the United States Court of Appeals for either the District, of Columbia Circuit or the Ninth Circuit.

After 2004, Western deliveries to the City are estimated to decrease by approximately 21,000 MWh per year due to the expiration of the Western-PG&E integration agreement. The City is currently planning to acquire or construct sufficient capacity to offset this expected decrease. At this time, Western has not disclosed how its continuing power deliveries will be priced after 2004. In April 2001, PG&E filed for bankruptcy protection. See "RECENT DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS—Developments Since the

Deregulation of the California Energy Markets—PG&E Bankruptcy; Edison/CPUC Settlement Agreement” and “—Impact of Recent Conditions on the City” herein. It is possible that the bankruptcy trustee could reject the Western—PG&E integration agreement and Western’s customers, including the City, would lose the benefits of such agreement. In this event, the City would need to cover the related reduction in Western deliveries much sooner than currently planned. This would cause increased energy supply costs, because current market prices are higher than the price of Western power.

Calpine Energy Contract. The City has a contract in conjunction with other NCPA members for 28 MW of energy delivered to the City for the ten year period starting in January 2002 with Calpine Energy Corporation. This energy will be delivered at a 100% load factor. Essentially, this contract operates as 24 hour resource. The annual energy amount of the contract is 219,000 MWh. The contract price is a take-or-pay \$65.00 per MWh or \$5,475,000 annually. Other NCPA participants in this contract are Biggs, Gridley, Healdsburg, Plumas Sierra, Ukiah and Lompoc.

NCPA Geothermal Project No. 3. NCPA has developed a geothermal project (the “NCPA Geothermal Project”) located on federal land in certain areas of Sonoma and Lake Counties, California. In addition to the geothermal leasehold, wells, gathering system and related facilities, the NCPA Geothermal Project consists of two electric generating stations (Geothermal Plant 1 and Geothermal Plant 2), each with two 55 MW (nameplate rating) turbine generating units utilizing low pressure, low temperature geothermal steam, associated electrical, mechanical and control facilities, a heat dissipation system, a steam gathering system, a transmission tapline and other related facilities. Geothermal steam for the project is derived from geothermal property, which includes wellpads, access roads, steam wells and reinjection wells.

NCPA formed two not-for-profit corporations controlled by its members to own the generating plants of the NCPA Geothermal Project. NCPA manages the NCPA Geothermal Project for the corporations and is entitled to all the capacity and energy generated by the NCPA Geothermal Project.

The NCPA Geothermal Plants experienced greater-than-anticipated declines in steam production from existing geothermal wells. Steam for the Geothermal Project comes from lands in the Geysers Area which are leased by NCPA from the federal government. NCPA operates these steam-supply areas. Initially, both Geothermal Plant 1 and Geothermal Plant 2 were operated as baseload generating projects at full capability (238 MW, which is an approved nameplate rating greater than the initial nameplate rating) comparable to the manner in which other Geysers projects were being operated. However, operation of both plants at high generation levels, together with high steam usage by others in the same area, resulted in a decline in the steam production from the steam wells at a rate greater than expected. As a result, by April 1988, for the purpose of slowing the decline in the steam field capability, NCPA changed its steam field production from baseload to load-following and reduced average annual steam production to 150 MW gross. These changes were effective in reducing the decline in steam production.

Beginning in 1991, NCPA, along with other steam field operators in the area, implemented operating strategies to further reduce the rate of decline in steam production. NCPA’s strategy included continuing average annual production at the 150 MW gross level, lowering steam turbine operating pressures to improve mass flow, and augmenting mass flow by managing the injection of plant condensate and supplemental water. These additional strategies were successful in accomplishing a further reduction in the rate of decline. To provide supplemental water, NCPA built two catch basins to collect plant site runoff. The catch basins have increased the amount of fluid injected by 3.8%. Due to improved steam field conditions during 1994 and 1995, the project operated at a 155 MW average gross. For the fiscal year ended June 30, 2001, average annual generation was 149.7 MW gross.

In April 1996, NCPA completed modifications of the Unit 2 steam turbine at Geothermal Plant 1 and associated steam collection system to generate power with lower pressure steam at higher mass-flow rates and greater efficiency than previously possible to optimize the utilization of the available steam resource. In 2000, NCPA entered into agreements to complete similar modifications and procure the necessary parts for the Unit 1 steam turbine at Geothermal Plant 1.

In addition, NCPA entered into agreements with other producers in the Geysers Area to finance and construct the Southeast Geysers Effluent Pipeline Project (the “Effluent Project”). Construction started in September 1995 and initial testing and operations commenced in September 1997. The 26-mile Effluent Project,

which is now in operation, collects 7.8 million gallons per day from Lake County Sanitation District wastewater treatment plants at Clearlake and Middletown and delivers the wastewater to NCPA and the two other Geysers steam field operators for injection. NCPA receives one-third of the wastewater. NCPA's \$9.5 million share of the Effluent Project costs were paid out of internally-generated funds.

Based upon current operating protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease, reaching approximately 86 MW by the year 2010 and remaining in excess of 60 MW through 2025, the end of the study period.

NCPA Geothermal Plants 1 and 2 and the steam-supply and its development were financed with NCPA revenue bonds of which \$301.71 million were outstanding as of October 31, 2001. The debt service on these bonds ranges from \$3.0 million to \$56.4 million, with a final maturity in 2010.

The City has purchased from NCPA, pursuant to power sales contracts, a 10.28% entitlement share in the capacity of NCPA's Geothermal Project and is obligated to pay 10.28% of the debt service and operating costs associated with such plants. The City laid off varying portions of its entitlement share through December 31, 2000 to the Turlock Irrigation District pursuant to a Geothermal Transfer Agreement dated July 1998, between the City and the Turlock Irrigation District. For the fiscal year ended June 30, 2001, the City received 124,960 MWh of electric energy from the NCPA Geothermal Project.

NCPA Geysers Transmission Project. For supplementary power supply service and to provide, among other things, transmission and other support services for the NCPA Geothermal Project, NCPA and the Ten Interconnected NCPA Members have entered into an Interconnection Agreement (the "NCPA-PG&E Interconnection Agreement"), effective September 14, 1983. The NCPA-PG&E Interconnection Agreement provides for firm PG&E transmission from the NCPA Geothermal Project, subject to the performance by NCPA of certain obligations specified therein. To meet these obligations, NCPA and the NCPA Geysers Transmission Project participants (which includes the City) have undertaken the Geysers Transmission Project. The Geysers transmission project includes (i) an ownership interest in PG&E's 230 kV line from Castle Rock Junction in Sonoma County to the Lakeville Substation (the "Castle Rock to Lakeville Line"), (ii) additional firm transmission rights in the Castle Rock to Lakeville Line and (iii) a central dispatch facility (the "Central Dispatch Center") in service at NCPA's headquarters.

The Central Dispatch Center forecasts load demands for the ten interconnected members, operates NCPA's generating facilities, and enters into buy-and-sell transactions with other utilities throughout the Western United States and Canada. The Central Dispatch Center also monitors and controls load and voltage levels and regulates hydroelectric facilities in coordination with PG&E to maintain a safe and reliable interconnected system.

NCPA financed the NCPA Geysers Transmission Project through the issuance of Transmission Project Number One Revenue Bonds, of which \$ 6.76 million were outstanding as of October 31, 2001. The debt service on these bonds is approximately \$1.0 million annually with a final maturity of August 15, 2010.

As described herein, beginning March 31, 1998, the operation of the transmission facilities owned by California's investor-owned utilities, including PG&E, was undertaken by the ISO. See "RECENT DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – Background; Electric Market Deregulation" herein. Such transfer is subject to existing contracts for transmissions, such as the NCPA-PG&E Interconnection Agreement. The terms of the NCPA-PG&E Interconnection Agreement require that PG&E give a three-year written notice to terminate the NCPA-PG&E Interconnection Agreement. PG&E issued a termination notice to NCPA during July 1997, for termination to become effective on August 1, 2000. Through several PG&E Transmission Owner Tariff (TOT) settlements at FERC, the proposed termination date was moved to April 1, 2002. In addition, pursuant to the Stanislaus Commitments which are incorporated as part of PG&E's Diablo Canyon Nuclear Plant licensing conditions, PG&E has agreed, among other things, to provide for firm transmission service to NCPA members (and other northern California public power entities) through the year 2050. PG&E was to have filed a replacement interconnection agreement with FERC seven months before the proposed April 1, 2002 termination date. On August 30, 2001, PG&E made a unilateral replacement filing at FERC to become effective April 1, 2002. NCPA has filed at FERC requesting that FERC reject the PG&E filing based, in part, on PG&E's filing being non-responsive to the Stanislaus Commitments. FERC is not compelled to act on the PG&E filing until 15 days prior to

the date of termination of the existing NCPA-PG&E Interconnection Agreement. Coincident with the FERC filing, NCPA staff has been negotiating with both PG&E and the ISO regarding either some type of extension of the existing NCPA-PG&E Interconnection Agreement, or some other mechanism whereby NCPA can transact directly with the ISO on behalf of NCPA members to schedule resources to meet loads. In the event that the NCPA-PG&E Interconnection Agreement terminates and new arrangements are not consummated with either PG&E or the ISO, NCPA will likely meet the transmission and ancillary service needs of NCPA members through a combination of self provision and taking service under existing ISO tariffs and protocols. In all cases, NCPA member loads will be served notwithstanding any FERC and/or other litigation that may occur on this issue coincidentally.

NCPA Combustion Turbine Project No. One. NCPA has developed its NCPA Combustion Turbine Project Number One (the "NCPA Combustion Turbine Project") consisting of five combustion turbine units, each nominally rated 25 MW. Two units are located in each of the cities of Roseville and Alameda, and one unit is located in the City.

The NCPA Combustion Turbine Project provides capacity (i) to be operated during the peak load period in order to reduce the need for purchasing partial requirements from alternate sources and (ii) to be used to meet capacity reserve requirements. Such reserve capacity is operated only during emergency periods when other resources are unexpectedly out of service. In addition, capacity and energy from the Combustion Turbine Project are also sold to others upon request. The combustion turbine units have economically fulfilled their planned function of reliably providing reserve and peaking power. To the extent permitted by air quality restrictions, the Combustion Turbine Project also provides energy for sale in the California deregulated market.

NCPA financed the NCPA Combustion Turbine Project through the issuance of NCPA Combustion Turbine Project Number One Revenue Bonds, of which \$30.6 million were outstanding as of October 31, 2001. The debt service on these bonds is approximately \$4.3 million annually, with a final maturity of August 15, 2010.

The City has purchased from NCPA, pursuant to a power sales contract, a 34.78% entitlement share in NCPA's Combustion Turbine Project No. One. As is typical of reserve and peaking resources, the average cost per kWh of power delivered to participants in the NCPA Combustion Turbine Project is comparatively expensive. For the fiscal year ended June 30, 2001, the City received 8,800 MWh of electric energy and 516.17 MW-months of capacity reserves from the NCPA Combustion Turbine Project at a total cost of \$3.6 million.

NCPA Hydroelectric Project. NCPA has developed a hydroelectric project (the "NCPA Hydroelectric Project") consisting of (a) three diversion dams, (b) the 243-MW Collierville Powerhouse, (c) the Spicer Meadow Dam with a 5.5MW powerhouse, and (d) associated tunnels located on the North Fork Stanislaus River and some of its minor tributaries in Alpine, Tuolumne and Calaveras Counties, California, together with required transmission facilities.

The NCPA Hydroelectric Project, with the exception of certain transmission facilities, is owned by the Calaveras County Water District ("CCWD") and is licensed by FERC pursuant to a 50-year License, No. 2409 issued in 1982 to CCWD. Pursuant to a Power Purchase Contract, NCPA (i) is entitled to the electric output of the project until 2032, (ii) managed the construction of the project and (iii) operates the generating and recreational facilities of the project. Under a separate FERC-issued license with an expiration date coterminous with the Project No. 2409 license (Project No. 11197), NCPA holds the license and owns the 230 kV Collierville-Bellota and 21 kV Spicer Meadow-Cabbage Patch transmission lines. After the present FERC license expires in the year 2032, NCPA has the option to continue to purchase Hydroelectric Project capacity and energy during a subsequent license renewal period. The purchase option includes all capacity and energy which is surplus to CCWD's needs for power within the boundaries of Calaveras County.

In February 1990, the operating portions of the project were declared substantially complete and commercially operable. As with any hydroelectric generation project, the operation of the NCPA Hydroelectric Project is determined by consideration of its storage capacity and available stream flows. The NCPA Hydroelectric Project has a 105-year record (1895 to 2000) of streamflows. Based upon the record, the NCPA Hydroelectric Project's average production is estimated to be 550 GWh annually. Using the driest period of record (1976-1977), the NCPA Hydroelectric Project is estimated to produce 180 GWh annually. The Hydroelectric Project generation for the 2000-01 fiscal year was 389.5 GWh.

FERC approved the applications of PG&E, CCWD and NCPA to transfer the Utica and Angels hydroelectric project licenses from PG&E to CCWD, and for CCWD to subsequently transfer the three reservoirs and associated water rights to NCPA. The title transfers were completed on July 18, 1996. The reservoirs are licensed to NCPA by the FERC as Project No. 11563 on a year-to-year basis while FERC is reviewing NCPA's license applications. Under the existing Upper Utica Project License, and pursuant to an agreement with CCWD, NCPA is able to divert and store up to an additional 52,000 acre-feet of water annually to the Collierville Powerhouse which is included in the NCPA Hydroelectric Project. The energy generated will be supplied to the Hydroelectric Project participants. NCPA's cost for the three reservoirs and associated water rights was established at \$2.5 million and paid upon issuance of the FERC license.

NCPA financed the Hydroelectric Project through the issuance of Hydroelectric Project Number One Revenue Bonds, of which approximately \$514.78 million was outstanding as of October 31, 2001. The City's share in the Hydroelectric Project and in such bonds is 10.37%. The debt service on these bonds continues to the year 2032 and annual debt service (net of certain economic defeasance portfolios established in 1998) ranges from \$17.5 million to \$39.8 million.

NCPA Multiple Capital Facilities Project. In 1992, NCPA undertook its multiple capital facilities project (the "NCPA Multiple Capital Facilities Project"). The NCPA Multiple Capital Facilities Project originally included three components: (i) one power generating station, Unit One, with a design rating of 49.9 MW located in the City, (ii) one power generating station, Unit Two, with a design rating of 49.9 MW located in the City of Ceres for Turlock, and (iii) certain improvements to the Electric System of the City (the "Lodi Facilities"). Each power generating station consists of a single natural gas-fired steam injected gas turbine (STIG), generator, and required auxiliary and electrical interconnection systems. NCPA financed the NCPA Multiple Capital Facilities Project through the issuance of \$152.3 aggregate principal amount of Multiple Capital Facilities Revenue Bonds.

In April 1998, Turlock refinanced the costs of its Unit Two project and caused the defeasance of the approximately \$64.3 million of Multiple Capital Facilities Revenue Bonds.

The acquisition and construction of the Lodi Facilities could not be undertaken, as contemplated, by the City, and the Lodi Facilities project was abandoned. Payment of the Outstanding Multiple Capital Facilities Revenue Bonds allocable to the Lodi Facilities, in the approximate principal amount of \$11.3 million, was provided for through the deposit of amounts in an irrevocable escrow fund (the "Lodi Facilities Escrow Fund") pursuant to an escrow agreement between NCPA and the trustee for the NCPA Multiple Capital Facilities Revenue Bonds. All of the Outstanding Multiple Capital Facilities Revenue Bonds allocable to the Lodi Facilities are expected to be paid or redeemed by September 3, 2002. The City remains obligated to make payments to NCPA with respect to debt service due on the outstanding NCPA Multiple Capital Facilities Revenue Bonds allocable to the Lodi Facilities in the event that for any reason, the amounts available in the Lodi Facilities Escrow Fund and the debt service reserve account for the Multiple Capital Facilities Revenue Bonds with respect to Lodi Facilities are insufficient to pay such debt service.

In February 1999, NCPA issued \$67.8 million of its Capital Facilities Revenue Bonds, 1999 Refunding Series A (the "NCPA Capital Facilities Revenue Bonds") for the purpose of effecting the crossover refunding of the Multiple Capital Facilities Revenue Bonds relating to Unit One project. The annual debt service on the NCPA Capital Facilities Revenue Bonds ranges from \$485,000 to \$5.9 million, with a final maturity in 2026. Pursuant to an escrow agreement between NCPA and the trustee for the NCPA Multiple Capital Facilities Bonds, a portion of the proceeds of the NCPA Capital Facilities Revenue Bonds, together with such available moneys, were deposited in an escrow fund and invested in a guaranteed investment contract to provide for the payment of the NCPA Multiple Capital Facilities Revenue Bonds related to Unit One. All of such NCPA Multiple Capital Facilities Revenue Bonds are expected to be paid or redeemed by September 3, 2002.

Unit One is owned and operated by NCPA, and the capacity and energy thereof is purchased by the City, Alameda, Lompoc and Roseville. The City has a 39.50% participation share in Unit One. NCPA has entered into arrangements on behalf of the Project Participants to provide for a gas supply for Unit One. NCPA has estimated the average cost of capacity from Unit One to be \$10.52/kW-mo. for fiscal year 2000-01.

Unit One is economically dispatched to meet the project participants' load, depending on the amount of generation available from NCPA's hydroelectric project and prices of alternative electric energy supplies, to meet other NCPA Members' load or to sell power to third parties depending on natural gas prices and electric energy prices. The facility has been designated by the ISO as a "must run" facility, and, if called upon by the ISO, NCPA will be reimbursed for the difference between the costs of startup and operation and the market value of the energy produced.

Unit One directly connects to PG&E's 230,000 volt transmission system. Transmission services are supplied through NCPA-PG&E Interconnection Agreement. See "NCPA Geysers Transmission Project" below.

NCPA Power Purchase Contract. NCPA, on behalf of the City, Healdsburg, Palo Alto, Ukiah and Roseville, has negotiated a seasonal exchange agreement with Seattle City Light for 60 MW of summer capacity and energy and a return of 46-MW of capacity and energy in the winter. Deliveries under the agreement began June 1, 1995 and will terminate no earlier than May 31, 2014. The City has a 40% participation in such contract.

TANC California-Oregon Transmission Project. The City, together with thirteen other northern California cities and districts and one rural electric cooperative, is a member or associate member of TANC. TANC, together with the City of Vernon, California ("Vernon"), Western, three California districts and authorities and PG&E (collectively, the "COTP Participants") own the California-Oregon Transmission Project ("COTP"), a 339-mile long, 1,600 MW, 500 kV transmission line project between southern Oregon and central California. The COTP was placed in service on March 24, 1993, at a cost of approximately \$430 million.

Pursuant to Project Agreement No. 3 for the COTP (the "TANC Agreement"), the City is obligated to pay 1.905% of TANC's COTP operating and maintenance expenses and 1.890% of TANC's debt service and is entitled to 1.890% (net of layoffs) of TANC's share of COTP transfer capability (approximately 23.7 MW) on an unconditional take-or-pay basis. The City anticipates that its share of financial operating and maintenance expenses and dues for the COTP will be approximately \$ _____ (in _____ dollars) per year.

To utilize the full transfer capability of the COTP on a firm basis and maximize the benefits of the line, the COTP must be operated on a coordinated basis with the Pacific AC intertie ("PACI"), a two line system which, like the COTP, connects California utilities with those in the Pacific Northwest. The three-line system, collectively referred to as the California-Oregon Interconnection ("COI"), was operated by PG&E, acting as the control area operator, under the Coordinated Operations Agreement ("COA") and a FERC rate schedule, which conforms to FERC Opinion No. 389, issued May 26, 1994 and Opinion No. 389A, issued November 16, 1998. Under operating instructions designed to implement the COA, the ISO began operating the PACI on March 31, 1998. TANC has not turned its COTP entitlement over to the ISO and the City has not committed its participation percentage in the COTP to the operational control of the ISO. Accordingly, the City has retained its existing firm transmission rights and continues to use the COTP as it did prior to the start-up of the ISO.

Sierra Pacific Power ("Sierra Pacific") has constructed a 345 kV transmission line from the Reno area to Alturas, California (the "Alturas Intertie Project"). The Alturas Intertie Project interconnects with the BPA System in California. WSCC has given the Alturas Intertie Project a 300-MW non-simultaneous transfer capability rating. However, the simultaneous operation of the Alturas Intertie Project with the COI could potentially reduce the COI delivery capability on a MW for MW basis, thereby directly impacting the interests of the TANC Members in the COTP. In October 1998, Sierra Pacific filed an Alturas Intertie Project Interconnection Agreement with FERC. On November 30, 1998 FERC accepted the Interconnection Agreement and directed Sierra Pacific to negotiate operational procedures for the Alturas Intertie Project which protect the integrity of neighboring systems and their use of the COI. On December 17, 1998, Sierra Pacific filed an Operating and Scheduling Agreement for the Alturas Intertie Project. The Operating and Scheduling Agreement was amended and refiled by Sierra Pacific on January 6, 1999. TANC and its Members protested the Operating and Scheduling Agreement and moved FERC to reject it on the grounds that it does not contain operating procedures which are mutually acceptable to neighboring transmission owners and it does not meet the requirements established by FERC in its November 30, 1998 Order. On February 26, 1999, FERC issued an order which nominally suspended the Operating and Scheduling Agreement, consolidated the dockets in which the Alturas Interconnection Agreement and the Operating and Scheduling Agreement are pending, and ordered settlement negotiations to be conducted with respect to both agreements. In its order, FERC specifically found that the Operating and Scheduling Agreement must include "mutually acceptable" procedures

which would not diminish the ability of the parties with existing transmission rights on the system to continue using such rights in a reliable and economical manner. Formal settlement discussions conducted under the supervision of a settlement judge were unsuccessful and the consolidated cases were the subject of a lengthy evidentiary hearing which was concluded in May 2000. In this proceeding, TANC and its Members have requested FERC to limit Sierra Pacific's use of the Alturas Intertie Project to non-firm use during periods of congestion to allow the California utilities to have the full economic use of the COI. In the alternative, TANC and its Members have requested FERC to condition Sierra Pacific's firm use of the Alturas Intertie Project on the upgrade of the Pacific Northwest Intertie to accommodate the full utilization of the COI and Alturas Intertie Project facilities on a firm basis. On March 22, 2001, the Presiding Judge issued his Initial Decision in which he concluded that BPA's planned uprating of the Northwest AC Intertie would accommodate the combined use of the system by the California utilities (including the COTP Participants) and the Pacific Northwest parties (including Sierra Pacific's use of the Alturas Intertie Project). Based on this conclusion, the Presiding Judge denied the request of the California utilities to impose restrictions on Sierra Pacific's current use of the Alturas Intertie Project. The Presiding Judge did, however, impose restrictions on the future upgrade or expansion of the Alturas Intertie Project and required Sierra Pacific to obtain specific authorization from FERC before expanding or upgrading its transmission facilities in the future. All principal parties to these proceedings have filed exceptions to the Initial Decision and Briefs Opposing Exceptions filed by adverse parties. The matter is now fully briefed on Exceptions and is pending before FERC. Although there is no prescribed timetable for a final decision by FERC, it is anticipated that a final order affirming, reversing or modifying the Initial Decision will be issued by the end of the 2001 calendar year.

In September 1996, the California Legislature enacted Assembly Bill No. 1890 ("AB 1890") which implemented the CPUC's electric industry restructuring proposal and required the turnover of the transmission systems of PG&E, SCE and SDG&E to the ISO. The ISO assumed the operational control of the PG&E/SCE/SDG&E transmission systems on March 31, 1998 and became the Control Area Operator in the PG&E/SCE/SDG&E service territories.

Neither AB 1890, nor the CPUC's restructuring order requires municipal systems or public agencies (state or federal) to turn over the operational control of their transmission facilities to the ISO, although they do have the option and have been encouraged to do so by the CPUC and the California Legislature. At this time, none of the COTP Participants, except PG&E and Vernon, have turned over the operational control of their interests in the COTP to the ISO. TANC and PG&E have submitted operating instructions to the ISO respecting the manner in which the COTP will be operated in coordination with the ISO controlled facilities; including the PACI and the duties and obligations which the ISO will assume with respect thereto. Until recently, implementation of the California electric restructuring has not materially impacted the costs and operation of the COTP. On January 1, 2001, the ISO filed a revised transmission access charge which became effective on that date, subject to hearing, review and refund in the event that the new tariff is found to be unjust and unreasonable. The FERC has suspended hearings on the new transmission access charge and has appointed a Settlement Judge to attempt to fashion a comprehensive settlement. Additionally PG&E and SCE have filed proposed tariff changes which would allow them to pass through certain grid management and reliability service costs imposed on them by the ISO to their respective transmission customers. TANC and its Members are opposing the imposition of any such charges on transactions which do not involve the direct use of the ISO Controlled Grid. TANC and its Members continue to actively participate in proceedings now pending at FERC to ensure that their ownership interests in and entitlements to the COTP are not adversely affected by the operations of the ISO.

Tesla-Midway Transmission Service. The southern physical terminus of the COTP is near PG&E's Tesla Substation in the San Francisco Bay Area. The COTP is connected to Western's Tracy and Olinda Substations. PG&E provides TANC with transmission service between its Tesla Substation and the Midway Substation under an agreement known as the South of Tesla Principles. The City's share of Tesla-Midway Service is ___ MW. The City has utilized its full allocation of Tesla-Midway transmission service for firm and non-firm power transactions.

TANC's Tesla-Midway Transmission Service is impacted by the California electric industry restructuring inasmuch as PG&E turned over its Tesla-Midway transmission facilities to the operational control of the ISO, effective on March 31, 1998. The ISO will administer the Tesla-Midway Transmission Rate Schedule under instructions negotiated by TANC and PG&E.

The South of Tesla Principles specified that the transmission rates thereunder would be calculated on the basis of a methodology approved by FERC through December 31, 1998. The rate lock was extended, by agreement between PG&E and TANC, through December 31, 1999. In Docket No. ER01-1659-000, PG&E is now seeking to change the rate methodology from subfunctionalized rates to combine the system interconnect and backbone subfunctions under a new regional transmission component. This case is to be withdrawn upon acceptance of the settlement of PG&E's Transmission Owner Tariff case, Docket No. ER01-66-000, presently pending before FERC.

While TANC has the option of turning over its entitlement to Tesla-Midway Transmission Service to the operational control of the ISO or converting its rights to ISO service under the ISO Tariff, TANC has no present plans to relinquish its current rights to the 300 MW of firm bi-directional Tesla-Midway Transmission Service. It is not anticipated that the California electric industry restructuring will have any immediate impact on either the costs or availability of Tesla-Midway Transmission Service. To this end, TANC is actively participating in pending FERC proceedings to ensure that no adverse effects result from the transfer of Control Area Operator responsibilities to the ISO. Pursuant to the South of Tesla Principles, TANC must evaluate and decide whether to participate in any upgrades of the Tesla-Midway transmission facilities. The CPUC ordered PG&E to file an application for a Certificate of Public Convenience and Necessity for the initial upgrade of the section of line between Los Banos and Gates Substations known as Path 15. This portion of the project would add a third circuit at 500kV of about 80 miles. Under an order issued by the Secretary of the Department of Energy, Western also published a notice of its intent to undertake a Path 15 uprating project. TANC responded to Western's request, indicating TANC's interest in a project management/development role, as well as in any resulting transmission capacity. On October 18, 2001, the Department of Energy announced the selection of seven participants in the Path 15 uprating project. It is expected that Western will serve as project manager and that TANC will have a significant share of the project. As both processes are in the early stage, it is unknown whether conflicts will arise, or if there is an opportunity for consolidation of both permitting/development efforts. TANC, along with other users and potential users of the path, will be evaluating the proposed transmission upgrade.

The South of Tesla Principles have no set termination date. Upon a determination that it is necessary to upgrade PG&E's Tesla to Midway transmission system and the election by TANC not to participate in the funding of such upgrades, the South of Tesla Principles will terminate at the end of a three-year period after its election. Currently, PG&E and TANC, in collaboration with Western, are discussing the feasibility of upgrading Path 15 on the PG&E transmission system, including the construction of a proposed Los-Banos-Gates 500 kV transmission line. The outcome of those discussions may require the modification of TANC's rights under the South of Tesla Principles or trigger certain provisions in the South of Tesla Principles, which will require the parties to elect to participate in the system upgrades.

Wholesale Power Trading [Revise as appropriate]

For a number of years, the City has used its energy and transmission resources together with its power scheduling capabilities to buy and sell energy in the western North American market. As deregulation unfolded, a greater need to manage resources on a day-to-day basis evolved, resulting in a more comprehensive approach to trading operations at the City. The principal reason for wholesale power trading is to optimize the value of the utility's assets and cost-effectively serve its retail load.

On _____, the City Council approved implementation of [Risk Management Policy and Procedures (the "Policy and Procedures")] that are intended to set up the confines in which the trading operations may occur. The objectives set forth in the Policy and Procedures include: (a) to provide a common risk management infrastructure to facilitate management control and reporting; (b) to evaluate the creditworthiness of the counterparties, and to monitor and manage the aggregate credit exposure; (c) to establish a corporate culture exemplifying best practices in risk management; (d) to create a mechanism to identify market-related opportunities within the City's overall exposure balance or "book" and opportunities to internalize related transactions; and (e) to develop an effective, streamlined ability to timely commit to transactions.

Most of the sale transactions entered into by the power trading operation are for 30 days or less, particularly when employing tax-exempt financed resources and dealing with counterparties that are not tax-exempt entities. Over the 1996-2001 fiscal years, the trading operation has netted average revenues of approximately \$___ million per year. Approximately \$1 million of amounts related to such wholesale sales in 2001 are outstanding, and may

ultimately become uncollectible due to financial difficulties of certain trade partners. For fiscal year 2001, net trading revenues were approximately \$___ million. The City does not expect this level of net trading revenues to be replicated in the future. The City is negotiating a restructuring of power supply so as to reduce power price volatility due to market conditions. The City anticipates that the exposure to market forces will be less than 5% of total energy if the restructuring is successful

Interconnections, Transmission and Distribution Facilities

The City’s Electric System is interconnected with the system of PG&E (three 60 kV lines). The City owns facilities for the distribution of electric power within the city limits of the City, which includes approximately 12 miles of 60 kV power lines, approximately 187 miles of 12 kV distribution lines (approximately [41]% of which are underground) and four substations. The City’s system experiences approximately 29.9 minutes of outage time per customer per year (System Average Interruption Duration Index (SAIDI), per the calendar year 2001 System reliability report data).

Future Capital Expenditures

The City’s five-year capital plan for the electric facilities contemplates capital expenditures in the following years and amounts:

**CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
ESTIMATED CAPITAL EXPENDITURES**

Improvements	Fiscal Year Ended June 30				
	2002	2003	2004	2005	2006
Line Extension	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Distribution Improvement	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000
Substation	1,900,000	400,000	4,000,000	250,000	0
Street Lighting	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Transmission Local	0	500,000	500,000	0	0
Other	150,000	150,000	150,000	150,000	150,000
Total	\$6,350,000	\$5,350,000	\$8,950,000	\$4,700,000	\$4,450,000

Source: City of Lodi.

The capital expenditures are for capital maintenance items, substation upgrades, a new distribution substation, transmission lines to interconnect existing 230kV transmission lines in the Lodi area, and related system reliability projects. The City anticipates funding such costs from bond financing proceeds in the early years and revenues from rates in later years. In addition, the City anticipates delivery of approximately \$45 million principal amount of electric system revenue certificates of participation in early 2002 to finance the costs of a combustion turbine project. See “PLAN OF FINANCE – Additional Financing Anticipated” herein.

Rates and Charges

The City has the exclusive jurisdiction to set electric rates within its service area. These rates are not subject to review by any state or federal agency.

The City's fiscal year 2000-01 average rate per kWh for residential service was 11.0 cents. The City's fiscal year 2000-01 average rate for commercial and industrial service was 8.6 cents per kWh.

The following table presents a recent history of the City's rate increases and decreases.

**CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
RATE CHANGES**

Effective Date	Percent Change
August 2001	Implemented 2nd MCA for all but contract customers: 10% to 12% rate change
June 2001	Implemented Market Cost Adjustment (MCA) for Residential and Small Commercial: 8% to 10% rate change
December 1998	5.00% rate decrease for small commercial/industrial customers
May 1998	2.50% general rate increase to fund public benefit programs
September 1997	4.5 to 5.5 cents per kilowatt-hour, non-demand, non-time-of-use, contract electric rate available for new large commercial/industrial loads
December 1996	10% to 40% economic development discount on new small to medium commercial/industrial electric loads
November 1996	Economic Stimulus Rate Credit increased to 1.262 cents per kilowatt-hour from 0.4 cents per kilowatt-hour for largest primary service customers (estimated 19% reduction)

Source: City of Lodi.

The City Council reviews Electric System rates periodically and makes adjustments as necessary. The City has adopted a number of rate policies which apply to contract rates with certain customers. See "CITY'S OPERATIONS SINCE REGULATION OF THE CALIFORNIA ENERGY MARKETS" herein.

The City has implemented a Market Cost Adjustment ("MCA") in June 2001. The purpose of the MCA was to recover abnormal market power costs due to the extremely unusual power market conditions in 2000 to 2001 in a timely fashion. The MCA is reviewed quarterly as to level. It can be either increased or decreased as market conditions dictate. Also, the MCA requires City Council review. The MCA is a tool utilized by the City to meet changing power market conditions in expeditious manner.

The MCA was increased again in August 2001 given the effect of FERC actions in the market. The current level of MCA will collect an additional \$9 million annually. At this level, the MCA will collect additional revenues sufficient to have met the change in power costs by the summer of 2002. At that time, a reduction in the MCA is anticipated.

AB 1890 requires that the City spend approximately 2.85% of gross revenues or about \$1.0 million per year on public benefit programs. The City currently spends about \$0.25 million per year. In 1998, the City adopted a 2.50% rate increase to fund a portion of such additional expenditures, with the remaining portion being funded from current revenues. The additional expenditures will be used for: (1) cost-effective demand-side management; (2) renewable energy resources and technologies; (3) research, development and demonstration programs; and (4) services for low-income electric customers, including rate subsidies. [Update]

Customers, Sales, Revenues and Demand

The average number of customers, kWh sales, revenues derived from sales by classification of service and peak demand during the past five fiscal years are listed below.

CITY OF LODI ELECTRIC UTILITY DEPARTMENT CUSTOMERS, SALES, REVENUES AND DEMAND

	Fiscal Years Ended June 30,				
	1997	1998	1999	2000	2001
Number of Customers:					
Residential	19,401	19,641	19,852	20,110	20,371
Commercial	3,037	3,174	3,200	3,242	3,284
Industrial	27	29	27	27	28
Other	253	259	262	265	269
Total Customers	22,718	23,103	23,341	23,644	23,951
Kilowatt-Hour Sales:					
Residential	133,785,166	131,680,271	139,576,741	142,760,436	145,944,230
Commercial	134,108,325	130,741,767	152,900,150	152,944,323	152,988,495
Industrial	87,715,824	93,493,240	78,839,636	78,010,585	113,705,881
Other	10,853,127	11,109,435	12,242,100	9,617,607	6,993,114
Total kWh sales	366,462,442	367,024,763	383,558,627	3883,333,00	419,631,721
Revenues from Sale of Energy⁽¹⁾:					
Residential	\$14,302,621	\$13,944,209	\$14,916,090	\$15,256,326	15,851,355
Commercial	13,764,400	13,498,168	14,840,775	16,430,949	15,555,108
Industrial	7,023,276	6,986,296	6,061,752	5,998,009	7,729,034
Other	1,119,376	2,284,721	1,219,062	957,716	646,044
Total Revenues from Sale of Energy:	\$36,209,673	\$35,613,394	\$37,037,679	\$38,643,000	\$39,781,540
Peak Demand (kW)	114,636	117,300	124,282	123,200	120,400

⁽¹⁾ Excludes revenues from California Energy Commission Tax.

Source: City of Lodi.

Largest Customers

The largest customers of the City's Electric System in terms of kWh sales, as of June 30, 2001 accounted for ___% of total kWh sales and ___% of revenues. The largest customer accounted for ___% of total kWh sales and ___% of total revenues. The smallest of the largest customers accounted for ___% of total kWh sales and ___% of revenues.

Outstanding Obligations

As of October 31, 2001, the City had outstanding \$_____ principal amount (including accreted value of capital appreciation certificates) of the Refunded 1999 Certificates payable from Net Revenues. The Refunded 1999 Certificates are being refunded with the proceeds of the 2002 Certificates. See "PLAN OF FINANCE" herein.

As previously discussed, the City participates in certain joint powers agencies, including NCPA and TANC. Obligations of the City under its agreements with respect to TANC and NCPA constitute operating expenses of the City. Such agreements are on a “take-or-pay” basis, which requires payments to be made whether or not projects are completed or operable or whether output from such projects is suspended, interrupted or terminated. Certain of these agreements contain “step up” provisions obligating the City to pay a share of the obligations of a defaulting participant. The City’s participation and share of debt service obligation (without giving effect to any “step up” provisions) for each of the joint powers agency projects in which it participates are shown in the following table.

**CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
(Dollar Amounts in Millions)**

	Outstanding Debt ⁽¹⁾	Lodi’s Participation	Lodi’s Share of Outstanding Debt
NCPA			
Geothermal Project	\$301.7	10.28% ⁽²⁾	\$31.0
Transmission Project	6.9	18.49 ⁽²⁾	1.3
Hydroelectric Project	514.8	10.37 ⁽²⁾	53.4
Combustion Turbine Project No. 1	30.6	34.78 ⁽²⁾	10.6
Capital Facilities	(3)	39.5 ⁽⁴⁾	
TANC			
Bonds	\$375.1	1.89 ⁽²⁾	7.1
Notes	<u>64.6</u>	<u>1.89⁽²⁾</u>	<u>1.2</u>
TOTAL	<u>\$</u>		<u>\$</u>

⁽¹⁾ As of October 31, 2001.

⁽²⁾ Participation based on actual debt service obligation. Participation obligation is subject to increase upon default of another project participant. Such increase shall not exceed, without the written consent of a non-defaulting participant, an accumulated maximum of 25% of such non-defaulting participant’s original participation. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2002 Certificates—Take-or-Pay Obligations” herein.

⁽³⁾ Net of crossover refunding escrowed proceeds from NCPA Capital Facilities Revenue Bonds.

⁽⁴⁾ Lodi’s participation is based upon a 39.50% participation in Unit One. Participation in Unit One is subject to increase upon default of another Unit One project participant. Such increase shall not exceed, without the written consent of a non-defaulting Unit One participant, an accumulated maximum of 25% of such non-defaulting Unit One participant’s Unit One participation.

Source: City of Lodi.

Significant Accounting Policies

The City’s Annual Financial Report is audited by KPMG Peat Marwick LLP, Sacramento, California, in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The reports include certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited financial statements. Copies of these reports are available on request from the City of Lodi, 1331 South Ham Lane, Lodi, California 95242. See “APPENDIX B—EXCERPTS OF AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2001.” Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or

balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Electric System is accounted for as an enterprise fund. Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises (where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges) or (ii) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments.

Summary of Operating Results

A summary of operating results for the City's electric system for the five fiscal years 1997 through 2001 is shown in the following tables. The financial results for fiscal years ended June 30, 1997 through 2001 were prepared by the City from audited annual financial reports.

**CITY OF LODI
ELECTRIC SYSTEM
SUMMARY OF OPERATING RESULTS
(Fiscal Year Ending June 30)**

OPERATING REVENUES	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Rate Revenue	\$35,767,222	\$35,625,395	\$37,222,762	\$38,937,804	\$39,623,991
Market Cost Adjustment	0	0	0	0	256,009
Interest/ Property Revenue	468,848	656,169	623,098	2,601,585	4,916,476
Other Normal Revenue	844,896	933,035	944,037	1,213	14,415
Transfer from Reserves	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,625,000</u>
Total Revenues	\$37,080,966	\$37,214,599	\$38,789,897	\$41,540,602	\$48,435,891
OPERATING EXPENSES					
Normal Expenditure less Payments in Lieu of Taxes	\$ 4,284,201	\$ 4,316,553	\$ 5,257,477	\$ 6,104,147	\$ 6,819,769
City Administration Charges	2,016,960	2,100,000	2,200,000	2,200,000	2,244,000
Purchase Power	<u>24,427,632</u>	<u>25,951,705</u>	<u>28,608,242</u>	<u>27,722,088</u>	<u>37,977,620</u>
Total Operating Expenses	<u>\$30,728,793</u>	<u>\$32,368,258</u>	<u>\$36,065,719</u>	<u>\$36,026,235</u>	<u>\$47,041,389</u>
OPERATING INCOME (LOSS)	\$ 6,352,173	\$ 4,846,341	\$ 2,724,178	\$ 5,514,367	\$ 1,394,502
Debt Service	0	0	0	\$ 1,329,594	\$ 1,391,435
Debt Service Coverage	N/A	N/A	N/A	415%	100%
Remaining After Debt Service				\$4,184,773	\$3,067
OTHER REVENUES (EXPENSES)					
Rate Funded Capital Projects				0	0
Operating Transfer Out				(1,828,110)	0
Transfer to Electric Fund				0	(3,625,000)
Transfer In				3,230,571	0
Payments in Lieu of Taxes	(4,280,000)	(4,292,067)	(4,275,047)	(4,400,000)	<u>(4,672,536)</u>
Change in Fund Balance					<u>(8,294,469)</u>
Fund in Balance				\$15,081,469	\$6,787,000

CITY'S OPERATIONS SINCE DEREGULATION OF THE CALIFORNIA ENERGY MARKETS

[REVISE - INCLUDE RECENT EVENTS]

Since the attempt to deregulate the electric utility industry, the City has taken a number of actions in order to address challenges facing the electric utility industry as a result of deregulation.

[Stranded Costs and Direct Access

Responding to the deregulated electric industry in California, the City intends to begin phasing in direct access by January 1, 2000. As part of providing direct access to all customer classes by July 1, 2000, the City has undertaken an assessment of the current level of above market generation costs, or stranded costs, of the City's Electric System. As of May 1999, the City estimated its stranded costs to be approximately \$33 million, based on studies done with NCPA and assuming the Henwood Energy Services, Inc. low power market forecast (adjusted to the City's load profile) of 2.84 cents per kWh for firm energy in 2000 escalating to 3.99 cents per kWh in 2015. While savings from operating cost reductions and debt refinancing (described below) have lowered the amount of stranded costs, the City's average revenue requirement per kWh for generation is still substantially higher than the current market price for energy. The City expects to impose a CTC on all customers to recover the full amount of stranded costs, while maintaining a regionally competitive rate structure.

Debt Reduction Initiatives

As part of its efforts to reduce its stranded costs, the City participated in a series of recently completed refinancings by NCPA. In the first of these transactions, NCPA (i) converted a portion of its variable rate bonds for the Geothermal Project Number 3 to a fixed rate; (ii) applied certain reserves, surplus construction fund moneys, and equity contributions of certain NCPA members to defease a portion of its Hydroelectric Project Number One debt and its Geothermal Project Number 3 debt; and (iii) refunded a portion of its outstanding Hydroelectric Project Number One debt in order to reduce the annual debt service on such bonds and extend the final maturity of such bonds to 2032. The City also has refinanced debt related to the NCPA Combustion Turbine Project Number One debt as well as the NCPA Multiple Capital Facilities Project Bonds, taking advantage of low interest rates. This combined series of transactions resulted in substantial debt service savings to the City, lowering debt service requirements by approximately \$4.5 million annually from 2002-2010 and reducing the cost of power to the City by approximately 1.0 cent per kWh.

Establishment of a Competitive Transition Charge

The City is evaluating a schedule for the adoption of a customer class-based CTC, along with unbundled electric rate schedules in order to begin direct access. Although the City has taken no formal action to date toward direct access or the establishment of a CTC, the City expects to obtain approval in the final quarter of 1999 to move forward with a CTC. As the City moves to direct access, the City intends to maintain a rate structure for the Electric System that both fully recovers its costs (including its stranded costs) and assures that the City's fully bundled rate (including the CTC) will be no more than the fully bundled rate charged by the City's regional competitor (i.e. PG&E).

The City also intends to remain competitive on an unbundled basis by paying off its stranded costs through a combination of the CTC, non-operating revenues, and, if necessary, available reserves. As of June 1999, the City had approximately \$26.0 million in the Electric System fund reserves. Based on the City's current rate projections and assuming the Henwood Energy Services low market power forecast, the City will be able to charge rates for all of its major business functions—generation, transmission, and distribution (which includes the CTC)—that are competitive in an unbundled rate environment without significantly reducing its available reserves. The City also expects that future in-lieu tax transfers to the City's General Fund from electric revenues can be gradually reduced, if necessary, to allow further recovery of stranded costs. In fiscal 1998-99, the City transferred 12% of its gross electric revenues (\$4.22 million), as an "in lieu" payment, to the City's General Fund. The City expects to be able

to retire or defease debt associated with its stranded costs and terminate its CTC by 2010, although no assurances can be given that all of the City's stranded costs will be eliminated by that date.]

Rate Actions and Customer Contracts

In order to enhance its ability to retain electric load in a direct access environment, as well as to enhance economic development within the City, the City has offered its largest customers discounted rates pursuant to contract. To date, the City has entered into five contracts, with termination beginning in December 2001, with customers representing approximately [7%] of the City's electric revenues. At this time, the City is considering in adjusting these contract customers relative to the market given the contract expiration. PG&E rates for these customers are significantly higher for these customers. It is anticipated that the adjustment will be a balance between cost, economic development and competitiveness.

As pointed out above, the City has pro-actively implemented its MCA that allows the City to recover significant change in power costs. Power costs are viewed quarterly with adjustments made as needed. The City has set the MCA at a level to recover about \$9,000,000 in additional cost in fiscal year 2001-02.

RECENT DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS

Background; Electric Market Deregulation

The State of California has attempted to establish a competitive electric energy market. This effort, initially begun by the California Public Utilities Commission ("CPUC"), has been augmented by state legislative action. FERC has issued an order granting the federal authorizations necessary to implement the California deregulation program.

In September 1996, State Legislative Assembly Bill 1890 ("AB 1890") became effective, which facilitated deregulation of the California electric energy market. AB 1890 mandated the organization of an Independent System Operator, which has been established as the ISO and an independent power exchange, which has been established as the PX, each of which is a nonprofit, public benefit corporation. The ISO and the PX commenced operations on March 31, 1998, with the ISO assuming operational control of the transmission facilities of the IOUs and the PX serving as the spot market for the purchase of output of the IOUs' generating assets and for the sale of electricity to meet their service requirements. The ISO regulates access, on a nondiscriminatory basis, to transmission facilities under its control and in conjunction with the CPUC and FERC, establishes pricing structures for access. The PX organized and operated a procedure by which electric power generators desiring access to transmission facilities could sell power on a competitive spot-market basis; however, the PX has ceased trading activities and filed for bankruptcy protection. See "Developments Since the Deregulation of the California Energy Markets" below.

Although municipal and other public agency utilities ("municipal utilities"), including the City, are not subject to the CPUC's jurisdiction and AB 1890 applies primarily to the California IOUs, municipal utilities were encouraged to participate in the competitive framework. For example, AB 1890 authorizes the recovery of generation investments which cannot be recovered from market prices in a competitive environment through a nonbypassable charge to distribution customers of the municipal utility if the municipal utility opens its service area to direct access and turns over operational control of its transmission facilities to the ISO. The period to satisfy the direct access requirement for such an AB 1890-sanctioned nonbypassable charge has expired. AB 1890, however, specifically states that it does not affect the preexisting ratemaking authority of the governing body of a municipal utility, and thus the municipal utility's ability to recover stranded costs under current law. AB 1890 further does not limit or affect a municipal utility's statutory rights to negotiate and design rates for existing customers and new customers who do not choose to be served by an alternate electricity supplier.

AB 1890 further encourages municipal utilities to participate in AB 1890's competitive framework by requiring reciprocity. That is, a municipal utility may sell electricity to the retail customers of another utility only if the municipal utility permits the other utility to sell electricity to the municipal utility's retail customers. There was

a bill introduced in the State Legislature (Senate Bill 2X-8) to repeal this provision of AB 1890 which could be reintroduced in the future.

AB 1890 mandates that municipal utilities direct specific sums to fund public benefit programs such as energy efficiency and conservation, public research and development, renewable resource and low-income assistance programs. This expenditure mandate was extended until 2012 by Assembly Bill 995, which became effective on January 1, 2000.

Developments Since the Deregulation of the California Energy Markets

Set forth below is a discussion of certain developments that have occurred since the passage of AB 1890 and the effort to deregulate the California energy markets.

AB 1890 Rate Freeze; Financial Difficulties of the IOUs and other Market Participants. In mid-2000, wholesale electricity prices in California began to rise, swiftly and dramatically. Retail electricity rates permitted to be charged by the three major investor-owned electric utilities (the "IOUs") in California, Pacific Gas & Electric Company ("PG&E"), San Diego Gas & Electric Co. ("SDG&E") and Southern California Edison ("Edison") by California Law, at the time were frozen by California law. The resulting shortfall between revenues and costs adversely affected the creditworthiness of the IOUs and their ability to purchase electricity. In addition, the creditworthiness of the ISO and the PX were directly tied to that of the IOUs because of the significant financial obligations of the IOUs to the ISO and the PX. As a result of the deteriorating financial conditions of such agencies, power suppliers expressed concerns about supplying energy to such California entities. On December 15, 2000, FERC issued an order eliminating the requirement that California IOUs buy energy through the PX and prohibiting them from selling energy to the PX. In that order FERC also directed the PX to discontinue purchasing energy on April 30, 2001. By January 31, 2001, the PX had become insolvent and ceased trading activities. At present, the City is owed moneys from the ISO and/or the PX [confirm]. For a discussion of the City's financial exposure to the ISO and the PX, see "THE ELECTRIC SYSTEM—Wholesale Power Trading" herein.

State Intervention. In January 2001, California Governor Gray Davis determined that the electricity available from California' utilities was insufficient to prevent widespread and prolonged disruption of electric service in California and proclaimed a state of emergency to exist in California under the California Emergency Services Act (the "Emergency Services Act"). The Governor directed the Department of Water Resources of the State ("DWR") to enter into contracts and arrangements for the purchase and sale of electric power as necessary to assist in mitigating the efforts of the emergency (the "Power Supply Program"). Following the Governor's proclamation under the California Emergency Services Act, the Power Supply Program was further authorized by the enactment of legislation (Chapter 4 and 9, First Extraordinary Session of 2001, hereafter referred to as the "Power Supply Act") and the adoption of related orders by the CPUC.

DWR began selling electricity to approximately 10 million retail end-use customers of the three major IOUs in California (the "Customers") in January 2001. DWR purchases power from wholesale suppliers under long-term contracts and in short-term and spot market transactions. DWR electricity is delivered to the Customers through the transmission and distribution systems of the IOUs and payments from the Customers are collected for DWR by the IOUs pursuant to servicing arrangements ordered by the CPUC.

Recent IOU Rate Increases. On January 4, 2001, the CPUC approved an interim 90-day surcharge of \$0.01 per kWh for PG&E and Edison, subject to refund and adjustment. The surcharge has resulted in rate increases of 9% for residential customers, 7% for small businesses, 12% for medium businesses and 15% for large commercial customers. On March 27, 2001, the CPUC made permanent the \$0.01 per kWh surcharge for PG&E and Edison and approved a \$0.03 per kWh rate increase, subject to refund and adjustment, on electricity sold to PG&E and Edison customers consuming in excess of 130% of "baseline" quantities (consistent with AB1X-1 described above). On September 20, 2001, the CPUC authorized a 12.1% rate increase in the SDG&E service area in order to provide for recovery of SDG&E's share of the costs of the DWR power purchase program.

PG&E Bankruptcy; Edison/CPUC Settlement Agreement. On April 6, 2001, PG&E filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. The bankruptcy proceedings (hereinafter, the "PG&E Bankruptcy") are pending in U.S. Bankruptcy Court in San Francisco, California. During the PG&E Bankruptcy,

PG&E's operations are expected to continue under current management, while the Bankruptcy Court decides on the allocation of PG&E's available cash flow and assets among its various creditors. The Bankruptcy Court may take actions dealing with existing contracts for purchase or sale of electricity, and possibly also with regard to the prices charged to end use customers. Bankruptcies involving large and complex companies typically take several years to reach a conclusion. PG&E's parent company has not filed for bankruptcy protection. On September 20, 2001, PG&E filed its reorganization plan with the Bankruptcy Court. The plan seeks an extensive restructuring of PG&E's business and the transfer of certain of its assets, including its electric and gas transmission assets, to newly created limited liability companies. Such plan will likely be subject to approval by FERC, the Securities and Exchange Commission and the Nuclear Regulatory Commission.

Edison has previously indicated that it might seek bankruptcy law protection if the Legislature did not enact legislation to assist its financial recovery; no such action was taken before the Legislature adjourned on September 14, 2001. On October 2, 2001, Edison and the CPUC announced the proposed settlement of certain pending litigation which is intended to allow Edison to recover from ratepayers a substantial portion of its accumulated debts. The settlement was approved by the federal District Court on October 5, 2001, but may be challenged by consumer groups and other interested parties.

Enron has recently faced severe financial difficulties and its credit ratings have been downgraded to below investment grade. On December 2, 2001 Enron announced that it, along with certain of its subsidiaries, had filed voluntary petitions for reorganization under Chapter 11 of the federal Bankruptcy Code. [At present the City is not owed any moneys from Enron. For a discussion of the City's financial exposure to Enron, see "THE ELECTRIC SYSTEM – Wholesale Power Trading" herein.]

FERC Price Mitigation. On June 19, 2001, FERC ordered the implementation of cost-based price mitigation in the spot electricity markets for California and the rest of the area within the Western Systems Coordinating Council. During periods of reserve deficiency (*i.e.*, when reserves are below 7% in California and a Stage 1 alert is announced), FERC's order requires sellers that have available energy to submit bids that are no higher than the marginal cost to replace natural gas used for generation plus variable ownership and maintenance costs. Sellers that are marketers cannot bid higher than these cost-based prices. The order further limits spot market prices during all non-reserve deficiency periods to a maximum of 85% of the highest price established during the most recent Stage 1 alert. This action significantly reduced spot power prices in the western United States. FERC's price mitigation order took effect on June 20, 2001 and is scheduled to terminate on September 30, 2002.

Natural Gas Prices. California imports a substantial portion of its natural gas. Limited gas transmission pipeline capacity into California and a major pipeline break in New Mexico during the summer of 2000, coupled with increases in wholesale prices for natural gas in the United States, resulted in substantial price increases being passed on to business and residential consumers. Pipeline expansion is planned but may not be complete for several years. Nationwide, prices for natural gas have been extremely volatile and such volatility is likely to persist for several years. Supplies of natural gas in northern and central California are also being affected by the financial difficulty of the utility company serving that region. Shortages of natural gas supplies could adversely affect the economy, and particularly generation of electricity, much of which is fueled by natural gas, including some of the resources of the City.

State Activities in Connection with Current Conditions. DWR's expenditures for electricity purchases for the period January 17-October 15, 2001 aggregated approximately \$11.3 billion. Retail end use customer payments for electricity furnished by DWR currently aggregate substantially less than DWR's cost of purchasing that electricity, and such a shortfall will continue until revenues from rates charged to end use customers for electricity cover expenses for purchases of electricity (and related financing costs).

Proceedings are underway to determine rates for the electricity supplied by the DWR. As described above, the CPUC has approved substantial electricity rate increases for end use customers of the two largest investor-owned utilities, PG&E and Edison. Further CPUC action will be necessary to implement the increases and determine the portion of the rate increases due to DWR.

Pursuant to the Power Supply Act, DWR is to issue authorized \$13.4 billion of revenue bonds to fund its Power Purchase Program. The revenue bonds will be repaid from a dedicated revenue stream derived from retail

end use customer payments for electricity. In order to facilitate the financing, certain orders may need to be adopted by the CPUC. Completion of the DWR bond sales is dependent upon a number of other factors, including potential legal challenges. While DWR initially hoped to sell the revenue bonds in the late summer or fall of 2001, delays as described below and potential challenges have moved the earliest likely bond sale date to 2002, and as of the date hereof, there is no proposed schedule for the sale.

Since January 2001, the Governor and Legislature have implemented a number of steps through new laws and Executive Orders to respond to the energy problems in the State. These steps include expediting power plant construction and other means of increasing electricity supplies, the creation of a State agency authorized to build, purchase and obtain by eminent domain electricity generation and transmission facilities, and natural gas facilities, implementing vigorous energy conservation programs, and entering into long-term power supply and natural gas supply contracts to reduce reliance on spot markets. The combination of these steps, along with moderate temperatures, allowed the State to avoid any electricity interruptions during the peak summer energy demand season.

While the State has reported that it expects that over time the measures described above, coupled with conservation, load management and improved energy efficiency, will continue to enable the State to avoid disruptions of the supply of electricity to the public, and will maintain lower wholesale power prices and ultimately promote the financial recovery of the IOUs, the situation continues to be fluid and subject to many uncertainties. There can be no assurance that there will not be future disruptions in power supplies or related developments which could adversely affect the State economy, the City's power costs or revenues or the operating environment of the Electric Utility.

Litigation. A number of lawsuits and regulatory proceedings have been commenced concerning various aspects of the current energy situation. These include, for example, disputes over rates set by the CPUC; alleged overcharging for the sale of electricity (including sales by municipal utilities, see "Impact of Recent Conditions on the City" below); responsibility for electricity and natural gas purchases made by the IOUs and the ISO; continuing contracted obligations of certain small independent power generators; and antitrust and fraud claims against various parties. Adverse rulings in certain of these cases may affect the City's power costs and/or revenues or result in refunds payable by the City to the State or other entities. The City is unable to predict the outcome of such litigation, investigations and proceedings.

Impact of Recent Conditions on the City. [Revise] The effect of these recent developments in the California energy markets on the City cannot be fully ascertained at this time; although one effect could be that it may become increasingly difficult for the City to procure energy in the open market as a result of the large quantities of energy being purchased under contract by DWR. It is likely that there will continue to be significant volatility in energy prices in California due to a variety of factors which affect both the supply and demand for electric energy in the Western United States. These factors include, but are not limited to, insufficient generation resources, fuel costs and availability, weather, transmission congestion and levels of hydroelectric generation within the region. This price volatility may contribute to greater volatility in the City's revenues from the sale of electric energy and therefore, could materially adversely affect the financial condition of the City. The City has power supply contracts and other arrangements relating to its system supply of power which are of specified durations. The City is currently in load/resource balance, having contracted forward for its power supply needs with less than 2% residual energy purchases in the day-ahead or hour-ahead spot market necessary to meet its retail load requirements. [Revise as appropriate] The City undertakes resource planning activities and plans for its resource needs in order to mitigate against such price volatility and its spot market rate exposure. For a discussion of the City's current resource planning activities, see "THE ELECTRIC SYSTEM – Future Power Supply Resources" herein.

In addition, the City has entered into various power purchase, transmission service and other arrangements with the IOUs or with other entities that have related arrangements with the IOUs. See "THE ELECTRIC SYSTEM – Power Supply Resources" for a discussion of such contracts any other arrangements. In bankruptcy proceedings, such as the PG&E Bankruptcy, the debtor (PG&E, in the case of the PG&E bankruptcy) or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject any of its executory contracts. In the event of assumption, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of an executory contract by the debtor would give rise to an unsecured claim of the other parties for damages. In the event of rejection by PG&E in

the PG&E Bankruptcy of any of the contracts to which the City is a party or beneficiary, the City may be required to replace the services or power supplied under these arrangements at the current high price conditions existing in the California energy market or otherwise at an increased cost, which could result in substantially higher electric rates being charged by the City.

The City sells energy into the market that is not needed for its customer demands, and engages in certain wholesale energy trading activities. For a discussion of the City's recent wholesale power trading activities, see "THE ELECTRIC SYSTEM – Wholesale Power Trading" herein. The Governor of California, appearing before a Senate panel, was critical of power marketers, power producers and municipal utilities from selling energy at high prices. In addition, the Governor has threatened a state seizure of electric facilities unless municipalities agree to lower, cost based prices. On April 18, 2001, the Senate Committee on Rules established the Senate Select Committee to Investigate Price Manipulation of the Wholesale Energy Market.

Pursuant to that Committee's subpoena power, it has issued subpoenas to eleven municipal utilities, including NCPA, that sold wholesale power to the State [for the benefit of the City]. The Governor has also requested that FERC investigate and order municipal utilities to pay refunds to the State. Following the issuance of FERC's June 19, 2001 order on price mitigation in the spot electricity markets in California (see "FERC Price Mitigation" above), FERC entered an order on July 25, 2001 to conduct a fact finding hearing to calculate refunds for spot market transactions in California. A settlement conference addressed potential refunds to the State, the ISO and the PX for alleged overcharging in sales of power to the State; however, no agreement was reached. The City does not believe that its wholesale power sales have generated inappropriate revenues or profits for its electric system. No legislation or executive order has been proposed to address the Governor's concern, and it is unclear whether FERC has the jurisdiction to order municipal utilities to pay refunds. The City is unable to predict what actions the State may take regarding wholesale power sales by municipal utilities.

In related cases filed with FERC by various power purchasers, FERC has initiated proceedings to determine the extent to which sellers in the California and Pacific Northwest power markets sold power at prices above the FERC-determined just and reasonable rate. The City made certain sales at the market price during the relevant time frames (October 2, 2000 - June 20, 2001 in California; December 25, 2000 – June 20, 2001 in the Pacific Northwest) and is participating in these proceedings to defend against any claim that portions of the revenues derived from those sales should be refunded to purchasers. The outcome of these proceedings is unpredictable, but it appears unlikely that the City will incur any substantial liability to make refunds on sales made into the relevant markets.

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Energy Policy Act of 1992

The Energy Policy Act made fundamental changes in the Federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry.

As amended by the Energy Policy Act, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or any other person or entity generating electric energy for sale or resale to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under the Energy Policy Act, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities which are used for the sale of electric energy at wholesale are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213. The Energy Policy Act specifically denies FERC the authority to mandate "retail wheeling" under which a retail customer located in one utility's service area could obtain power from another utility or from non-utility power generator.

Changes in Federal Regulation of Electric Utilities

On April 24, 1996, FERC issued two final rules and a Notice of Proposed Rulemaking for a Capacity Reservation Tariff ("CRT NOPR"). The final rules effect significant changes in the regulation of transmission services provided by public utilities (as defined in the Federal Power Act) that own, operate or control interstate transmission facilities and which are subject to FERC jurisdiction over wholesale contracts, rates and services ("jurisdictional utilities"). The City is a not public utility and is not a jurisdictional utility under the Federal Power Act.

One of the final rules, Order No. 888, (i) requires the provision of open access transmission services on a nondiscriminatory basis by all jurisdictional utilities by requiring all such utilities to file tariffs that offer other entities seeking to effect wholesale power transactions the same transmission services they provide themselves, under comparable terms and conditions and (ii) requires a nonjurisdictional utility, such as the City, that purchases transmission services from a jurisdictional utility under an open access tariff and that owns or controls transmission facilities to, in turn, provide open access service to the jurisdictional utility under terms that are comparable to the service that the nonjurisdictional utility provides itself. This is referred to as the reciprocity requirement. Order No. 888 also includes provisions which permits a jurisdictional utility to recover under certain conditions so-called "stranded costs" for generating and other facilities from wholesale customers of a utility which use open access transmission service to purchase from other power suppliers.

The other final rule, Order No. 889, (i) implements standards of conduct for jurisdictional utilities that offer open access transmission service to ensure that transmission owners and their affiliates do not have an unfair competitive advantage in using transmission to sell power and (ii) requires those jurisdictional utilities to establish an electronic "Open Access Same-time Information System" ("OASIS") to share transmission-related information (including information about available capacity) on the Internet, and to require that those jurisdictional utilities also obtain information about their transmission systems for their own wholesale power transactions, such as available capacity, in the same way that their competitors do through the OASIS.

On review, the United States Court of Appeals for the District of Columbia Circuit largely affirmed Orders 888 and 889. The Supreme Court recently agreed to consider certain issues raised by the Orders.

The City is a nonjurisdictional utility under the Federal Power Act, Order Nos. 888 and 889 and the rule proposed in the CRT NOPR. At this time, the City is unable to predict what effect these new rules will have on the City. However, the reciprocity requirements could adversely affect the City's ability to compete with third parties for wholesale customers outside its service area.

On May 13, 1999, FERC issued a notice of proposed rulemaking concerning the formation of regional transmission organizations ("RTOs"). FERC is encouraging the voluntary formation of regional organizations independent from owners of generation and other market participants that will provide transmission access on a non-discriminatory basis to buyers and sellers of power. IOUs and publicly-owned utilities are being encouraged to participate in the formation and operation of RTOs, but are not, at this time, being ordered by FERC to participate. After receiving comments from interested parties, FERC issued a final rule on December 20, 1999 (i.e., Order 2000). Under the rule, IOUs were required to file with FERC by October 15, 2000 a proposal for an RTO, consistent with the rule, that must be operational by December 15, 2001 or, alternatively, a description of efforts to participate in an RTO, any existing obstacles to RTO participation, and any plans to work toward RTO participation. Utilities that are members of an existing FERC-approved independent system operator were required to file by January 15, 2001. California entities did not submit an RTO proposal by the January 15, 2001 deadline, but did submit such a proposal to FERC on June 1, 2001. In addition, federal legislation was introduced that would authorize FERC to order transmission owners, including publicly owned utilities, to join an RTO. No prediction can be made by the City at this time whether any such legislation will be enacted, or if enacted in such form, whether FERC would seek to exercise such authority. It is not certain at this time what impact, if any, FERC's final rule will have on the California ISO or the City.

Proposed Federal Deregulation and Tax Legislation

Many bills have been introduced in the United States House of Representatives and the United States Senate to deregulate the electric utility industry on the federal or state level. Many of the bills provide for open competition in the furnishing of electricity to all retail customers (i.e., retail wheeling). In addition, various bills have been introduced which would impact the issuance of tax-exempt bonds for transmission and generation facilities. No prediction can be made by the City as to whether any of these bills or any similar federal bills proposed in the future will become law or, if they become law, what their final form or effect would be. Such effect, however, could be material to the City.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described below, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the proposed repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the recent high cost of natural gas), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as have been occurring in California, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, and (o) other legislative changes, voter initiatives, referenda and statewide propositions. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City cannot predict what effects such factors will have on the business operations and financial condition of the City, but the effects could be significant. The foregoing is a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Series 2002 Certificates should obtain and review such information.

RATE REGULATION

The City sets rates, fees and charges for electric service. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not subject to the general regulatory jurisdiction of the CPUC, and currently neither the CPUC nor any other regulatory authority of the State of California nor FERC approves such rates and charges. It is possible that future legislative and/or regulatory changes could subject the rates and/or service area of the City to the jurisdiction of the CPUC or to other limitations or requirements.

FERC potentially could assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the Federal Power Act, although it as a practical matter has not exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. There is a question as to whether FERC has jurisdiction at all to modify rates for municipalities which are authorized to set their own rates. The City is a customer of a licensee of hydroelectric projects under Part I (through NCPA), but no jurisdictional authority to regulate their rates has been asserted by FERC. FERC and its predecessor, the Federal Power Commission (the "FPC"), have indicated on a number of occasions that municipalities and other public agencies authorized to set their own rates are not subject to FERC's regulatory jurisdiction over rates. On the other hand, the FPC in at least one decision suggested a contrary result. Even if FERC were to assert jurisdiction over the services and charges associated with such hydroelectric projects, it is unlikely that any reasonable rates and charges would be found to be contrary to applicable federal regulatory standards.

Under the Energy Policy Act, FERC has the authority, under certain circumstances and pursuant to certain procedures, to order any utility (municipal or otherwise) to provide transmission access to others at FERC-approved rates.

FERC also has jurisdiction to regulate those rates and has asserted that jurisdiction in Minnesota Municipal Power Agency v. Southern Minnesota Municipal Power Agency, 66 FERC ¶61,223 (1994) and 68 FERC ¶61,060 (1994). However, FERC's asserted jurisdiction over municipal rates does not extend to the rates for power sales and applies only to transmission service ordered by FERC pursuant to Section 211 of the Federal Power Act, as amended by the Energy Policy Act. Neither the City nor the joint powers agencies with which the City has contracted which developed the transmission assets are providing any such transmission service to others. No assurance can be given that such service will not be requested in the future.

To the extent that the City makes use of any open access transmission tariff filed by a FERC-jurisdictional utility pursuant to Order No. 888, the City will trigger certain reciprocal obligations under the tariff, including the obligation to provide open access transmission service to certain other utilities, to make information about its facilities available on a computer bulletin board and to separate its transmission personnel from its marketing personnel. The City already expects to participate in a regional bulletin board and has stated its readiness to provide open access service under appropriate terms and conditions. To the extent that the separation requirements may be unduly burdensome, the City may seek appropriate waivers from FERC.

The California Energy Commission is authorized to evaluate rate policies for electric energy as related to the goals of the Energy Resources Conservation and Development Act and to make recommendations to the Governor, the Legislature and publicly owned electric utilities.

CONTINUING DISCLOSURE

The City will covenant pursuant to a Continuing Disclosure Agreement, dated as of January 1, 2002 (the "Continuing Disclosure Agreement"), by and between the City and the Trustee, to provide certain financial information and operating data relating to the City by not later than six months following the end of the City's Fiscal Year, which Fiscal Year presently ends June 30 (the "Annual Report"), commencing with the Annual Report for the 2001-02 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material, under federal securities law. The Annual Report will be filed by the City with each nationally recognized municipal securities information repository and with the appropriate State repository, if any (collectively, the "Repositories"). The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board and the Repositories. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in "APPENDIX E – PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT" herein. These covenants have been made to assist the Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). As of the date hereof, the City has never failed to comply in any material respect with any previous undertakings with regard to the provision of annual reports or material events notices as required by the Rule.

THE CORPORATION

The Corporation was incorporated under the Nonprofit Public Benefit Corporation Law of the State of California. The Corporation was organized as a nonprofit corporation for the purpose, among others, of assisting the City in the acquisition, construction and financing of public improvements which are of public benefit to the City. Members of the Lodi City Council serve on the Board of Directors of the Corporation.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The City is of the opinion that the electric service and user charges imposed by the City do not exceed the costs the City reasonably bears in providing the electric service. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Constitutional Changes in California

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters of the State of California on November 5, 1996. Proposition 218 added Articles XIII C and XIII D to the State Constitution. Article XIII D creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and “property-related” fees and charges. Article XIII D explicitly exempts fees for the provision of electric service from the provisions of such article. Nonetheless, Proposition 218 indirectly could affect the City’s Electric System. For example, to the extent Proposition 218 reduces the City’s general fund revenues, the City could seek to increase the transfers from the Electric System to the City’s general fund.

Article XIII C expressly extends the people’s initiative power to reduce or repeal previously authorized local taxes, assessments, and fees and charges. Since the terms “fees and charges” are not defined in Article XIII C, the initiative powers may affect more than “property-related” fees and charges, as defined in Article XIII D. Additionally, in the case of Bock v. City Council of Lompoc, 109 Cal.App.3d (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIII D) might be subject to the initiative provision of Article

XIIIC, thereby subjecting such fees and charges imposed by the City to reduction by the electorate. The City believes that, even if the electric rates of the City are subject to the initiative power, under Article XIIIC or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the 2002 Certificates by virtue of the "impairments clause" of the United States and California Constitutions.

TAX MATTERS

2002A Certificates

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest evidenced and represented by the 2002A Certificates and received by the Owners thereof is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that interest evidenced and represented by the 2002A Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix E hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2002A Certificates. The City has covenanted to comply with certain restrictions designed to insure that interest evidenced and represented by the 2002A Certificates will not be included in federal gross income. Failure to comply with these covenants may result in interest evidenced and represented by the 2002A Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the 2002A Certificates. The opinion of Special Counsel assumes compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the 2002A Certificates may adversely affect the value of, or the tax status of interest evidenced and represented by, the 2002A Certificates. Certain requirements and procedures contained or referred to in the Trust Agreement, the 2002 Contract, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2002A Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any 2002A Certificates or the interest evidenced and represented thereby if any such change occurs or action is taken or omitted upon the advice or approval of special counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Counsel is of the opinion that interest evidenced and represented by the 2002A Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest evidenced and represented by, the 2002A Certificates may otherwise affect a 2002A Certificate Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the 2002A Certificates Owner or the 2002A Certificates Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest evidenced and represented by the 2002A Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the 2002A Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the 2002A Certificates for audit examination, or the course or result of any IRS examination of the 2002A Certificates, or obligations which present similar tax issues, will not affect the market price for the 2002A Certificates. The IRS has initiated a program of expanded audits to tax-exempt bonds, which include bonds randomly selected for audit as

well as bonds specifically selected by the IRS. If an audit is commenced, an Owner of the 2002A Certificates has no right to participate in such examination.

2002B Certificates

In the opinion of Special Counsel, based upon existing laws, regulations, rulings and court decisions, interest evidenced and represented by the 2002B Certificates and received by the Owners thereof is exempt from State of California personal income taxes. Interest evidenced and represented by the 2002B Certificates is not excluded from gross income for federal income tax purposes. Special Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest evidenced and represented by, the 2002B Certificates. A complete copy of the opinion of Special Counsel is set forth in Appendix E hereto.

Certain requirements and procedures contained or referred to in the Trust Agreement, the 2002 Contract and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any 2002B Certificates or the interest evidenced and represented thereby if any such change occurs or action is taken or omitted upon the advice or approval of special counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Counsel has rendered an opinion that interest evidenced and represented by the 2002B Certificates is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest evidenced and represented by, the 2002B Certificates may otherwise affect a 2002B Certificates Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the 2002B Certificates Owner or the 2002B Certificates Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

ABSENCE OF LITIGATION

To the knowledge of the City, there is no controversy or litigation of any nature now pending or threatened restraining or enjoining the execution and delivery of the 2002 Certificates or in any way contesting or affecting the validity of the 2002 Certificates or any proceedings of the City or the Corporation taken with respect to the execution and delivery thereof.

In addition, there is no litigation pending or threatened against the City or the Corporation that, in the opinion of the City Attorney of the City, would materially adversely affect the Electric System or the sources of payment for the 2002 Certificates.

APPROVAL OF LEGALITY

The execution and delivery of the 2002 Certificates is subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, substantially in the form set forth as Appendix E. Certain legal matters will be passed upon for the Underwriter by Sidley Austin Brown & Wood LLP, Los Angeles, California and for the City by its City Attorney.

RATINGS

Standard & Poor's ("S&P"), and Fitch, Inc. ("Fitch") have assigned the 2002 Certificates the long-term ratings of "____" and "____," respectively with the understanding that, upon the delivery of the 2002 Certificates, a policy insuring the payment of the principal and interest represented by the 2002 Certificates when due will be issued by the Insurer. In addition, S&P and Fitch have assigned the 2002A Certificates the short-term ratings of "____" and "____," respectively, with the understanding that the Liquidity Facility for the 2002A Certificates will be delivered by the Bank. The ratings reflect only the respective views of the rating agencies, and any

explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch, Inc., One State Street Plaza, New York, New York 10004. The City, the Insurer and the Bank furnished to the rating agencies certain information and materials concerning the 2002 Certificates and themselves. Generally, rating agencies base their ratings on information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or any of them, if, in their respective judgments, circumstances so warrant. The City undertakes no responsibility to oppose any such revisions or withdrawal. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the 2002 Certificates.

FINANCIAL ADVISOR

Public Financial Management Inc. (the "Financial Advisor") has assisted the City with various matters relating to the planning, structuring and delivery of the 2002 Certificates. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the 2002 Certificates.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the 2002 Certificates at a price of \$_____. The Certificate Purchase Contract provides that the Underwriter will purchase all the 2002 Certificates if any are purchased. The 2002 Certificates may be offered and sold by the Underwriter to certain dealers and others at prices lower than such public offering price stated on the cover page of this Official Statement, and such public offering price may be changed, from time to time, by the Underwriter.

VERIFICATION

Upon delivery of the 2002 Certificates, _____, independent accountants, will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them relating to the adequacy of the maturing principal amounts of the federal securities held in the escrow fund established with respect to the Refunded 1999 Certificates, interest earned thereon and certain other moneys on deposit in said fund for payment of the principal or accreted value of, premium, if any, and interest with respect to on the Refunded 1999 Certificates as such principal or accreted value of, premium, if any, and interest becomes due and payable upon maturity or prepayment. The report of _____ will include the statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of any event occurring, or data or information coming to their attention, subsequent to the date of their report.

GENERAL PURPOSE FINANCIAL STATEMENTS

Excerpts of the audited General Purpose Financial Statements of the City relating to the Electric System, as of June 30, 2001, are included in Appendix B to this Official Statement. A complete copy of the City's Comprehensive Annual Financial Report may be obtained from the City. The Installment Payments are special obligations of the City payable solely from the Net Revenues of the City's Electric System. The General Purpose Financial Statements, including the excerpts contained in Appendix B, have been audited by KPMG Peat Marwick LLP, Sacramento, California, independent accountants (the "Independent Accountants") as stated in their report appearing in Appendix B. No review or investigation with respect to subsequent events has been undertaken in connection with such General Purpose Financial Statements by the Independent Accountants.

EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF LODI, CALIFORNIA

By: _____
City Manager

APPENDIX A

THE CITY OF LODI

General

The City of Lodi, California ("Lodi" or the "City") was incorporated as a General Law City on December 6, 1906. The City is located in the San Joaquin Valley between Stockton, 2 miles to the south, and Sacramento, 35 miles to the north, and adjacent to U.S. Highway 99. The City is located on the main line of the Southern Pacific Railroad and is within five miles of Interstate 5. The City population is 58,950 (as of January 1, 2001) and is contained in an area of 12 square miles. The City has grown steadily since incorporation in 1906 and is projected to grow to 70,500 people by the year 2007. The City's growth is provided for in both the general plan and the City's growth control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

The City provides a wide range of municipal services, including public safety (police, fire and graffiti abatement), public utilities services (electric, water and sewer), transportation services (streets, flood control and transit), leisure, cultural and social services (parks and recreation, library, and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

Lodi is built on a strong and broad based agricultural industry with national and industrial markets for its commodities and products. Wines, processed foods, nuts, fruit and milk are major commodities of the Lodi area and provide the basic material for food processing and packaging. These commodities support the operations of General Mills, Guild Winery and Pacific Coast Producers to name just three companies in the business of processing local agricultural commodities.

In addition, Lodi has a wide range of small, financially sound businesses. These companies range in size from 10 to 150 employees and produce a wide variety of products, services and commodities.

Recently, there has been an increase in industrial and residential development within the City. This new development, combined with the growing strength of the wine/grape industry, is a positive economic indicator for Lodi. Recently, several big industries moved to Lodi, which industries collectively created 325 to 400 new jobs.

Municipal Government

City Council. All powers of the City are vested in the City Council which is empowered to perform all duties of and obligations of the City as imposed by State law. The City has a five-member City Council comprised of members elected at large. Each council member is elected for four years with staggering terms.

Biographies of the members of the City Council are set forth below:

PHILLIP PENNINO, Mayor, was elected to the Lodi City Council in 1990 and has previously served as Mayor and Mayor Pro Tempore of the City. He received an Associate of Arts degree from San Joaquin Delta College in 1982, a Bachelor of Science degree in Organizational Behavior from the University of San Francisco in 1989, and a Certificate in Economic Development from the University of Oklahoma in 1991. He has been employed by Pacific Gas and Electric Company for the last twenty-two years and is currently serving as a Major Account Representative. He also serves on the San Joaquin Partnership, Rail Commission, and Council of Governments.

SUSAN Y. HITCHCOCK, Mayor Pro Tem, was elected to the Lodi City Council in November of 1998 and has served as Mayor Pro Tempore since December 2001. Ms. Hitchcock received a Bachelor of Science in Business Administration from California State University at Sacramento in 1979 and a teaching credential in 1991. She also received a Masters of Arts in School Administration and an Administrative Services credential from University of the Pacific in 1997. Ms. Hitchcock worked as a commercial loan officer for eight years before becoming involved in volunteer activities and local government. She spent a year in the San Joaquin County grand jury and received an appointment to the City of Lodi Planning Commission in 1982, where she served until 1995. She has been employed by the Lodi Unified School District since 1991 and is currently the Principal of Clairmont Elementary School.

ALAN NAKANISHI, M.D., Council Member, was elected to the Lodi City Council in 1998 and has previously served as Mayor of the City. He graduated with a Bachelor of Arts degree in chemistry from Pacific Union College in 1961 and an M.D. degree from Loma Linda University in 1965. In 1991, he received a Masters of Health Administration from the Virginia Commonwealth University/Medical College of Virginia. Following his internship and residency at the Los Angeles County/USC Medical Center he served two years as a major in the U.S. Army, where he was a department head at MacDonald Army Hospital, Fort Eustis, Virginia. Dr. Nakanishi has practiced in Stockton and had a home in Lodi since 1971. He is currently President of Delta Eye Medical Group and President of Dameron IPA, a 300-physician group and serves as by-laws chairman of a local hospital.

KEITH LAND, Council Member, was elected to the Lodi City Council in 1996 and previously served as Mayor and Mayor Pro Tempore of the City. He enlisted in the U.S. Airforce in 1969 and received an honorable discharge in 1973. He received an Associate of Arts degree from Delta College in 1975 and graduated from LUTC in 1977. Mr. Land owned and operated Land Insurance Services for 25 years in Lodi. Mr. Land serves as Chairman of the San Joaquin County Parks and Recreation Commission, Vice Chair of the San Joaquin County Housing Authority, Commission Member for the Local Area Formation Commission and the Northern California Power Agency. Mr. Land is currently employed as the Community Development Officer for Farmers and Merchants Bank.

EMILY HOWARD, Council Member, was elected to the Lodi City Council in November of 2000. Mrs. Howard received a Bachelor of Arts in Sports Medicine from the University of the Pacific in 1992. In 1996 she completed the Physical Therapist Assistant AA program at De Anza College and passed the California State Licensing Examination. Mrs. Howard worked with Lodi Memorial Hospital for over five years, specializing in the Rehabilitation Services Department.

City Staff. Biographies of senior management of the City follows:

H. DIXON FLYNN, City Manager of the City of Lodi, was appointed in August 1995. From June 1991 to August 1995, he served as the Finance Director for the City of Lodi. Prior to this, Mr. Flynn was the Finance Systems Manager for the City of San Luis Obispo (October 1985 to June 1991) and a Finance Officer in the United States Army (June 1964 to September 1985) in which he served in a number of locations and positions. Mr. Flynn received his Bachelor of Science Degree in Accounting from New Mexico State University in 1964 and his Master of Science Degree in Industrial Engineering from the University of Arkansas in 1976.

JANET S. KEETER, Deputy City Manager, has served the City of Lodi in a number of capacities over the course of the last eight years. Various job titles have included Economic Development Coordinator and Administrative Assistant to the City Manager. Ms. Keeter previously worked for the City of Tracy as the Economic Development Manager and for San Joaquin County as the Office of Emergency Services' Assistant Coordinator. Ms. Keeter earned her Master's degree in Public Administration from California State University, Stanislaus and her Bachelor's degree from the University of California, Davis.

SUSAN BLACKSTON, City Clerk of the City of Lodi, was appointed in July 2000. Ms. Blackston previously worked for the City of Stockton as the Deputy City Clerk. She has attained the status of Certified Municipal Clerk through a course of studies prescribed and regulated by the International Institute of Municipal Clerks. Ms. Blackston received her Associate of Arts Degree in Social Science from San Joaquin Delta College in 1993, and will attain her Bachelor's Degree in Public Administration from the University of San Francisco in 2003.

RANDALL A. HAYS, City Attorney of the City of Lodi, received his Bachelor's Degree from the California State University, San Jose in 1966. This was followed by a Juris Doctor Degree from the University of Santa Clara in 1969. Lodi is the third city Mr. Hays has served as City Attorney. He served the City of Ukiah, California for 10 years and the City of Redding for 15 years prior to coming to Lodi in October of 1995. For several years while in Redding, Mr. Hays was the Chairperson of the Northern California Power Agency Legal Committee. Additionally, he served as Assistant Secretary to the M-S-R Public Power Agency upon its formation in 1980. Subsequent to that, Mr. Hays was appointed M-S-R's General Counsel (1985) and Secretary (1987), serving in those capacities through 1994. He also provided service to the California Municipal Utilities Association acting as its General Counsel and Legislative Committee Chairperson for the years 1991 through 1994.

VICKY McATHIE, Finance Director/Treasurer of the City of Lodi, was appointed in November 1995. From January 1991 to November 1995, she was the Accounting Manager for the City. Prior to this, Mrs. McAthie worked for the City of Stockton from June 1974 to December 1990, starting as an Account Clerk and ending as an Accountant II. Mrs. McAthie received her Bachelor of Science Degree in Business Administration, Accounting in 1991 and her Master of Public Administration in 1994 from the California State University, Stanislaus. Mrs. McAthie is a Certified California Municipal Treasurer, a Certified Government Financial Manager, a Certified Municipal Finance Administrator, and a Certified Cash Handler. In addition, Mrs. McAthie is a budget reviewer for both the Government Finance Officers Association and the California Society of Municipal Finance Officers.

Population

The following chart indicates the growth in the population of the City since 1992.

**CITY OF LODI
POPULATION
For Years 1992 through 2001**

Year (as of January 1)	Population
1992	52,940
1993	52,936
1994	53,042
1995	53,575
1996	54,432
1997	55,042
1998	55,681
1999	56,926
2000	58,600
2001	58,953

Source: State of California, Department of Finance.

Employment

Employment in the City was 25,890 in 1996 and 28,680 in 2000, representing a 10.8% increase over the five-year period. The unemployment rate ranged from 8.2% in 1996 to 6.5% in 2000. Statewide unemployment rates were 7.2% in 1996 and 4.9% in 2000.

CITY OF LODI
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE
Averages for each of the Calendar Years 1996-2000

	1996	1997	1998	1999	2000
Employment	25,890	26,540	29,300	27,720	28,680
Unemployment	2,390	2,270	2,280	1,920	1,990
Civilian Labor Force	28,230	28,810	27,020	29,640	30,670
Unemployment Rate	8.2%	7.9%	7.8%	6.5%	6.5%
State Unemployment Rate	7.2%	6.3%	5.9%	5.2%	4.9%

Source: State of California, Employment Development Department.

Major Employers

There are several manufacturing plants in the community area with a wide variety of products: cereals, food mixes, wines, rubber products, steel framing and industrial shelving, foundry items, recreational vehicle components, electronic substrates, and plastic piping and injection molded products. In addition, Lodi has a number of small businesses located within the City. The main businesses in Lodi, however, are food processes and plastics.

The largest employers in Lodi as of June 30, 2001 are as follows:

CITY OF LODI
LARGEST EMPLOYERS

Employer	Business	Number of Employees
Lodi Unified School District	Education	2,247
Lodi Memorial Hospital	Health Care	650
General Mills	Cereals and Food Mixes	575
Pacific Coast Producers	Can Manufacture and Cannery	530
City of Lodi	Government	387
Wal-Mart	General Merchant	226
Target	General Merchant	200
Lodi Fab Industries, Inc.	Industrial Storage Racks	200
Valley Industries	Trailer Hitches	191
Farmers and Merchants	Banking	183

Source: City of Lodi audited financial statements.

Building Permit Activity

The following table shows the value of building permits issued in the City between 1996 and 2000.

**CITY OF LODI
BUILDING PERMIT VALUATION
for Calendar Years 1996 through 2000**

	1996	1997	1998	1999	2000
Residential Valuation (in thousands)					
Single Family	\$22,343	\$19,530	\$37,313	\$36,972	\$46,499
Multifamily	<u>327</u>	<u>10,447</u>	<u>583</u>	<u>1,179</u>	<u>308</u>
TOTAL	\$22,671	\$29,977	\$37,896	\$38,151	\$46,808
New Dwelling Units					
Single Family	166	131	234	239	300
Multiple Family	<u>4</u>	<u>198</u>	<u>6</u>	<u>8</u>	<u>2</u>
TOTAL	170	329	240	247	302

Source: Economic Sciences Corporation.

Taxable Sales

The following table indicates taxable transactions in the City by type of business during the calendar years 1996 through 2000.

**CITY OF LODI
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
for Calendar Years 1996 through 2000⁽¹⁾
(in Thousands of Dollars)**

	1996	1997	1998	1999	2000 ⁽⁴⁾
Apparel Stores	\$ 5,651	\$ 5,633	\$5,020	\$4,778	\$3,349
General Merchandise	84,977	105,423	111,930	120,952	88,923
Drug Stores ⁽²⁾	13,411	--	--	--	--
Food Stores	34,029	34,247	34,344	37,328	31,494
Packaged Liquor Stores ⁽³⁾	6,150	--	--	--	--
Eating & Drinking Places	44,598	45,349	46,316	49,803	39,156
Home Furn. & Appliances	12,808	12,136	17,319	22,254	13,804
Bldg. Mat. & Farm Impl.	31,858	29,865	32,424	39,369	34,912
Auto Dtrs. & Auto Suppl.	102,788	101,933	106,531	123,667	104,497
Service Stations	35,095	35,746	29,203	36,491	34,034
Other Retail Stores	<u>30,502</u>	<u>39,759</u>	<u>45,689</u>	<u>47,022</u>	<u>36,589</u>
Retail Stores Total	401,867	410,091	428,856	481,664	386,758
All Other Outlets	<u>116,000</u>	<u>130,660</u>	<u>133,453</u>	<u>143,207</u>	<u>114,041</u>
TOTAL ALL OUTLETS	\$517,867	\$540,751	\$562,309	\$624,871	\$500,799

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ Incorporated in General Merchandise in 1997.

⁽³⁾ Incorporated in Food Stores in 1997.

⁽⁴⁾ First three quarters.

Source: California State Board of Equalization

Income

The following table, based on data reported in the annual publication "Survey of Buying Power" published by Sales and Marketing Management, summarizes the total EBI and the median household EBI for the City, the County, the State and the nation for the years 1996 through 2000.

TOTAL EFFECTIVE BUYING INCOME (in Thousands)

<u>Year</u>	<u>City of Lodi</u>	<u>County of San Joaquin</u>	<u>State of California</u>	<u>United States</u>
1996	\$731,388	\$6,653,605	\$492,516,991	\$4,161,512,384
1997	815,078	6,961,426	524,439,600	4,399,998,035
1998	855,257	7,245,919	551,999,317	4,621,491,730
1999	915,963	7,767,125	590,376,663	4,877,786,658
2000	928,686	8,486,929	652,190,282	5,230,824,904

Source: "Survey of Buying Power," Sales & Marketing Management.

The following table compares the median household effective buying income for the City, the County, the State and the nation.

MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

<u>Year</u>	<u>City of Lodi</u>	<u>County of San Joaquin</u>	<u>State of California</u>	<u>United States</u>
1996	\$31,492	\$31,329	\$35,216	\$33,482
1997	32,566	32,526	36,483	34,618
1998	32,807	32,720	37,091	35,377
1999	33,548	34,431	39,492	37,233
2000	35,391	37,496	44,464	39,129

Source: "Survey of Buying Power," Sales & Marketing Management.

Agriculture

Lodi is a worldwide agricultural shipping center for the San Joaquin Valley. The surrounding prime agricultural land is a major producer of wine grapes. The following table shows agriculture production in the County from 1996 through 2000.

**COUNTY OF SAN JOAQUIN
AGRICULTURAL PRODUCTION
1996 to 2000**

	1996	1997	1998	1999	2000
Field Crops	\$ 183,323,000	\$ 192,474,000	\$ 149,688,000	\$140,272,000	\$134,310,000
Seed Crops	4,604,000	8,918,000	9,584,000	11,668,000	7,662,000
Fruit and Nut Crops	544,330,00	659,518,000	500,049,000	576,830,000	596,311,000
Vegetable Crops	235,882,000	222,192,000	240,119,000	230,392,000	226,708,000
Nursery Products	97,930,000	97,059,000	74,115,000	81,937,000	88,257,000
Apiary Products	4,676,000	5,090,000	5,049,000	6,354,000	7,210,000
Livestock and Poultry	29,855,000	47,676,000	37,499,000	36,976,000	41,578,000
Livestock and Poultry Products	250,963,000	253,110,000	294,985,000	269,780,000	246,593,000
Total	<u>\$1,351,363,000</u>	<u>\$1,486,037,000</u>	<u>\$1,311,088,000</u>	<u>\$1,354,209,000</u>	<u>\$1,348,629,000</u>

Source: San Joaquin Office of the Agricultural Commissioner.

Community Facilities

The City has a central library with several branches, one community center, 25 parks and five specific use facilities, covering 265 developed areas and 90 undeveloped areas, and 16 playgrounds. Lodi Lake Park is connected to the Mokelumne River and features boating, fishing, beach swimming, boat rentals, nature walks, group picnic sites, an RV park and the Discovery Nature Center. Micke Grove Park is located between Lodi and Stockton. The park is home to a Japanese garden, the San Joaquin Historical Museum, rides, picnic areas, and a five acre zoo featuring mammals, birds, reptiles and vertebrates.

Community recreation programs cover a wide range of interests and activities including youth and adult sports and special interest classes, youth-at-risk programs, aquatics, special events, camps/clinics and tournaments.

Lodi Memorial Hospital offers a 181-bed, non-profit, independent, acute-care hospital to the residents of Lodi. Its mission is to provide quality medical care, education and support services to the community. Two hospital campuses and six satellite clinics are used to provide a variety of inpatient, outpatient, urgent, emergency and primary care services.

Housing

The City of Lodi housing market offers both older neighborhoods and newer executive developments. The average list price for residential property is \$174,600, and the median price is \$148,500.

Education

The Lodi Unified School District provides K-12 and special education programs. The area also is served by several private and parochial schools. The University of the Pacific, San Joaquin Delta Community College, California State University-Stanislaus/Turlock/Stockton Center, and the University of San Francisco satellite center are all within a 20 minute drive of Lodi. The University of California-Davis, California State University-Sacramento and the University of Southern California satellite center are within an hour's drive from Lodi.

Transportation

Lodi is served by interstate highway 5 and state highways 12 and 99 and is located on the main line of the Southern Pacific Railroad. A deep water seaport and an airport are located approximately 15 miles south. Air service is available at the Stockton Metropolitan Airport just south of Lodi.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of November 1, 2001 is shown on the following page. [UPDATE]

CITY OF LODI
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
as of November 1, 2001

1998-99 Assessed Valuation: \$2,611,743,552

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 11/1/01</u>
City of Lodi 1915 Act Bonds	100.	<u>\$1,785,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,785,000
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Joaquin County Certificates of Participation	10.888%	\$19,444,335
San Joaquin Delta Community College District Certificates of Participation	9.971	775,701
Lodi Unified School District Certificates of Participation	42.774	4,022,895
City of Lodi Certificates of Participation	100.	<u>9,490,000</u> (1)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$33,732,931
COMBINED TOTAL DEBT		\$35,517,931 (2)

(1) Excludes electric revenue bonds to be sold.

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

Ratios to Assessed Valuation:

Combined Direct Debt (\$9,490,000).....	0.36%
Total Overlapping Tax and Assessment Debt.....	0.07%
Combined Total Debt.....	1.36%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/98: \$44,846

Source: California Municipal Statistics, Inc.

Assessed Valuation and Tax Collections

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien that is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property of the unsecured roll, and an additional penalty of 1.5% per month begins to accrue commencing on November 1 of the Fiscal Year. Collection of delinquent unsecured taxes is the responsibility of the County of San Joaquin using the several means legally available to it.

In 1993, the City made an agreement with San Joaquin County to participate the Teeter Plan pursuant to provisions of Sections 4701-4717 of the California Revenue and Taxation Code. The Teeter Plan is an alternative method of apportioning property tax money. Pursuant to those sections the accounts of all political subdivisions that levy taxes on the County tax rolls are credited with 100% of their respective tax levies regardless of actual payments and delinquencies. The cities covered under the plan receive 95% of the property taxes in advance from the County and the 5% remaining after reconciling the cities' balances at June 30. As part of the agreement, the County keeps the penalties and interest on the delinquent taxes.

**CITY OF LODI
ASSESSSED VALUATIONS
For Fiscal Years 1997 through 2001
(In thousands)**

Fiscal Year	Land	Improvements	Personal Property	Total	Less Exemptions	Net Assessed Value
1996-97	709,296	1,673,878	209,827	2,593,001	172,945	2,420,056
1997-98	728,900	1,705,635	214,038	2,648,573	176,500	2,472,073
1998-99	756,166	1,748,387	220,240	2,724,793	179,835	2,544,958
1999-00	787,249	1,847,800	239,118	2,874,167	183,294	2,690,873
2000-01	832,788	1,982,668	245,269	3,060,725	185,473	2,875,252

Source: City of Lodi audited financial statements.

The following table shows the City's secured property tax charges and delinquencies.

**CITY OF LODI
SECURED PROPERTY TAX COLLECTIONS
For Fiscal Years 1991 through 2001
(In thousands)**

Fiscal Year	Total Tax Levy	Current Year's Tax Collections	Percent of Collections to Tax Levy	Delinquent Tax Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1991	4,286	3,847	89.8	351	4,198	97.9
1992	4,175	4,105	98.3	169	4,274	102.4
1993	4,375	3,809	87.1	90	3,899	89.1
1994	3,639	3,461	95.1	624	4,085	112.3
1995	3,670	3,516	95.8	9	3,525	96.0
1996	3,781	3,615	95.6	-	3,615	95.6
1997	3,827	3,682	96.2	-	3,682	96.2
1998	4,444	4,433	99.8	-	4,433	99.8
1999	4,653	4,578	98.4	-	4,578	98.4
2000	5,056	4,917	97.3	-	4,917	97.3
2001	5,182	5,118	98.8	-	5,118	98.8

Source: City of Lodi audited financial statements.

Ten Largest Locally Secured Taxpayers

The following table shows the ten largest locally secured taxpayers of the City for the Fiscal Year ended June 30, 2001, the most recent year for which such information is available.

CITY OF LODI
TEN LARGEST LOCALLY SECURED TAXPAYERS
Fiscal Year Ended June 30, 2001

<u>Name</u>	<u>Assessed Valuation</u>
1. General Mills, Inc.	\$175,048,560
2. Pacific Coast Producers	44,686,153
3. Dayton Hudson Corp.	15,623,172
4. California Waste Removal System	14,353,902
5. GFLIP Limited Partners	12,941,356
6. Dart Container Corporation	12,885,034
7. Wells Fargo Bank	11,774,891
8. First Lodi Plaza Associates	11,620,333
9. Wallace Computer Service	10,737,902
10. Edmund N. Richmond	<u>10,455,000</u>
 TOTAL	 <u>\$320,126,303</u>

Source: City of Lodi audited financial statements; San Joaquin County Assessor's Office.

These ten largest locally secured taxpayers represent 11.82% of the City's assessed valuation.

APPENDIX B

**EXCERPTS OF AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

BOOK-ENTRY ONLY SYSTEM**General**

The 2002 Certificates will be delivered in book-entry only form. DTC will act as securities depository for the 2002 Certificates. The 2002 Certificates will be issued as fully-registered certificates registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2002 Certificate will be delivered for each maturity of the 2002 Certificates, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants (collectively, "Participants") are on file with the Securities and Exchange Commission.

Purchases of the 2002 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Certificates on DTC's records. The ownership interest of each actual purchaser of each 2002 Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2002 Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2002 Certificates, except in the event that use of the book-entry system for the 2002 Certificates is discontinued.

To facilitate subsequent transfers, all 2002 Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of 2002 Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. **The City, the Corporation and the Trustee will not have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the 2002 Certificates.**

While the 2002 Certificates are in the book-entry-only system, prepayment and tender notices shall be sent to Cede & Co. If less than all of the 2002 Certificates are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct DTC Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2002 Certificates. Under its usual procedures, DTC will mail an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2002 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments with respect to the 2002 Certificates will be made to DTC or its nominee. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Participants to Beneficial Owner will be governed by standing instructions and customer practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not of DTC, the Trustee, the Corporation or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

Procedures in the Event of a Request of Beneficial Owner to Tender Its Interests in a 2002 Certificate. As more fully described in this Official Statement, the Owner of a 2002 Certificate may elect to have its 2002 Certificate purchased at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of purchase on the purchase dates, at the times and in the manner set forth herein. So long as Cede & Co. is the registered owner of the 2002 Certificates, as nominee of DTC, the right of an Owner to tender any 2002 Certificate for purchase, the mechanics for exercising such right to tender and the right of such Owner to receive payment of the purchase price of any 2002 Certificate tendered for purchase as described herein pertain only to the rights Cede & Co. and not the rights of any Beneficial Owner. The ability of any Beneficial Owner to tender its interest in any 2002 Certificate and receive payment therefor is based solely upon and subject to the procedures and limitations of the book-entry only system, including the contractual arrangement of such Beneficial Owner with one of the Direct or Indirect Participants and the contractual arrangements of such Direct or Indirect Participants with DTC. Such procedures and limitations may cause a delay in the ability of a Beneficial Owner to exercise a right to tender its interest in the 2002 Certificates, or to receive timely payment of the purchase price thereof in the manner described in this Official Statement. **As noted above, neither the City, the Corporation, the Trustee, the Tender Agent nor the Remarketing Agent will have any responsibility to any Beneficial Owner with respect to the timely exercise by DTC or any Direct or Indirect Participant of any direction by a Beneficial Owner with respect to its election to tender its interest in the 2002 Certificates or with respect to the timely remittance by DTC or any Direct or Indirect Participant of the purchase price of the 2002 Certificates.**

DTC may discontinue providing its services as securities depository with respect to the 2002 Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2002 Certificates are required to be printed and delivered as described in the Trust Agreement.

The City, the Corporation and the Trustee cannot and do not give any assurance that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the 2002 Certificates paid to DTC or its nominee as the registered owner, or any prepayment or other notices, to the Beneficial Owner, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City, the Corporation and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2002 Certificates or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interest in the 2002 Certificates, payment of principal, premium, if any, interest and other payments on the 2002

Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such 2002 Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 2002 Certificates or (b) the City determines to remove DTC from its functions as a depository, DTC's role as securities depository for the 2002 Certificates and use of the book-entry system will be discontinued. If the City fails to select a qualified securities depository to replace DTC, the City will cause the Trustee to execute and deliver new 2002 Certificates in fully registered form in such denominations and numbered in the manner determined by the Trustee and registered in the names of such persons as are requested in a written request of the City. The Trustee shall not be required to deliver such new 2002 Certificates within a period of less than 60 days from the date of receipt of such written request of the City. Upon such registration, such persons in whose names the 2002 Certificates are registered will become the registered owners of the 2002 Certificates for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) 2002 Certificates may be exchanged for a like aggregate principal amount of such 2002 Certificates of other authorized denominations and of the same Series and maturity; (b) 2002 Certificates may be transferred on the registration books maintained by the Trustee under the Trust Agreement for such purpose upon the surrender thereof accompanied by a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of 2002 Certificates, the Trustee shall require the payment by any owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or registration of transfer; (d) no transfer or exchange of 2002 Certificates shall be required to be made during the period commencing on the date 15 days preceding the selection of 2002 Certificates for prepayment and ending on the date of mailing of such notice, or of any 2002 Certificate that has been selected for prepayment in whole or in part, from and after the date of mailing of notice of such prepayment; (e) all interest payments on the 2002 Certificates will be made by check mailed by first-class mail on the interest payment dates therefor as provided in the Trust Agreement to the person appearing on the registration books maintained by the Trustee, or upon request of an Owner of 2002 Certificates aggregating not less than \$1,000,000 in principal amount, by wire transfer in immediately available funds to an account maintained in the United States; and (f) all payments of principal and any premium on the 2002 Certificates, will be made upon presentation thereof at the corporate trust office of the Trustee.

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

RESOLUTION NO. 2001-303

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI RELATING TO ELECTRIC SYSTEM REVENUE VARIABLE RATE DEMAND CERTIFICATES OF PARTICIPATION, 2002 SERIES A AND ELECTRIC SYSTEM REVENUE CERTIFICATES OF PARTICIPATION, 2002 TAXABLE SERIES B; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INSTALLMENT PURCHASE CONTRACT, A CERTIFICATE PURCHASE CONTRACT, AN ESCROW AGREEMENT, AN OFFICIAL STATEMENT, A CONTINUING DISCLOSURE AGREEMENT, AND A REMARKETING AGREEMENT, AND APPROVING THE DISTRIBUTION OF A PRELIMINARY OFFICIAL STATEMENT IN CONNECTION THEREWITH; AND AUTHORIZING CERTAIN OTHER MATTERS RELATING THERETO

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WHEREAS, the City of Lodi, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City") owns and operates a municipal electric system (the "Electric System"), to provide the City and its inhabitants with electricity; and

WHEREAS, the City and the Lodi Public Improvement Corporation, a non-profit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation") propose to execute and enter into an Installment Purchase Contract (the "Installment Purchase Contract"), whereby the Corporation will acquire from the City certain existing improvements to the Electric System, as more fully described in Exhibit 1 to the Installment Purchase Contract (the "Existing Facilities"), and whereby the Corporation will sell such Existing Facilities back to the City as provided in the Installment Purchase Contract; and

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

WHEREAS, the City will apply certain of the moneys received in connection with the sales of the Existing Facilities pursuant to the Installment Purchase Contract, to the prepayment of its obligations under that certain installment purchase contract, dated as of August 1, 1999, between the City and the Corporation; and

WHEREAS, the City desires to approve the refinancing of the Existing Facilities as provided in the Installment Purchase Contract through the execution and delivery of Electric System Revenue Variable Rate Demand Certificates of Participation, 2002 Series A and Electric System Revenue Certificates of Participation, 2002 Taxable Series B (collectively, the "Certificates") pursuant to a Trust Agreement (the "Trust Agreement"), proposed to be executed by the Corporation and such trustee (the "Trustee") as shall be duly appointed by the Corporation; and

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

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

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

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

Section 2. The Installment Purchase Contract, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Corporation the Installment Purchase Contract in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that the schedule of the installment payments to be contained in the Installment Purchase Contract and to be attached as exhibits thereto shall be determined by the City Manager or the Director of the Electric Utility of the City upon the sale of the Certificates, but shall not exceed the principal amount of the Certificates and shall provide for installment payments not later than 35 years from the date of delivery of the Certificates.

Section 3. The Certificate Purchase Contract, proposed to be executed and entered into by and between the City and the Underwriter, in the form presented at this meeting and on file with the City Clerk, which form may be divided into a separate Purchase Contract for each series of Certificates, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Underwriter one or more Purchase Contracts for each series of Certificates in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the Underwriter's discount in connection with the sale of the Certificates shall not exceed 1.5% of the principal amount of the Certificates.

Section 4. The Preliminary Official Statement, in the form presented at this meeting and on file with the City Clerk, is hereby approved. The City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed to cause the Preliminary Official Statement to be distributed to potential purchasers of the Certificates in substantially the form presented to this meeting with such changes therein as the officer causing the Preliminary Official Statement to be distributed may approve, such approval to be conclusively evidenced by causing the Preliminary Official Statement to be distributed.

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

Section 6. The Escrow Agreement, dated as of January 1, 2002 (the "Escrow Agreement"), proposed to be executed and entered into by and between the City and BNY Western Trust Company, as trustee (the "1999 Trustee") under that certain trust agreement dated as of August 1, 1999, between the Corporation and the 1999 Trustee, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the 1999 Trustee the Escrow Agreement in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. The Continuing Disclosure Agreement, proposed to be executed and entered by the City and the Trustee, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed for and in the name and on behalf of the City to execute and deliver the Continuing Disclosure Agreement in substantially said form, with such changes therein as the officer executing such document may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 8. The Remarketing Agreement, dated as of January 1, 2002 (the "Remarketing Agreement"), proposed to be executed and entered by the City and such remarketing agent (the "Remarketing Agent") as shall be duly appointed by the City, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed for and in the name and on behalf of the City to execute and deliver the Remarketing Agreement in substantially said form, with such changes therein as the officer executing such document may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 9. The City Clerk is hereby authorized and directed to attest the signature of the City Manager or the Director of the Electric Utility and to affix and attest the seal of the City, as may be required or appropriate, in connection with the execution and delivery of the Certificates and the documents approved by this Resolution.

Section 10. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things (including the negotiating and obtaining of a municipal bond

insurance policy and/or reserve fund surety bond with respect to the Certificates if the City Manager or Director of the Electric Utility determine that such insurance policy or surety bond will result in savings to the City) and to execute and deliver any and all documents which they may deem necessary or desirable in order to consummate the transactions authorized hereby and to consummate the sale, execution and delivery of the Certificates and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Installment Purchase Contract, the Certificate Purchase Contract, the Preliminary Official Statement, the Official Statement and the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 11. This Resolution shall take effect immediately upon its passage.

Date: December 19, 2001

I hereby certify that Resolution 2001-303 was passed and adopted by the City Council of the City of Lodi in a regular meeting held December 19, 2001 by the following votes:

AYES: COUNCIL MEMBERS – Hitchcock, Howard, Land, Nakanishi,
and Mayor Pennino

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None


Susan J. Blackston, City Clerk

Approved As to Form:


Randall A. Hays, City Attorney

2001-303

RESOLUTION NO. 2001-304

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI
EXPRESSING POLICY REGARDING THE USE OF THE
PROCEEDS OF THE ELECTRIC SYSTEM REVENUE VARIABLE
RATE DEMAND CERTIFICATES OF PARTICIPATION, 2002
TAXABLE SERIES B

WHEREAS, on December 19, 2001 the City Council approved the 2002 Taxable Series B debt issuance relative to the City's Electric System; and

WHEREAS, the City Council wishes to express a policy with regard to the use of the proceeds of that issuance.

NOW, THEREFORE, BE IT RESOLVED that the proceeds of the 2002 Taxable Series B issuance are to be used to assist in the management of cash flow for the Electric Utility or as otherwise directed by the City Council and not for operating or maintenance expenses of the Utility.

Dated: December 19, 2001

I hereby certify that Resolution No. 2001-304 was passed and adopted by the City Council of the City of Lodi in a regular meeting held December 19, 2001, by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Howard, Land, Nakanishi,
and Mayor Pennino

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None


SUSAN J. BLACKSTON
City Clerk