AGENDA ITEM K-01

CITY OF LODI
COUNCIL COMMUNICATION

TM

AGENDA TITLE: Proposed Issuance not to Exceed $65 Million of Electric Utility Revenue Certificates of Participation Secured by Net Revenues of the City's Electric Utility Enterprise to Refund the Outstanding 2002 Variable Rate Demand Certificates of Participation and to Terminate 2002 Electric Utility Interest Rate Swap

MEETING DATE: July 2, 2008

PREPARED BY: Jim Krueger, Deputy City Manager

RECOMMENDED ACTION: Council and the Lodi Public Improvement Corporation each adopt a resolution to (a) approve the issuance of Electric System Refunding Certificates of Participation, Series 2008 ("COPs") in an amount not to exceed $65 million; (b) approve in substantially final form the draft Preliminary Official Statement, the Trust Agreement, Installment Purchase Agreement, Continuing Disclosure Certificate, Purchase Contract, and Swap Termination Agreement with staff authorized to make adjustments as necessary; and (c) approve purchase of bond insurance policy through Assured Guaranty at an amount of 1.9% of total debt service.

BACKGROUND INFORMATION: On May 20, Council gave direction to staff to refinance the Electric System's outstanding MBIA-insured 2002A Variable Rate COPs and terminate the related interest rate swap with Citigroup. The issuance of the 2008 COPs will implement Council direction to accomplish the 2002A refinancing and the swap termination.

Security: The 2008 COPs will be secured by Installment Payments made by the City from the "net revenues" of the City's electric system remaining after payment of operations and maintenance costs. Payment of debt service on the COPs is further secured by a debt service reserve initially funded from COP proceeds. The 2008 COPs are payable on parity with the outstanding 2002 Series C and D electric system debt.

Electric Utility Revenues and Rate Covenant: A key element of the security for the COPs is the City's "rate covenant" – the promise to charge electric rates to generate net revenues sufficient to pay annual debt service on the COPs, and parity debt plus 20% coverage above that amount. Based on current projections, annual system net revenues are sufficient to meet the debt service and coverage requirements on the proposed 2008 COPs and parity debt through approximately 2013.

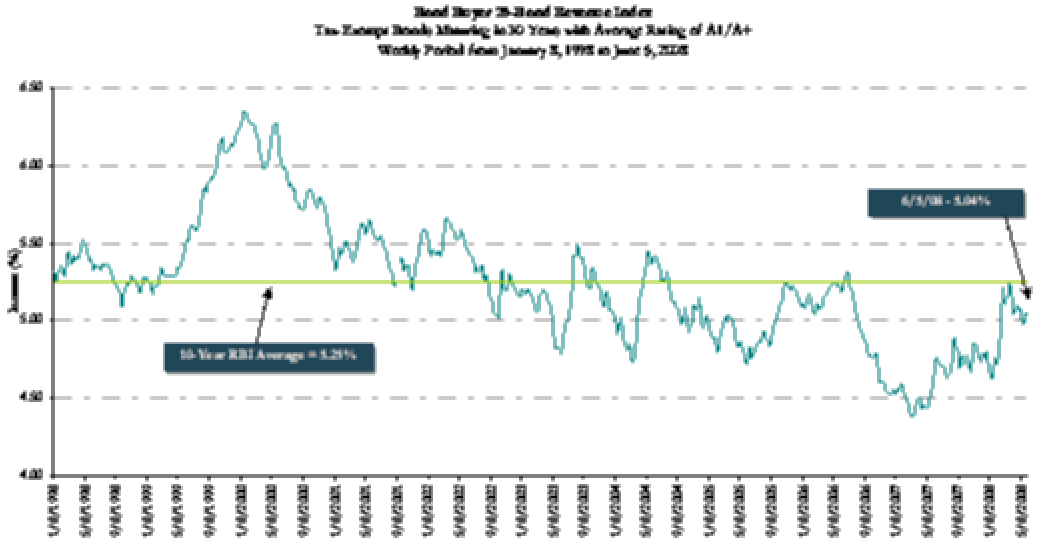
Ratings and Insurance*:* Standard & Poor's has upgraded its rating of the City's electric system from "BBB+" to "A-" with a stable outlook. Fitch Ratings Service is currently reviewing its outstanding rating of "BBB" for possible upgrade. The AAA-rated Assured Guaranty Corporation has provided a bid to insure the City's 2008 COPs at a cost of 199 basis points times total debt service. Based on current market conditions, the interest savings generated by the insurance exceeds the cost of the insurance.

APPROVED: _____
Blair King, City Manager

Preliminary Sources and Uses of Funds*:* Based on current market conditions and estimates of the swap termination payment, the sources and uses of COP proceeds are provided below.

Sources	
Par Amount	$64,750,000
Uses	
Refunding of 2002A COPs	$46,760,000
Swap Termination Payment	9,200,000
Debt Service Reserve Fund	5,768,117
Bond Insurance Premium	2,391,919
Costs of Issuance	629,964
Total Uses	$64,750,000

Market Conditions*:* Although municipal interest rates have risen from the historical lows seen earlier this year, they remain relatively attractive. Long-term, tax-exempt interest rates have averaged 5.25% over the last ten years and roughly 4.85% over the last year. Based on market conditions as of June 13, 2008, plus a 25 basis point (0.25%) interest rate cushion, the City's true interest cost for the 2008 COPs is estimated to be approximately 5.40%.



FINANCING TEAM

The City has been working with the following firms in the preparation of this financing:

Financial Advisor: Lamont Financial Services Corporation
Bond Counsel: Orrick Herrington & Sutcliffe
Underwriter: Stone &Youngberg
Trustee: The Bank of New York Trust Company, NA

ATTACHMENT A – SUMMARY OF KEY DOCUMENTS FOR APPROVAL

Legal documents: In order to complete this financing, the City and the Corporation are required to approve and execute several key legal documents. Copies of these documents are on file with the City Clerk and available for your review. While the documents are in near-to-final form, the resolutions authorize certain officers of the City to make amendments, as necessary. A summary of the key documents is provided below.

Official Statement: This document describes the security and discloses potential risks to prospective investors. It will generally describe: the sources of payment for the COPs, the electric system infrastructure, historic and projected trends for electric system revenues, the economic and demographic characteristics of the City, and inherent risk factors associated with the security. The Official Statement (often referred to as the "OS" or "POS" in its preliminary form) is distributed by the underwriter to prospective investors prior to the COP sale so that investors can make informed purchase decisions. *It is most important that this document contains no material misstatements or omissions.*

Continuing Disclosure Certificate: This certificate, attached as an appendix of the Official Statement, outlines the updated information related to the security that the City will agree to provide to the bond market on an ongoing basis. Disclosure is required annually and on an exceptional basis for any major "material" developments.

Purchase Contract: This contract, executed at the time of the COP sale, specifies the actual principal amounts, interest rates, and prices at which the COPs will be sold. In this contract, the underwriter commits to purchase the COPs at closing and the City and Corporation commit to sell the COPs at the agreed upon prices and amounts subject to certain closing conditions. Closing conditions generally relate to the execution and validity of all the required documents and the absence of material changes in the nature of the security, etc.

Trust Indenture: This agreement, between the Corporation and the trustee, lays out the legal structure and terms of the COPs. It will specify:

- the payment dates and maturities of the COPs;
- the flow of funds for the accounts (the mechanics of the cash flow);
- the default and remedy provisions (in the event that something goes wrong);
- redemption and defeasance provisions, in the event that the COPs are pre-paid; and
- covenants of the issuer.

Swap Termination Agreement: This agreement between the Corporation and Citigroup lays out the terms and legal structure for the termination of the 2002 interest rate swap agreement.

Installment Purchase Agreement: This agreement, between the City and the Corporation, enables the COP-financed project to be purchased through installment payments that correspond to the debt service payments on the COPs. The agreement will specify:

- the revenues and accounts specifically pledged to the repayment of the COPs;
- the default and remedy provisions (in the event that something goes wrong); and
- covenants of the issuer – most importantly, the rate covenant and the conditions under which additional parity debt may be issued.

Commitment from Assured Guaranty for Bond Insurance: This agreement between the City and Assured Guaranty will:

- cost 1.9% of the total debt service payments; and
- result in a lower debt service cost as a result of the AAA rating associated with Assured Guaranty.

FISCAL IMPACT: The debt service cost for the Electric Utility may increase in comparison to the amounts projected when the 2002 variable rate debt obligations were issued; however, the projected debt service requirements will not impact electric rates until 2013-2014.

FUNDING AVAILABLE: N/A

_____
James. R. Krueger, Deputy City Manager

JRK/jmp

Attachments

INSTALLMENT PURCHASE CONTRACT

by and between

CITY OF LODI

and

LODI PUBLIC IMPROVEMENT CORPORATION

Dated as of July 1, 2008

Electric System Revenue Certificates of Participation
2008 Series A

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INSTALLMENT PURCHASE CONTRACT

This INSTALLMENT PURCHASE CONTRACT, made and entered into as of July 1, 2008, 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 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 has established the Electric System (capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to Section 1.1 hereof) to furnish its inhabitants with light and power; and

WHEREAS, the City proposes to refinance the City's obligations to make installment payments under the 2002 Contract in connection with the Existing Facilities; and

WHEREAS, the Corporation is authorized to enter into contracts for the acquisition, construction, installation, equipping and sale of facilities such as the Existing Facilities; and

WHEREAS, the Corporation has agreed to assist the City by acquiring the Existing Facilities as herein provided and selling the Existing Facilities to the City on the terms and conditions set forth herein; and

WHEREAS, the City and the Corporation have duly authorized the execution of this Contract;

WHEREAS, the Corporation will assign certain of its rights hereunder, including its right to receive Installment Payments, to The Bank of New York Trust Company, N.A., as Trustee under the Trust Agreement, dated as of July 1, 2008, between the Corporation and The Bank of New York Trust Company, N.A.; and

WHEREAS, pursuant to the Trust Agreement, the Trustee is to execute and deliver Electric System Revenue Certificates of Participation 2008 Series A, evidencing the proportionate interests of the Owners thereof in the Installment Payments; and

WHEREAS, a portion of the proceeds of the Certificates are to be applied to the refinancing of the City's obligations to make installment payments under the 2002 Contract in connection with the Existing Facilities by refunding the 2002 Certificates as provided in the Trust Agreement.

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 Installment Purchase Agreement 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 Installment Purchase Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THESE 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, capitalized terms used in this Contract shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings given such terms in the Trust Agreement, such definitions to be equally applicable to both the singular and plural forms of any of the defined terms.

ARTICLE II

THE EXISTING FACILITIES

Section 2.01. Purchase of Existing Facilities by Corporation. In consideration of the application of the proceeds of the Certificates as provided in Section 2.15 of the Trust 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. In consideration of the agreement of the City to make the 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.

Section 2.02. Sale of the Certificates. In order to provide funds for the refunding of the 2002 Certificates, the Corporation, as soon as practicable after the execution of this Contract, will cause the sale and delivery of the Certificates to the initial purchasers thereof and pay the proceeds thereof to Trustee who shall deposit the proceeds of such sale received by the Trustee as provided in Section 2.15 of the Trust Agreement.

Section 2.03. Investment of Moneys in Funds Created Under Trust Agreement. Any moneys held as a part of the Debt Service Fund or any other fund created pursuant to the Trust Agreement shall, at the Written Request of the City (or, if the City is in default under this Contract, at the Written Request of the Corporation), be invested or reinvested by Trustee as provided in Article III of the Trust Agreement. The City approves and agrees with the investment provisions of the Trust Agreement. The City 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 City specifically waives receipt of such confirmations to the extent permitted by law.

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 at the times and in the amounts hereinafter set forth as the purchase price for the Existing Facilities and for making amounts in the Improvement Fund available to pay Costs of the 2008 Project. 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 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)(ii) hereof. The Interest Installment for each Principal Installment for any period shall be an amount equal to the interest accruing on the unpaid amount of such Principal Installment for such period at the interest rate per annum set forth in Schedule A hereto with respect to such Principal Installment. The Interest Installment for the Installment Payment for any period shall be an amount equal to the Interest Installments for all unpaid Principal Installments for such period. The Interest Installments for the Installment Payments shall be payable on the dates set forth in Section 4.01(b)(ii) 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. The City shall have the right at any time and from time to time from any available funds to prepay all or any part of the Principal Installments, and the Corporation shall accept such prepayments when the same are tendered by the City. All prepayments of Principal Installments made by the City pursuant to this Section shall be deposited upon receipt with the Trustee in the Prepayment Account in the Debt Service Fund or such other fund as shall be specified by the City and applied to the prepayment of Outstanding Certificates evidencing such prepaid Principal Installments in the manner and subject to the terms and conditions set forth in the Trust Agreement.

The City shall determine which Principal Installments are to be prepaid, for Principal Installments to be prepaid in part, the amount of such Principal Installments which is to be prepaid, and, subject to the provisions of this Section, the date on which each Certificate evidencing such prepaid Principal Installments is to be repaid. The prepayment price for the prepayment of each Principal Installment to be prepaid in whole or in part shall be the amount

necessary so that such Principal Installment (or the portion thereof to be prepaid) shall be considered paid pursuant to Section 9.01 hereof. Before making any prepayment pursuant to this Section, the City shall give written notice to the Corporation and the Trustee specifying the date on which the funds for the prepayment will be paid to the Trustee, which date shall be not less than fifty (50) days from the date such notice is given or such lesser time as shall be acceptable to the Trustee; 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 Electric Revenue Fund. (a) Subject to the application thereof on the terms and conditions and for the purposes 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 the Installment Payments 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 so long as any Installment Payment remains Outstanding hereunder. All money on deposit in the Electric Revenue Fund shall be applied, transferred and used only as provided below and in the following order of priority with any deficiency in any required deposit to be rectified before making any deposit of a lower priority:

(i) To the payment of the Maintenance and Operation Costs then due and payable and the establishment of a reasonable contingency reserve for Maintenance and Operation Costs.

(ii) On or before the fifth Business Day before each Principal Payment Date and each Interest Payment Date, a sum equal to the Installment Payment becoming due and payable on such date shall be transferred to the Debt Service Fund. On or before each date (other than a Principal Payment Date 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), a sum equal to the Installment Payment becoming due and payable on such date shall be transferred to the Debt Service Fund.

Notwithstanding the foregoing provisions of this subsection (ii), 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 in the Debt Service Fund sufficient available funds to pay the Installment Payment to be paid with such deposit. On or before each due date therefor under the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, the sum or sums required to be paid or deposited in a 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 scheduled Net Payments due); provided that all transfers and payments to be made pursuant to this subsection (ii) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(iii) On each Principal Payment Date and Interest Payment Date, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. To the extent required by the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, to any applicable debt service reserve fund or account for any Parity Obligations for which a separate reserve has been established in accordance with Section 6.01(e), the sum or sums, if any, equal to the amount required to be deposited therein in accordance with the terms of such Parity Obligations (other than interest on draws on debt service reserve fund sureties or financial guarantees for such debt service reserves); provided that all transfers and payments to be made pursuant to this subsection (iii) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(iv) To the extent required by the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, to the payment when due of any interest then due on amounts drawn under any debt service reserve fund surety or guarantee for any Parity Obligations for which a separate debt service reserve has been established pursuant to Section 6.01(e); provided that all transfers and payments to be made pursuant to this subsection (iv) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(v) To the payment when due of any Termination Payment payable by the City upon the termination of a transaction under a Parity Payment Agreement before its scheduled termination date.

(vi) To the payment of any Subordinate Obligations in accordance with the instruments and proceedings pursuant to which authorizing such Subordinate Obligations have been.

(vii) To the making of City Transfers.

(viii) To any other lawful purpose of the City in connection with the Electric System.

Notwithstanding anything in this Section 4.01 to the contrary no moneys in the Electric Revenue Fund shall be applied in any Fiscal Year pursuant to Section 4.01(b)(vi), Section 4.01(b)(vii) or, Section 4.01(b)(viii) 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 pursuant to Section 4.01(b)(i) through Section 4.01(b)(v); provided, however that moneys with Electric Revenue Fund may be applied in any Fiscal Year pursuant to Section 4.01(b)(viii) to fund the expansion of the facilities on business of the Electric System if the City provides the Trustee with a Certificate of the City to the effect that the City estimates that the amounts to be available with Electric Revenue Fund, taking into account such application; shall be sufficient to make when due and transfer to be made in such Fiscal Year pursuant to Section 4.01(b)(i) through Section 4.01(b)(v).

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 Trust 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 POLICY

Section 5.01. Indemnification of Certificate Insurer. (a) The City hereby agrees to pay or reimburse the Certificate Insurer, to the extent permitted by law, any and all charges, fees, costs and expenses which the Certificate Insurer may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Certificate Insurance Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of this Contract, including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the City or any affiliate thereof) relating to this Contract or the transaction contemplated by this Contract, (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under this Contract, or the pursuit of any remedies under this Contract, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, or (iv) any amendment, waiver or other action with respect to, or related to, this Contract whether or not executed or completed; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of the Certificate Insurer spent in connection with the actions described in clauses (ii) - (iv) above. In addition, the Certificate Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Contract or the Trust Agreement. The City will pay interest on the amounts owed in this paragraph from the date of any payment due or paid, at the per annum rate of interest publicly announced from time to time by JP Morgan Chase Bank, National

Association at its principal office in New York, New York as its prime lending rate (any change in such prime rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank, National Association) plus three percent (3%) per annum (the "Reimbursement Rate"). The Reimbursement Rate shall be calculated on the basis of the actual number of days elapsed over a 360-day year. In the event JPMorgan Chase Bank ceases to announce its prime rate publicly, the prime rate shall be the publicly announced prime rate or base lending rate of such national bank, as the Certificate Insurer shall specify.

(b) In addition to any and all rights of reimbursement, subrogation and any other rights pursuant hereto or under law or in equity, the City agrees to pay or reimburse the Certificate Insurer to the extent permitted by law, any and all charges, fees, costs, claims, losses, liabilities (including penalties), judgments, demands, damages, and expenses which the Certificate Insurer or its officers, directors, shareholders, employees, agents and each Person, if any, who controls the Certificate Insurer within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended, may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, of any nature in connection with, in respect of or relating to the transactions contemplated by this Contract or the Trust Agreement by reason of:

(i) any omission or action (other than of or by the Certificate Insurer) in connection with the offering, issuance, sale, remarketing or delivery of the Certificates;

(ii) the negligence, bad faith, willful misconduct, misfeasance, malfeasance or theft committed by any director, officer, employee or agent of the City in connection with any transaction arising from or relating to this Contract;

(iii) the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it;

(iv) the breach by the City of any representation, warranty or covenant under this Contract or the occurrence, in respect of the City under this Contract of any "event of default" or any event which, with the giving of notice or lapse of time or both, would constitute any "event of default"; or

(v) any untrue statement or alleged untrue statement of a material fact contained in any official statement relating to the Certificates, if any, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such claims arise out of or are based upon any untrue statement or omission in information included in an official statement, if any, and furnished by the Certificate Insurer in writing expressly for use therein.

Section 5.02. Certificate Insurer as Third-Party Beneficiary. To the extent that this Contract confers upon or gives or grants to the Certificate Insurer any right, remedy or claim under or by reason of this Contract, the Certificate Insurer is hereby explicitly recognized as

being a third-party beneficiary hereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.

Section 5.03. Rights of Certificate Insurer. So long as the Certificate Insurance Policy is in full force and effect, the provisions of this Section shall apply:

(a) With respect to the outstanding Certificates, any reorganization or liquidation plan with respect to the City must be acceptable to the Certificate Insurer. In the event of any reorganization or liquidation, the Certificate Insurer shall have the right to vote on behalf of all Owners who hold Certificates guaranteed by the Certificate Insurer, absent a default by the Certificate Insurer under the Certificate Insurance Policy;

(b) The City will permit the Certificate Insurer to discuss the affairs, finances and accounts of the City or any information the Certificate Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the City, and will use best efforts to enable the Certificate Insurer to have access to the facilities, books and records of the City on any business day upon reasonable prior notice; and

(c) The Certificate Insurer shall have the right to receive such additional information as it may reasonably request.

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 payment of the Installment Payments and the lien and charge on Net Revenues and amounts in the Electric Revenue Fund securing the Installment Payments provided:

(a) With respect to a Parity Obligation other than a Parity Payment Agreement or a Credit Agreement, either -

(i) 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 twenty percent (120%) 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

(ii) 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 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 twenty percent (120%) 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, improvements to, or other capital asset of, 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 proposed to be executed which is a Parity Payment Agreement or a Credit Agreement, there shall have been delivered to the City evidence that the incurrence of such Parity Payment Agreement or Credit 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 then outstanding;

(d) There shall have been delivered to the City an Opinion of Counsel substantially to the effect that (1) subject to standard exceptions and qualifications, the Parity Obligation is a valid and binding special obligation of the City, 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 or Outstanding Parity Obligations, in each case 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 it 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 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 or the Tax Certificate 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 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. 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 7.07. 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. On or before July 1 of each Fiscal Year, the City Council of the City shall adopt a budget for the Electric System for such Fiscal Year setting forth the estimated Maintenance and Operation Costs for such Fiscal Year and 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. The City will file with the Corporation, not later than October 1 of each year, a cover letter, signed by an officer of the City stating that all Installment Payments required by this Contract have been included in the Annual Budget for the then current Fiscal Year. The Annual 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 and the Certificate Insurer at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Corporation and the Certificate Insurer annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2008):

(i) 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

(ii) 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 surety bond credited to a debt service reserve for Parity Obligations then in effect; (b) Adjusted Annual Net Revenues for such Fiscal Year equal to at least one hundred twenty percent (120%) 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

classifications 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. 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 7.16. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of this Contract, 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 7.17. 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, subject to Section 10.01 pay all amounts payable by the City thereunder, 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 Installments. 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;

during the continuance of such Event of Default specified in clause (d) above, the entire amount of the unpaid Principal Installments and those Interest Installments coming due to and including the date of such Event of Default shall become immediately due and payable, and during the continuance of any other Event of Default 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, in each case 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 Principal Installment 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 fees, costs and expenses of the Corporation and the Trustee, if any, in carrying out the provisions of this Article, including reasonable compensation to their 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, the principal amount of the Parity Obligations which has become due and payable, whether on the original due date or upon acceleration (other than Parity Payment Agreements), and the Net Payments due under Parity Payment Agreements, with interest on the overdue Principal Installment at the rate or rates applicable to the Installment Payments and the principal and Net Payments 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, the Parity Obligations, and the Net Payments due under Parity Payment Agreements, together with such Interest Installments and interest on Parity Obligations (including Net Payments), then to the payment thereof ratably, according to the principal, Net Payments and interest due, without any discrimination or preference.

Third, to Termination 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 and the Certificate Insurer 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 and amounts in the Electric Revenue Fund available for such payment in accordance herewith 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. The Principal Installment of any Installment Payment, and the Interest Installments related to such Principal Installment, shall be deemed paid and all obligations of the City with respect thereto shall cease and terminate (except for payment from deposited funds and Defeasance Securities as provided in Article VIII of the Trust Agreement) when the Certificates evidencing an ownership interest in such Principal Installment have been paid or deemed paid in accordance with the applicable provisions of Article VIII of the Trust Agreement.

Section 9.02. Accounting and Discharge Instruments. After the payment, or provision for the payment as provided in Section 9.01, of all Installment Payments and payment in full of all fees and expenses of the Corporation and the Trustee, 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 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.

ARTICLE X

MISCELLANEOUS

Section 10.01. Payment Liability of City Limited. 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 and amounts in the Electric Revenue Fund 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 and amounts in the Electric Revenue Fund 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. 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 10.03. 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 10.04. 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 Insurance 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 10.05. 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 10.06. 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 10.07. 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 10.08. 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 10.09. 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 10.10. California Law. This Contract shall be construed and governed in accordance with the laws of the State of California.

Section 10.11. 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 10.12. 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 10.13. Notices. All notices, certificates or other communications hereunder shall be deemed sufficiently given upon actual receipt thereof when received by the City, the Corporation, the Trustee, the Certificate Insurer, the Liquidity Provider, the Remarketing Agent and the Rating Agencies, as the case may be, at the respective address provided pursuant to Section 11.08 of the Trust Agreement or, if mailed by first class mail, postage prepaid, addressed to the appropriate address provided pursuant to Section 11.08 of the Trust Agreement, six Business Days after deposit in the United States mail.

Unless otherwise requested by the City, the Corporation, the Trustee, the Certificate Insurer, the Liquidity Provider, the Remarketing Agent or a Rating Agency, any notice required to be given hereunder in writing may be given by any form of telephonic or electronic transmission capable of making a written record. Each such party shall file with the Trustee information appropriate to receiving such form of telephonic or electronic transmission. Any of the parties noted above may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 10.14. 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 10.15. 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.

[Remainder of Page Intentionally Left Blank.]

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 _____
President

Attest:

_____
Secretary for the Corporation

APPROVED:

_____
Attorney for the Corporation

SCHEDULE A

SCHEDULE OF INSTALLMENT PAYMENTS AS OF DELIVERY DATE

As of the Delivery Date, the scheduled Principal Installments of the Installment Payments consist of the following amounts with such Principal Installments due on the fifth day preceding the dates indicated below and with Interest Installments on each such Principal Installment determined at the rate per annum indicated below:

Date	Principal Installment	Rate of Interest for Interest Installment

EXHIBIT 1

DESCRIPTION OF EXISTING FACILITIES

The Existing Facilities consist of the following generally described improvements, facilities and extensions of the Electric System: [To Be Completed by City]:

PURCHASE CONTRACT
$_____
CITY OF LODI
ELECTRIC SYSTEM REVENUE
CERTIFICATES OF PARTICIPATION, 2008 SERIES A

_____, 2008

City of Lodi
221 West Pine Street
Lodi, California 95241-1910

Ladies and Gentlemen:

The undersigned, collectively, the "Underwriter", offers to enter into this purchase contract "Purchase Contract" with the City of Lodi "the City", which will be binding upon the City and the Underwriter upon the acceptance hereof by the City. This offer is made subject to its acceptance by the City by execution of this Purchase Contract and its delivery to the Underwriter on or before 5:00 p.m., California time, on the date hereof. All terms used herein and not otherwise defined shall have the meanings given to such terms in the Trust Agreement (as hereafter defined).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase, and the City hereby agrees to cause to be delivered to the Underwriter, all (but not less than all) of the $_____ aggregate principal amount of the above-captioned certificates of participation "the 2008 Certificates" at a purchase price of $_____ (being an amount equal to the principal amount of the 2008 Certificates, plus net original issue premium of $_____, less an underwriter's discount of $_____).

2. Purpose; Authorizing Instruments and Law. The 2008 Certificates are being sold to provide funds (i) to refund the outstanding $_____ principal amount of Electric System Revenue Certificates of Participation 2002 Series A Variable Rate Certificates, the "Refunded 2002 Certificates" of the City (ii) to pay costs of delivery of the 2008 Certificates (iii) fund certain costs relating to termination of swap agreement relating to the Refunded 2002 Certificates and (iv) fund a reserve fund for the 2008 Certificates.

The 2008 Certificates evidence the proportionate interests of the Owners thereof in the Installment Payments, the "Installment Payments", to be made by the City under the terms of the Installment Purchase Contract, dated as of August 1, 2008, the "2008 Contract", between the City and the Lodi Public Improvement Corporation the "Corporation". Pursuant to the 2008 Contract, the City will make the Installment Payments to the Corporation from Net Revenues of the City's Electric System.

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2008 the "Trust Agreement", by and among The Bank of New York Trust Company, N.A., as trustee "the Trustee" the Corporation and the City. The 2008 Certificates shall be as described in the Trust Agreement and the Official Statement (as hereafter defined).

Concurrently with execution and delivery of the 2008 Certificates, Assured Guaranty Corp. (the "Insurer") will issue a financial guaranty insurance policy, the "Insurance Policy", to insure payment of principal of and interest with respect to the 2008 Certificates.

[The City will enter into an Escrow Deposit Agreement, dated as of August 1, 2008 (the "Escrow Agreement"), with _____, as escrow agent (the "Escrow Agent"), in order to implement the prepayment of the Refunded 2002 Certificates.]

3. Public Offering. The Underwriter agrees to make a bona fide public offering of all the 2008 Certificates initially at the public offering prices (or yields) set forth on Appendix A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the 2008 Certificates, provided that the Underwriter shall not change the interest rates set forth on Appendix A. The Certificates may be offered and sold to certain dealers at prices lower than such initial public offering prices.

4. Delivery of Official Statement; Continuing Disclosure. Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement dated June __, 2008, relating to the 2008 Certificates "the Preliminary Official Statement" to prospective purchasers of the 2008 Certificates. By its acceptance of this proposal, the City hereby ratifies such use by the Underwriter of the Preliminary Official Statement; and the City agrees to approve a final Official Statement relating to the 2008 Certificates the "Official Statement" which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of the City and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 6(o) hereof. The Underwriter hereby agrees to deposit the Official Statement with a nationally recognized municipal securities information depository. The City hereby authorizes the Underwriter to use and distribute, in connection with the offer and sale of the 2008 Certificates, the Preliminary Official Statement, the Official Statement, the Trust Agreement, the Continuing Disclosure Certificate (defined below), the Installment Purchase Agreement, the Escrow Agreement, and this Purchase Contract and all information contained herein, and all other documents, certificates and statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract.

In connection with distribution of the Preliminary Official Statement, the City will execute a certificate in the form attached hereto as Exhibit B.

The City will undertake, pursuant to the Installment Purchase Agreement and a Continuing Disclosure Certificate "the Continuing Disclosure Certificate", to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of such undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

5. The Closing. At 8:00 a.m., California time, on December 5, 2007 or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the City and the Underwriter, the City will cause to be delivered (i) the 2008 Certificates, through the facilities of The Depository Trust Company, to the Underwriter in New York, New York, and (ii) the closing documents hereinafter mentioned at the offices of Orrick, Herrington & Sutcliffe LLP (Special Counsel), San Francisco, California, or another place to be mutually agreed upon by the City and the Underwriter. The Underwriter will accept such delivery and pay the purchase price of the 2008

Certificates as set forth in Section 1 hereof in immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the Closing. The Certificates will be delivered in such denominations and deposited in the account or accounts specified by the Underwriter pursuant to written notice to the City not later than five business days prior to Closing.

6. Representations, Warranties and Covenants. The City represents, warrants to and covenants with to the Underwriter that:

(a) Due Organization Existence and Authority. The City is a municipal corporation and general law city duly organized and existing under the Constitution and laws of the State of California "the State", with full right, power and authority to execute, deliver and perform its obligations under this Purchase Contract, the Trust Agreement, the Installment Purchase Agreement, the Escrow Agreement, and the Continuing Disclosure Certificate, collectively, the City Documents, and to carry out and consummate the transactions on its part contemplated by the City Documents and the Official Statement.

(b) Due Authorization and Approval. By all necessary official action of the City, the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents; and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The City has complied, and will at the Closing be in compliance in all respects, with its obligations under the City Documents and the documents relating to the Existing Parity Obligations, "the Existing Parity Obligations Documents."

(c) Official Statement Accurate and Complete. The Preliminary Official Statement was as of its date, and the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true and correct in all material respects, and the Preliminary Official Statement and the Official Statement contain and up to and including the Closing will contain no misstatement of any material fact and do not, and up to and including the Closing will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

(d) Underwriter's Consent to Amendments and Supplements to Official Statement. The City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the 2008 Certificates.

(e) Agency Agreement to Amend or Supplement Official Statement. If after the date of this Purchase Contract and until 25 days after the end of the underwriting period (as defined below), any event occurs as a result of which the Official Statement as then amended or supplemented would include an untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained therein, in the light of the

circumstances under which they were made, not misleading, and, in the reasonable opinion of the Underwriter, an amended or supplemented Official Statement should be delivered in connection with the offers or sales of the 2008 Certificates to reflect such event, the City promptly will prepare at its expense an amendment or supplement which will correct such statement or omission and the City shall promptly furnish to the Underwriter a reasonable number of copies of such amendment or supplement. Unless the Underwriter otherwise advises the City in writing that the end of the underwriting period shall be another specified date, the end of the underwriting period shall be the day of Closing.

(f) No Material Change in Finances. At the time of the Closing, there shall not have been any material adverse changes in the financial condition of the City since the date hereof.

(g) No Breach or Default. As of the time of acceptance hereof and as of the time of the Closing, the City is not and will not be, in any manner which would adversely affect the transactions on the part of the City contemplated hereby and by the City Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would adversely affect the transactions on the part of the City contemplated hereby and by the City Documents, a default or event of default under any such instrument; and, as of such times, the authorization, execution and delivery of the City Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(h) No Litigation. As of the time of acceptance hereof and as of the date of the Closing, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending with respect to which the City has been served with process, to the best knowledge of the City after due investigation, threatened (i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the execution and delivery of the 2008 Certificates, or in any way contesting or affecting the validity of the City Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of interest evidenced and represented by the 2008 Certificates from gross income for federal income tax purposes or contesting the powers of the City to enter into the City Documents; (iii) which may result in any material adverse impact on the financial condition of the City; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or

the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no known basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(i) Further Cooperation; Blue Sky. The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the 2008 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 2008 Certificates for investment under the laws of such states and other jurisdictions; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(j) Consents and Approvals. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the City of its obligations in connection with, the City Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the 2008 Certificates.

(k) Validity of City Documents. The City Documents, when executed and delivered by the City and other parties thereto, will be legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(l) No Other Obligations. Other than the Existing Parity Obligations, there is no other lien or encumbrance on the System Net Revenues of the System.

(m) Certificates. Any certificate signed by any official of the City and delivered to the Underwriter shall be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

(n) Compliance With Rule 15c2 -12.

(1) The Preliminary Official Statement heretofore delivered to the Underwriter is deemed final by the City as of its date and as of the date hereof, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The City hereby covenants and agrees that, within seven business days from the date hereof, the City shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with paragraph (b)(4) of Rule 15c2-12 and Rules of the Municipal Securities Rulemaking Board.

(2) The City has not previously failed to comply with any continuing disclosure obligation undertaken pursuant to Rule 15c2-12.

7. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants of the City herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations under this Purchase Contract are and shall be subject to the following additional conditions:

(a) Bring -Down Representation. The representations, warranties and covenants of the City contained herein shall be true and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(b) Executed Agreements and Performance Thereunder. At the time of the Closing (i) the City Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter, (ii) there shall be in full force and effect such resolutions, the "Resolutions" as, in the opinion of Special Counsel, shall be necessary in connection with the transactions contemplated by the Official Statement and the City Documents, (iii) the City shall perform or have performed its obligations required as specified in this Purchase Contract or the City Documents to be performed at or prior to Closing, (iv) the Corporation shall perform or have performed its obligations required as specified in the Trust Agreement or the Installment Purchase Agreement, collectively, the "Corporation Documents" to be performed at or prior to Closing, and (v) the Official Statement shall not have been supplemented or amended, except pursuant to Paragraph 6(e) or as otherwise may have been agreed to in writing by the Underwriter.

(c) No Default. At the time of the Closing, no default shall have occurred or be existing under the Resolutions, the Corporation Documents or the City Documents, and the City shall not be in default in the payment of any of its bonded indebtedness or any of its other obligations, which default would adversely impact the ability of the City to make Installment Payments.

(d) Termination Events. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the Corporation and the City if at any time at or prior to the Closing:

(1) Any event shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(2) The marketability of the 2008 Certificates or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release,

other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City or the Corporation, or the interest on bonds or notes or obligations of the general character of the 2008 Certificates; or

(3) Any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the 2008 Certificates; or

(4) Legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the execution, delivery, offering or sale of securities of the general character of the 2008 Certificates, or the execution, delivery, offering or sale of the 2008 Certificates, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that securities of the general character of the 2008 Certificates, or the 2008 Certificates, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Trust Agreement needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(5) Additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the 2008 Certificates; or

(6) A general banking moratorium shall have been established by federal or State authorities; or

(7) The United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak of hostilities or a national or international calamity or crisis, financial or otherwise, the effect of such outbreak, calamity or crisis on the financial markets

of the United States, being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market or deliver the 2008 Certificates; or

(8) Any rating of the securities of the City shall have been downgraded, suspended or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the 2008 Certificates; or

(9) The commencement of any action, suit or proceeding described in paragraphs 6(h) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the 2008 Certificates; or

(10) There shall be in force a general suspension of trading on the New York Stock Exchange.

(e) Closing Documents. At or prior to the Closing, the Underwriter shall receive (unless the context otherwise indicates) the following documents:

(1) Final Opinion. An approving opinion of Special Counsel dated the date of the Closing and substantially in the form included as Appendix F to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter, to the effect that the foregoing opinion addressed to the City may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it.

(2) Supplemental Opinion. A supplemental opinion of Special Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

(i) The Statements contained in the Official Statement under the captions THE 2007 CERTIFICATES, SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES, and TAX MATTERS, and in Appendix D and Appendix F thereto, excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the 2008 Certificates, the Trust Agreement, the Installment Purchase Agreement and the form and content of Special Counsel's opinion, are accurate in all material respects; and

(ii) The 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 (provided no opinion need be expressed with respect to the Insurance Policy or the Surety Bond issued by the Insurer).

(3) City Attorney Opinion. An opinion of the City Attorney, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(i) The City is a municipal corporation and general law city, duly organized and validly existing under the Constitution and the laws of the State of California;

(ii) The City has full legal power and lawful authority to enter into the City Documents;

(iii) The City Documents have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(iv) The resolutions "City Resolutions" of the City approving and authorizing the execution and delivery of the City Documents, and approving the Official Statement, were duly adopted at meetings of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the City Resolutions are in full force and effect and have not been modified, amended or rescinded;

(v) The execution and delivery of the City Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the City a breach of or default under, any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject;

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the City to enter into the City Documents, or to perform its obligations thereunder;

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the Installment Payments or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or

affects in any manner the right or ability of the City to make Installment Payments;

(viii) That nothing has come to the attention of such counsel which would lead it to believe that the Official Statement (excluding therefrom the financial and statistical data and forecasts included therein and information about the Insurer and The Depository Trust Company, as to which no opinion need be expressed) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(4) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter, to the effect that:

(i) The Trustee has all necessary power to enter into, accept and administer the trust created under the Trust Agreement;

(ii) The Trust Agreement has been duly authorized, executed and delivered by the Trustee and the Trust Agreement constitutes the legal, valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought; and

(iii) The Certificates have been executed by a duly authorized officer of the Trustee.

(5) Escrow Agent Counsel Opinion. The opinion of counsel to the Escrow Agent, dated the date of the Closing, addressed to the Underwriter, to the effect that:

(i) The Escrow Agent has all necessary power to enter into, accept and administer the trust created under the Escrow Agreement; and

(ii) The Escrow Agreement has been duly authorized, executed and delivered by the Escrow Agent and the Escrow Agreement constitutes the legal, valid and binding obligation of the Escrow Agent enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(6) Corporation Counsel Opinion. An opinion of the City Attorney, as general counsel to the Corporation, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(i) The Corporation is a nonprofit, public benefit corporation, duly organized and validly existing under the Constitution and the laws of the State of California;

(ii) The Corporation has full legal power and lawful authority to enter into the Corporation Documents;

(iii) The Corporation Documents have been duly authorized, executed and delivered by the Corporation and constitute the legal, valid and binding agreements of the Corporation enforceable against the Corporation in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(iv) The resolutions "Corporation Resolutions" of the Corporation approving and authorizing the execution and delivery of the Corporation Documents, were duly adopted at meetings of the Board of Directors of the Corporation called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Corporation Resolutions are in full force and effect and have not been modified, amended or rescinded;

(v) The execution and delivery of the Corporation Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the Corporation a breach of or default under, any agreement or other instrument to which the Corporation is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Corporation is subject;

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the Corporation to enter into the Corporation Documents, or to perform its obligations thereunder;

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the Corporation, challenging the creation, organization or existence of the Corporation, or the validity of the Corporation Documents or in any way contesting or affecting the validity of the Corporation Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the Corporation to enter into or perform its obligations under any of the Corporation Documents;

(7) City Closing Certificate. A certificate of the City, dated the date of the Closing, signed on behalf of the City by the City Manager, the Deputy City Manager, or other duly authorized officer of the City to the effect that:

(i) The representations, warranties and covenants of the City contained herein are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the City has complied with all of the terms and conditions of this Purchase Contract required to be complied with by the City at or prior to the date of the Closing; and

(ii) No event affecting the City has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(8) Corporation Closing Certificate. A certificate of the Corporation, dated the date of the Closing, signed on behalf of the Corporation by a duly authorized officer of the Corporation to the effect that:

(i) The Corporation is a nonprofit, public benefit corporation, duly created and lawfully existing under the laws of the State, with full right, power and authority to execute, deliver and perform its obligations under the Corporation Documents and to carry out and consummate the transactions on its part contemplated by the Corporation Documents and the Official Statement;

(ii) By all necessary official action, the Corporation has duly authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations on its part contained in the Corporation Documents and as of the Closing Date, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The Corporation is in compliance in all material respects with the terms of the Corporation Documents;

(iii) The Corporation is not, in any manner which would adversely affect the transactions contemplated by the Corporation Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would adversely affect the transactions contemplated by the Corporation Documents, a default or event of default under any such instrument; and the authorization, execution and delivery of the Corporation Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any pplicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument

to which the Corporation (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Corporation Documents;

(iv) 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 with respect to which the Corporation has been served with process or, to the best knowledge of the Corporation after due investigation, threatened (a) in any way questioning the existence of the Corporation or the titles of the officers of the Corporation to their respective offices; (b) affecting, contesting or seeking to prohibit, restrain or enjoin the execution and delivery of the 2008 Certificates, or in any way contesting or affecting the validity of the Corporation Documents or the consummation of the transactions contemplated thereby, or contesting the powers of the Corporation to enter into the Corporation Documents; or (c) which may result in any material adverse impact on the financial condition of the Corporation, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (a) through (c) of this sentence;

(v) The Corporation Documents are valid and binding obligations of the Corporation enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(vi) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the Corporation of its obligations in connection with, the Corporation Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the 2008 Certificates; and

(vii) No event affecting the Corporation has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements with respect to the Corporation therein, in the light of the circumstances under which they were made, not misleading.

(9) Trustee's Certificate. A certificate of the Trustee, dated the date of Closing, addressed to the City and the Underwriter, in form and substance acceptable to the Underwriter, to the following effect:

(i) The Trustee has all necessary power to enter into, accept and administer the trust created under the Trust Agreement;

(ii) The Trust Agreement has been duly authorized, executed and delivered by the Trustee and the Trust Agreement constitutes the legal, valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery of the Trust Agreement or the performance by the Trustee of its duties and obligations under the Trust Agreement;

(iv) The Certificates have been executed by a duly authorized officer of the Trustee;

(v) The execution and delivery by the Trustee of the Trust Agreement and compliance with the terms thereof will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal or State securities or blue sky laws or regulations); and

(vi) There is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending, or to the best knowledge of the Trustee, threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Trust Agreement or contesting the powers of the Trustee or its authority to enter into and perform its obligation thereunder.

(10) Escrow Agent's Certificate. A certificate of the Escrow Agent, dated the date of Closing, addressed to the Agency and the Underwriter, in form and substance acceptable to the Underwriter, to the following effect:

(i) The Escrow Agent has all necessary power to enter into, accept and administer the trust created under the Escrow Agreement;

(ii) The Escrow Agreement has been duly authorized, executed and delivered by the Escrow Agent and the Escrow Agreement constitutes the legal, valid and binding obligation of the Escrow Agent enforceable in

accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Escrow Agent that has not been obtained is or will be required for the execution and delivery of the Escrow Agreement or the performance by the Escrow Agent of its duties and obligations under the Escrow Agreement;

(iv) The execution and delivery by the Escrow Agent of the Escrow Agreement and compliance with the terms thereof will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Escrow Agent is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Escrow Agent or any of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal or State securities or blue sky laws or regulations); and

(v) There is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending, or to the best knowledge of the Escrow Agent, threatened against the Escrow Agent which in the reasonable judgment of the Escrow Agent would affect the existence of the Escrow Agent or in any way contesting or affecting the validity or enforceability of the Escrow Agreement or contesting the powers of the Escrow Agent or its authority to enter into and perform its obligation thereunder.

(11) Underwriter Counsel Opinion. A letter of Jones Hall, A Professional Law Corporation, counsel to the underwriter, dated the Closing Date, and addressed to the Underwriter, to the effect that:

(i) during the course of serving as counsel in connection with the execution and delivery of the 2008 Certificates and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, no information came to the attention of the attorneys in such firm rendering legal services in connection with the issuance of the 2008 Certificates that would lead them to believe that the Official Statement (excluding therefrom the financial statements, any financial or statistical data, or forecasts, charts, numbers, estimates, projections, assumptions or expressions of opinion included in the Official Statement, information regarding DTC and its book-entry system, or the Insurer and its Bond Insurance Policy and Surety Bond, and the appendices to the Official Statement as to which no opinion need be expressed), as of the date thereof or the Closing Date, contains any untrue statement of a material fact or omits to

state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(ii) the 2008 Certificates are exempt from registration pursuant to the Securities Act of 1933, as amended;

(12) Transcripts. Two transcripts of all proceedings relating to the authorization, execution and delivery of the City Documents, the Corporation Documents and the 2008 Certificates.

(13) Official Statement. 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.

(14) Documents. An original executed copy of each of the Corporation Documents and each of the City Documents.

(15) City Resolutions. Certified copies of the City Resolutions, certified by the City Clerk.

(16) 8038. Evidence that the federal tax information form 8038-G has been prepared for filing.

(17) Nonarbitrage Certificate. A tax and nonarbitrage certificate in form satisfactory to Special Counsel.

(18) CDIAC Statements. A copy of the Notices of Sale required to be delivered to the California Debt Investment and Advisory Commission pursuant to Section 53583 of the California Government Code.

(19) Insurance Policy; Surety Bond. The Insurance Policy and the Surety Bond issued by the Insurer.

(20) Insurer Certifications. A certificate and/or opinion of counsel, satisfactory to the City and Special Counsel, of the Insurer regarding the enforceability of the Insurance Policy, the Surety Bond and the statements in the Official Statement regarding the Insurer, the Surety Bond and the Insurance Policy.

(21) Compliance with Existing Parity Obligations. Evidence of compliance with the provisions of the Existing Parity Obligations Documents with respect to issuance of obligations secured by System Net Revenues on a parity with the Existing Parity Obligations.

(22) Defeasance Provisions. A defeasance opinion of Special Counsel pursuant to Section 10.05 of the Installment Sale Agreement dated as of December 1, 1991 relating to the 1991 Certificates.

(23) Escrow Verification Report. A report of Causey Demgen & Moore Inc. verifying the sufficiency of amounts deposited into the Escrow Fund established

under the Escrow Agreement to accomplish the proposed defeasance and prepayment of the Refunded 2002 Certificates.

(24) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter or its counsel may reasonably deem necessary.

If the City shall be unable to satisfy the conditions contained in this Section 7, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except as further set forth in Section 8 hereof.

8. Expenses. The Underwriter shall be under no obligation to pay, and the City shall pay or cause to be paid, the expenses incident to the performance of the obligations of the City hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Corporation Documents, the City Documents, and the cost of preparing, printing, executing and delivering the 2008 Certificates; (b) the fees and disbursements of the Trustee, any accountants or other experts or consultants retained by the City; (c) the fees and disbursements of Special Counsel; (d) the cost of preparation and printing of the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement, including a reasonable number of copies thereof for distribution by the Underwriter; (e) the premium for the Insurance Policy and the Surety Bond and (f) the fees of any rating agencies.

The Underwriter shall pay, and the City shall be under no obligation to pay, all expenses incurred by it in connection with the public offering and distribution of the 2008 Certificates (including the fees and expenses of its counsel), applicable CDIAC fees and any advertising expenses.

9. Notice. 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 such entity at the address first written above.

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 Stone & Youngberg LLC, One Ferry Building, San Francisco, CA 94111, Attn: Eileen Gallagher.

10. Entire Agreement. This Purchase Contract, when accepted by the City, shall constitute the entire agreement between the City and the Underwriter and is made solely for the benefit of the City and the Underwriter (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All of the City's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter, until the earlier of (a) delivery of and payment for the 2008 Certificates hereunder, and (b) any termination of this Purchase Contract.

11. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

12. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

13. State Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State.

14. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the City without the prior written consent of the other party hereto.

STONE & YOUNGBERG LLC,
on behalf of itself and Bear, Stearns & Co., Inc.

By:_____
Authorized Representative

Accepted as of the date first stated above:

CITY OF LODI

By: _____
City Manager

APPENDIX A

MATURITY SCHEDULE

Principal Payment Date	Principal Amount	Interest Rate	Yield	Price	CUSIP

APPENDIX B

CITY OF LODI
WASTEWATER SYSTEM REVENUE
CERTIFICATES OF PARTICIPATION, 2007 SERIES A

CERTIFICATE REGARDING FINALITY OF PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby certifies and represents that he is the duly appointed and acting City Manager of the City of Lodi "the Agency", and as such is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City as follows:

(1) This Certificate is delivered in connection with the offering and sale of the above-referenced certificates of participation "the 2008 Certificates" in order to enable the underwriter of the 2008 Certificates to comply with Securities and Exchange Commission Rule 15c2 -12 under the Securities Exchange Act of 1934 "the Rule".

(2) In connection with the offering and sale of the 2008 Certificates, there has been prepared a Preliminary Official Statement, setting forth information concerning the 2008 Certificates and the City "the Preliminary Official Statement".

(3) As used herein, Permitted Omissions shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the 2008 Certificates depending on such matters, all with respect to the 2008 Certificates.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of Rule 15c2-12, and the information therein is accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, I have hereunto set my hand as of _____, 2008.

CITY OF LODI

By:_____
City Manager

PRELIMINARY OFFICIAL STATEMENT DATED JULY 3, 2008

NEW ISSUE - FULL BOOK-ENTRY ONLY **Ratings: (See "Ratings")**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, such interest 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 when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of, the 2008 Certificates. See "TAX MATTERS."

$65,000,000*
Electric System Revenue Certificates of Participation
2008 Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA

Dated: Date of Delivery **Due: July 1, 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, 2008 Series A (the "2008 Certificates") evidence the proportionate interests of the Owners thereof in the Installment Payments (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 July 1, 2008 (the "2008 Contract"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the 2008 Contract, the City will make the Installment Payments to the Corporation from Net Revenues of the City's Electric System.

The 2008 Certificates are being sold to provide funds to: (i) currently refund the outstanding $46,760,000 principal amount of Electric System Revenue Certificates of Participation 2002 Series A Variable Rate Certificates (the "Refunded 2002 Certificates") of the City; (ii) pay costs of delivery of the 2008 Certificates; (iii) fund certain costs relating to termination of a swap agreement relating to the Refunded 2002 Certificates; (iv) purchase a financial guaranty insurance policy for the 2008 Certificates; and (v) fund a reserve fund for the 2008 Certificates. See "PLAN OF FINANCE" herein.

The 2008 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 2008 Certificates. Purchasers of interests in the 2008 Certificates will not receive securities certificates representing their interests in the 2008 Certificates purchased. Principal, premium, if any, and interest evidenced by the 2008 Certificates are payable by The Bank of New York Trust Company, N.A., 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 2008 Certificates, as described herein.

The 2008 Certificates initially will be delivered in denominations of $5,000 principal amount or any integral multiple thereof. Interest represented by the 2008 Certificates is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2009].

The scheduled payment of principal of and interest on the 2008 Certificates, when due, will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2008 Certificates by Assured Guaranty Corp.

[INSERT ASSURED GUARANTY LOGO]

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 2008 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 2008 Contract, as described herein.

The 2008 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 Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, and for the City by the City Attorney of the City of Lodi. It is expected that the 2008 Certificates in definitive form will be available for delivery in New York, New York through the DTC book-entry system on or about July 24, 2008.

STONE & YOUNGBERG

Dated: July __, 2008

* Preliminary, subject to change

MATURITY SCHEDULE

$_____ Series 2008 Certificates

Certificate Payment Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP Number

$_____ _____ Term Series 2008 Certificates due July 1, _____ Price: ____%; CUSIP Number: _____

CITY OF LODI, CALIFORNIA

City Council

JoAnne Mounce, Mayor
Larry D. Hansen, Mayor Pro Tempore
Susan Hitchcock, Councilmember
Bob Johnson, Councilmember
Phil Katzakian, Councilmember

City Officials

Blair King, City Manager
James Krueger, Deputy City Manager/Finance Director/Treasurer
Randi Johl, City Clerk
D. Stephen Schwabauer, City Attorney
George Morrow, Director of Electric Utility

LODI PUBLIC IMPROVEMENT CORPORATION

Board of Directors

JoAnne Mounce
Larry D. Hansen
James Krueger
Randi Johl

SPECIAL SERVICES

Special Counsel
Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Trustee
The Bank of New York Trust Company, N.A.
Los Angeles, California

Financial Advisor
Lamont Financial Services Corporation
Walnut Creek, California

Independent Auditors
Macias, Gini & O'Connell
Sacramento, California

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 2008 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 the 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 2008 CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2008 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 the events, conditions or circumstances on which such statements are based occur.

The Insurer makes no representation with respect to the 2008 Certificates or the advisability of investing in the 2008 Certificates. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading “CERTIFICATE INSURANCE" and in "APPENDIX G - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY".

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OFFICIAL STATEMENT

Relating to

$65,000,000*

Electric System Revenue Certificates of Participation
2008 Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA

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 2008 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—CERTAIN DEFINITIONS" 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 2008 Series A (the "2008 Certificates"), in the aggregate principal amount of $65,000,000*. The 2008 Certificates evidence the proportionate interests of the registered owners (the "Owners") thereof in Installments Payments ("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 July 1, 2008 (the "2008 Contract"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the 2008 Contract, the City will make the Installment Payments to the Corporation from Net Revenues of the City's electric system (the "Electric System").

The 2008 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of July 1, 2008 (the "Trust Agreement"), by and between the Corporation and The Bank of New York Trust Company, N.A., as trustee thereunder (the "Trustee"). The 2008 Certificates are being sold to provide funds to: (i) currently refund the outstanding $46,760,000 principal amount of Electric System Revenue Certificates of Participation 2002 Series A Variable Rate Certificates (the "Refunded 2002 Certificates"); (ii) pay costs of delivery of the 2008 Certificates, as more fully described herein; (iii) fund certain costs relating to termination of the swap agreement relating to the Refunded 2002 Certificates; (iv) purchase a financial guaranty insurance policy for the 2008 Certificates; and (v) fund a reserve fund for the 2008 Certificates. See "PLAN OF FINANCE" herein.

Security and Sources of Payment for the 2008 Certificates; Parity Obligations

The obligation of the City to make the Installment Payments pursuant to the 2008 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

* Preliminary; subject to change.

Installment Payments ("Parity Obligations"), subject to the terms and conditions set forth in the 2008 Contract.

The City has previously entered into an Installment Purchase Contract, dated as of January 1, 2002, between the City and the Corporation (the "2002 Contract"), in connection with the execution and delivery of the Refunded 2002 Certificates, City's Electric System Revenue Certificates of Participation, 2002 Series C (currently outstanding in the principal amount of $8,985,000)(the 2002 Series C Certificates") and Electric System Revenue Certificates of Participation, 2002 Series D (currently outstanding in the principal amount of $19,765,000)(the "2002 Series D Certificates"). The 2002 Contract constitutes a Parity Obligation.

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 2008 Contract, 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 surety bond credited to a debt service reserve for Parity Obligations then in effect; and (b) Adjusted Annual Net Revenues for such Fiscal Year equal to at least one hundred twenty percent (120%) of Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2008 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). The City intends to satisfy the Reserve Requirement with a portion of the proceeds of the Series 2008 Certificates. Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the 2008 Certificates in the event amounts on deposit in the Debt Service Fund are insufficient therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2008 Certificates—Reserve Fund" herein.

Certificate Insurance

Payment of the principal of and interest evidenced by the 2008 Certificates when due (not including acceleration or prepayments, except scheduled mandatory sinking fund prepayment) will be insured by a financial guaranty insurance policy (the "Policy") to be issued by Assured Guaranty Corp. (the "Insurer") simultaneously with the delivery of the 2008 Certificates. See "CERTIFICATE INSURANCE" herein.

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, shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

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 and the 2008 Contract are available for inspection at the offices of the City Clerk in Lodi, California, and will be available from the Trustee upon request and payment of duplication costs.

PLAN OF FINANCE

The 2008 Certificates are being executed and delivered to provide funds to: (i) currently refund the Refunded 2002 Certificates, (ii) pay costs of delivery of the 2008 Certificates; (iii) fund certain costs relating to termination of the swap agreement relating to the Refunded 2002 Certificates; (iv) purchase a financial guaranty insurance policy for the 2008 Certificates; and (v) fund a reserve fund for the 2008 Certificates.

Refunding of 2002 Certificates

A portion of the proceeds of the 2008 Certificates, together with other available moneys, will be used to currently refund all of the Refunded 2002 Certificates on July 24, 2008.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the 2008 Certificates (excluding accrued interest) are as follows:

Sources	
Par Amount of the 2008 Certificates	$
Transfer from Refunded 2002 Certificates Funds and Accounts	
Total Sources	$
Uses	
Payment of Refunded 2002 Certificates	$
Underwriter's Discount	
Swap Termination Payment	
Deposit to Reserve Account	
Costs of Issuance[1]	
Total	$

[1] Includes legal, financing, Trustee's fees, printing costs, rating agency fees, financial guaranty insurance policy premiums and other costs incurred in connection with the delivery of the 2008 Certificates.

THE 2008 CERTIFICATES

General

The 2008 Certificates will be prepared as one fully registered certificate for each 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 2008 Certificates. Principal, prepayment premium, if any, and interest evidenced by the 2008 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 2008 Certificates. See "APPENDIX C—BOOK-ENTRY ONLY SYSTEM" herein.

Prepayment of the 2008 Certificates

Optional Prepayment. The 2008 Certificates with a Certificate Payment Date of July 1, ____ and thereafter shall be subject to prepayment from prepayments of Installment Payments made at the option of the City from any source of funds in whole or in part on any date at a prepayment price equal to the principal amount of the 2008 Certificates to be prepaid plus accrued but unpaid interest thereon to the prepayment date, without premium.

Mandatory Sinking Fund Prepayment. The 2008 Certificates with a Certificate Payment Date of July 1, _____ shall be subject to mandatory prepayment prior to their Certificate Payment Date, in part, on July 1, ____ and on each July 1 thereafter at a prepayment price equal to the principal amount of the 2008 Certificates to be prepaid plus accrued but unpaid interest thereon to the prepayment date, without premium. Such 2008 Certificates will be prepaid in the principal amounts and upon the dates as follows:

Mandatory Prepayment Date (July 1)	*Principal Amount*
†	

† *Final Maturity.*

Selection of Certificates for Prepayment.

If less than all Outstanding Certificates are to be prepaid at any one time, the City may determine the principal amount of Certificates of each maturity to be prepaid and if less than all the Outstanding Certificates of a maturity are to be prepaid at any one time, the Trustee shall select the portions of the 2008 Certificates of such maturity to be prepaid by lot in a manner which the Trustee deems to be fair. For purposes of selecting Certificates to be prepaid, Certificates shall be deemed to be composed of five thousand dollar ($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.

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 2008 Certificates designated for prepayment at their addresses appearing in the Certificate Register, (ii) the Securities Depositories and (iii) one or more Information Services. 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 2008 Certificates to be prepaid, and, if less than all of the 2008 Certificates of any one maturity are to be prepaid, the distinctive certificate numbers of the 2008 Certificates of such maturity 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 subject to the receipt by the Trustee of the prepayment price as described below, 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, and shall require that such 2008 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 nor affect the sufficiency of such prepayment.

If notice of prepayment has been duly given as aforesaid and money for the payment of prepayment price of the 2008 Certificates called for prepayment is held by the Trustee, then on the prepayment date designated in such notice the 2008 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 2008 Certificates shall cease to accrue, such 2008 Certificates (or portions thereof) shall cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such 2008 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 will be pledged to such payment.

In the event that a notice of prepayment is being given for an optional prepayment of Certificates when the funds required for such prepayment are not delivered to the Trustee at or before the time notice of prepayment is given to the Owners of the 2008 Certificates to be prepaid, such notice of prepayment may state, at the direction of the City, that the prepayment is conditioned on the delivery to the Trustee, on or before the prepayment date, of moneys equal to the prepayment price of the 2008 Certificates (or portions thereof) to be prepaid 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.

DEBT SERVICE PAYMENT SCHEDULE

Set forth below is a schedule of Installment Payments for the period ending July 1, in each of the years indicated:

Annual Period Ending July 1	2002 Series C Total	2002 Series D Total	2008 Series A Installment Payments Principal	Interest	Total	Total
7/1/2009	$2,817,900	$1,477,601				
7/1/2010	2,820,100	1,517,319				
7/1/2011	2,818,300	1,583,190				
7/1/2012	1,417,500	4,152,690				
7/1/2013		5,518,053				
7/1/2014		5,488,178				
7/1/2015		5,467,738				
7/1/2016						
7/1/2017						
7/1/2018						
7/1/2019						
7/1/2020						
7/1/2021						
7/1/2022						
7/1/2023						
7/1/2024						
7/1/2025						
7/1/2026						
7/1/2027						
7/1/2028						
7/1/2029						
7/1/2030						
7/1/2031						
7/1/2032						
Total	$9,873,800	$25,204,767				

Source: The City.

SECURITY AND SOURCES OF PAYMENT FOR THE 2008 CERTIFICATES

Installment Payments

The 2008 Certificates evidence the proportionate interests of the Owners in the Installment Payments to be made by the City pursuant to the 2008 Contract. The 2008 Contract provides that the City's obligation to pay the Installment Payments, subject to the provisions of the 2008 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 2008 Contract), the City will not discontinue or suspend any Installment Payments required to be paid by the City under the 2008 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 2008 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 2008 Contract.

As discussed under the headings "THE ELECTRIC SYSTEM—Power Supply Resources" 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 Maintenance and Operations Costs of the Electric System payable prior to the Installment Payments.

The City has from time to time entered into certain 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 2008 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 2008 Contract. The Trust Agreement provides that 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 2008 Certificates the Trustee's rights in and priority to the following security granted to it for the payment of the 2008 Certificates: the Trustee's rights, as assignee of the Installment Payments and as beneficiary of any other rights to security for the 2008 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 2008 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 2008 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 2008 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 later 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, later 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 2008 Contract or any resolution authorizing the execution of the 2008 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 2008 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 2008 Contract, see "APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS" herein.

Pledge of Net Revenues

Pursuant to the 2008 Contract, subject to the application thereof on the terms and conditions and for the purposes provided in the 2008 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 2008 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 2008 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 2008 Contract and all other Parity Obligations in accordance with the terms of the 2008 Contract and such Parity Obligations.

Rate Covenant

Pursuant to the 2008 Contract, 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 surety bond credited to a debt service reserve for Parity Obligations then in effect; and (b) Adjusted Annual Net Revenues for such Fiscal Year equal to at least one hundred twenty percent (120%) 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 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 2008 Certificates remain outstanding. The Trustee will deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Trust Agreement and will apply moneys in the Reserve Fund in accordance with the Trust Agreement.

In the event that the Trustee has transferred money from the Reserve Fund to the Interest Fund or Principal Fund in accordance with the Trust Agreement, upon receipt of moneys from the City to increase the balance in the Reserve Fund to the Reserve Requirement, the Trustee will deposit such moneys in the Reserve Fund. If the amount credited to the Reserve Fund is in excess of the Reserve Requirement, such excess amount shall be transferred to the Debt Service Fund.

"Reserve Requirement" means with respect to the 2008 Certificates, as of any date of determination, the least of (a) ten percent (10%) of the initial offering price to the public of the 2008 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) one hundred twenty-five percent (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 2008 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.

Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the 2008 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 2008 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. The 2008 Contract provides that all money on deposit in the Electric Revenue Fund shall be applied, transferred and used only as provided below and in the following order of priority, with any discrepancy in any required deposit to be rectified before making any deposit of a lower priority:

(i) To the payment of the Maintenance and Operation Costs then due and payable and the establishment of a reasonable contingency reserve for Maintenance and Operation Costs.

(ii) On or before the fifth Business Day before each Principal Payment Date and each Interest Payment Date, a sum equal to the Installment Payment becoming due and payable on such date shall be transferred to the Debt Service Fund. On or before each date (other than a Principal Payment Date or an Interest Payment Date) on which an Installment Payment becomes due and payable hereunder (whether by prepayment, acceleration or otherwise), a sum equal to the Installment Payment becoming due and payable on such date shall be transferred to the Debt Service Fund. Notwithstanding the foregoing provisions of this subsection (ii), 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 in the Debt Service Fund sufficient available funds to pay the Installment Payment to be paid with such deposit. On or before each due date therefor under the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, the sum or sums required to be paid or deposited in a 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 scheduled Net Payments due); provided that all transfers and payments to be made pursuant to this subsection (ii) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(iii) On each Principal Payment Date and Interest Payment Date, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. To the extent required by the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, to any applicable debt service reserve fund or account for any Parity Obligations for which a separate reserve has been established in accordance with the 2008 Contract, the sum or sums, if any, equal to the amount required to be deposited therein in accordance with the terms of such Parity Obligations (other than interest on draws on debt service reserve fund sureties or financial guarantees for such debt service reserves); provided that all transfers and payments to be made pursuant to this subsection (iii) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(iv) To the extent required by the instrument and proceedings pursuant to which Parity Obligations have been issued or incurred, to the payment when due of any interest then due on amounts drawn under any debt service reserve fund surety or guarantee for any Parity Obligations for which a separate debt service reserve has been established; provided that all transfers and payments to be made pursuant to this subsection (iv) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(v) To the payment when due of any Termination Payment payable by the City upon the termination of a transaction under a Parity Payment Agreement before its scheduled termination date.

(vi) To the payment of any Subordinate Obligations in accordance with the instruments and proceedings pursuant to which such Subordinate Obligations have been issued.

(vii) To the making of City Transfers.

(viii) To any other lawful purpose of the City in connection with the Electric System.

Notwithstanding anything in the 2008 Contract to the contrary no moneys in the Electric Revenue Fund shall be applied in any Fiscal Year pursuant to subsection (vi), (vii) or, Section (viii) above 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 pursuant to subsection (i) through (v) above; provided, however that moneys within the Electric Revenue Fund may be applied in any Fiscal Year pursuant to clause (viii) above to fund the expansion of the facilities or business of the Electric System if the City provides the Trustee with a Certificate of the City to the effect that the City estimates that the amounts to be available within the Electric Revenue Fund, taking into account such application; shall be sufficient to make when due the transfers to be made in such Fiscal Year pursuant to subsection (i) through (v) above.

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 2008 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 non-defaulting participants to assume a share of the obligations and rights of a defaulting participant, if any. The City's (and any non-defaulting participant'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.

Outstanding Parity Obligations

Other than the Refunded 2002 Certificates, the outstanding Series 2002 C Certificates and the outstanding Series 2002 D Certificates, the City currently has no outstanding obligations payable from Net Revenues of the Electric System.

Additional Parity Obligations

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 2008 Contract, which conditions are precedent to the execution of any such Parity Obligations, including the condition that either:

(i) 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 twenty percent (120%) 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

(ii) 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 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 twenty percent (120%) of the Maximum Annual Debt Service for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed;

Notwithstanding the foregoing provisions, the provisions above shall not limit the ability of the City to execute any Parity Obligations at any time to refund any Outstanding Installment Payments or Outstanding Parity Obligations, in each case which 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.

The City may incur Subordinate Obligations without meeting any of the tests set forth in the 2008 Contract relating to Parity Obligations.

Limitation on Remedies

In addition to the limitations on remedies contained in the Trust Agreement and the 2008 Contract, the rights and remedies provided in the Trust Agreement and the 2008 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.

CERTIFICATE 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 G for a specimen of the Insurer's financial guaranty insurance policy (the ''Policy').

The Financial Guaranty Insurance Policy

The Insurer has made a commitment to issue the Policy relating to the 2008 Certificates, effective as of the date of execution and delivery of such 2008 Certificates. Under the terms of the Policy, the Insurer will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the 2008 Certificates that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the City solely as a result of the failure by the Trustee to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal with respect to the 2008 Certificates, the stated maturity date thereof, or the date on which such 2008 Certificates shall have been duly called for mandatory sinking fund prepayment, and does not refer to any earlier date on which payment is due by reason of a call for prepayment (other than by mandatory sinking fund prepayment), acceleration or other advancement of maturity (unless the Insurer in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest with respect to the 2008 Certificates, means the stated dates for payment of interest.

"Nonpayment" means the failure of the City to have provided sufficient funds to the Trustee for payment in full of all principal and interest Due for Payment with respect to the 2008 Certificates. It is further understood that the term Nonpayment in respect of a 2008 Certificate also includes any amount previously distributed to the Holder (as such term is defined in the Policy) of such 2008 Certificate in respect of any Insured Payment by or on behalf of the City, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee to pay such amount when due and payable.

The Insurer will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which the Insurer shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

The Insurer shall be fully subrogated to the rights of the holders of the 2008 Certificates to receive payments in respect of the Insured Payments to the extent of any payment by the Insurer under the Policy.

The Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

The Insurer is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. The Insurer commenced operations in 1988. The Insurer is a wholly owned, indirect subsidiary of Assured Guaranty Ltd.

("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of the Insurer or any claims under any insurance policy issued by the Insurer.

The Insurer is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit the Insurer's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by the Insurer, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which the Insurer is subject also require the approval of policy rates and forms.

The Insurer's financial strength is rated "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "AAA" by Fitch, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's"). Each rating of the Insurer should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by the Insurer. The Insurer does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of the Insurer

As of March 31, 2008, the Insurer had total admitted assets of $1,518,398,730 (unaudited), total liabilities of $1,138,285,708 (unaudited), total surplus of $380,113,022 (unaudited) and total statutory capital (surplus plus contingency reserves) of $1,001,533,924 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2007, the Insurer had total admitted assets of $1,361,538,502 (audited), total liabilities of $961,967,238 (audited), total surplus of $399,571,264 (audited) and total statutory capital (surplus plus contingency reserves) of $982,045,695 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") in making such determinations.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to the Insurer are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 29, 2008);

The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 (which was filed by AGL with the SEC on May 9, 2008); and

The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to the Insurer.

All consolidated financial statements of the Insurer and all other information relating to the Insurer included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the 2008 Certificates shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "CERTIFICATE INSURANCE-The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of the Insurer incorporated by reference herein and of the statutory financial statements filed by the Insurer with the Maryland Insurance Administration are available upon request by contacting the Insurer at 1325 Avenue of the Americas, New York, New York 10019 or by calling the Insurer at (212) 974-0100. In addition, the information regarding the Insurer that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at *http://www.sec.gov* and at AGL's web site at *http://www.assuredguaranty.com*, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

The Insurer makes no representation with respect to the 2008 Certificates or the advisability of investing in the 2008 Certificates. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading "CERTIFICATE INSURANCE".

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 13.92 square miles. The City has owned and operated its electric distribution system since 1910. In order to obtain generator 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. In 1982, the City signed a power purchase contract with the Western Area Power Administration ("Western"). 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 has developed electric dispatch and transmission capabilities that contribute to the City's electric utility services. Ten NCPA members (the City, Alameda, Biggs, Gridley, Healdsburg, Lompoc, Palo Alto,

Port of Oakland, Ukiah and Plumas-Sierra, collectively the "Ten NCPA Pool Members"), operate under principles of a pooling agreement (the "Principles"). The Principles provide that each of the Ten NCPA Pool Members will subject its resources, including Western contract resources and its COTP transmission resources, to the pooled operation by NCPA. In turn, NCPA will dispatch all resources to provide the total electric power requirements of the Ten NCPA Pool 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.

Service Area, Distribution System & Interconnections

The Electric System serves the entire area of the City (approximately 13.92 square miles). The City owns facilities for the distribution of electric power within the city limits of the City, which includes approximately 13 miles of 60 kV overhead power lines, approximately 288 miles of 12 kV distribution lines (approximately 54% of which is underground) and four substations. During the fiscal year 2006-2007, the Electric System served 28,889 customers, comprised of 24,931 residential customers, 3,678 commercial/industrial customers and 280 other customers. During July 2006, the City reached an all-time, historical high peak demand of 140.4 MW.

The City's Electric System is interconnected with the system of PG&E (three 60 kV lines). The City's system experiences approximately 33 minutes of outage time per year for the average customer (System Average Interruption Duration Index (SAIDI), per the calendar year 2007 System reliability report data).

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 George F. Morrow, Electric Utility Director, at the above address and telephone number.

Management of the Electric System is as follows:

George F. Morrow, Electric Utility Director, joined the City in January 2006 and has over 30 years of private/public electric utility experience. Mr. Morrow came to Lodi after serving as Electric Utility Director of Independence, MO Power & Light for 11 years. Previous industry experience included serving as Assistant General Manager (Resource Planning, Conservation, Rates and Financial Planning) with the Pasadena, CA Water and Power for six years and ten years in R&D, power supply planning and contracts with El Paso Electric Company. Mr. Morrow has BSEE and MBA degrees from the University of Texas at El Paso.

Kenneth Weisel, Manager, Electric Services, joined Lodi in April 2007 and has over 35 years of private/public electric utility related experience. Previous experience includes 11 years with the Turlock Irrigation District, rising to Assistant General Manager of Electric Resources. He was General Manager of the Missouri Joint Municipal Electric Utility Commission for three years and Electric Utility Director of the City of Roseville for 8 years. Mr. Weisel was also Assistant General Manager of the Alameda Bureau of Electricity (now Alameda Power & Telecom) and worked as an

engineer with San Diego Gas & Electric Company and Stone & Webster Engineering Corporation. Mr. Weisel is a Professional Engineer (Chemical Engineering and Electrical Engineering) in California and a Registered Professional Engineer in Massachusetts. He received Bachelor and Master of Science degrees in Chemical Engineering from the Massachusetts Institute of Technology.

Demetrio Bucaneg, Manager, Engineering and Operations, joined Lodi in 2004 and has over 28 years of private/public electric utility related experience. Mr. Bucaneg was previously employed by the California Energy Commission, the California Department of Water Resources, U.S. Windpower, Enron Wind Corporation and the national electric utility of the Philippines. Mr. Bucaneg is a registered professional engineer in California. He has BSEE and MBA degrees from St. Louis University and University of Phoenix respectively.

Employees

As of June 30, 2007, approximately 49 City employees (42 full-time, 7 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, 2011. There have been no strikes or other union work stoppages at the City, including the Electric Utility Department.

Retirement benefits to the City full-time 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, 2007, the City had no unfunded pension benefit obligation. Retirement benefits to City employees, in the form of pension benefits provided through the City's participation in PERS and limited post-retirement health care benefits, are described in Note 10 to the City's General Purpose Financial Statements for the Year Ended June 30, 2007 included in Appendix B to this Official Statement.

Insurance

The City's Electric System boiler and machinery operations are insured by Hartford Steam Boiler for up to $21.25 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 $40 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, 2007 included in APPENDIX B to this Official Statement.

Investment Policy

The moneys in 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 2008 Contract, subject to the City's Investment Policy described herein. See "APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein. 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 1, 2003, 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 Authorized 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 and the Installment Purchase Agreement, or other amounts held by the City, could have a material adverse effect on the City's finances.

Power Supply Resources

The City does not independently own any generation assets but, in addition to power purchased from Western and others, has an ownership-like entitlement to a percentage of the capacity and energy output and attributes 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 such project, as well as its share of the operation and maintenance expenses of such projects. The City also obtains power supply resources through contractual arrangements with various entities including the Western Area Power Administration, Seattle City Light and ConocoPhillips.

The following table sets forth information concerning the City's power supply resources and the energy supplied by each during the fiscal year ended June 30, 2007. Descriptions of the power supply resources also follow.

TABLE 1
CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
POWER SUPPLY RESOURCES[1]

Source	*Capacity Available (MW)*	*Actual Energy (MWh)*	*% of Total Energy*
Purchased Power[2]:			
Western	-	16,723	3.2%
NCPA			
Geothermal Project	12	103,268	19.7
Hydroelectric Project	25	39,145	7.5
Combustion Turbine Project No. 1	43	3,543	0.7
Multiple Capital Facilities, Unit One (STIG)	20	24,230	4.6
Contracts, Exchanges and Bilaterals	50	337,146	64.3
Total	151	524,053[3]	100.0%
Total Capacity and Energy Sold at Wholesale	-	48,042	
City System Requirement for Retail Load	140	476,011	

(1) Information for fiscal year ended June 30, 2007. Columns may not add due to rounding.
(2) Entitlements, firm allocations and contract amounts. Units at Backbone Output.
(3) Includes native load, exchanges and wholesale market sales. Includes line losses.
Source: City of Lodi.

In the fiscal year ended June 30, 2007, the City's net average cost of power delivered to the City Electric System was 9.5 cents per kWh.

Western Purchased Power. Lodi has an agreement with Western, which expires December 31, 2024, to purchase a base resource of 0.49049% of Central Valley Project output. Energy associated with the base resource from Western is scheduled by NCPA for Lodi's benefit.

NCPA Geothermal Project No. 3. NCPA has developed a geothermal project (the "Geothermal Project") located on federal land in certain areas of Sonoma and Lake Counties, California (the "Geysers Area"). In addition to the geothermal leasehold, wells, gathering system and related facilities, the Geothermal Project consists of two electric generating stations (Plant 1 and Plant 2), each with two 55 MW (nameplate rating) turbine generator 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 the geothermal property, which includes wellpads, access roads, steam wells and reinjection wells.

Steam for NCPA's geothermal plants comes from lands in the Geysers Area, which are leased by NCPA from the federal government. NCPA operates these steam-supply areas. Operation of the geothermal plants at high generation levels, together with high steam usage by others in the same area, initially resulted in a decline in the steam production from the steam wells at a rate greater than expected.

Based upon current operating protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease slowly from the current level of 1,016 GWh/year and 121 MW peak.

NCPA financed the Geothermal Project with Geothermal Project Number 3 Revenue Bonds, of which $52.3 million (excluding approximately $118.1 million which has been economically defeased) were outstanding as of June 30, 2008, with a final maturity of July 1, 2010. Debt service in FY 2009 and FY 2010 is $27.8 million and $29.2 million, respectively.

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 proportionate share of operating costs associated with such plants. For the fiscal year ended June 30, 2007, the City received 103,268 MWh of electric energy from the NCPA Geothermal Project Project at an average cost of $0.0555/kWh.

In order to secure transmission and other support services for the Geothermal Project, NCPA has undertaken a Geysers transmission project (the "Geysers Transmission Project") with the Geysers Project participants including Lodi. 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) the Central Dispatch Facility.

NCPA financed the Geysers Transmission Project through the issuance of Transmission Project Number One Revenue Bonds, of which $2.5 million were outstanding as of June 30, 2008. The debt service on these bonds is approximately $915,000 annually with a final maturity of August 15, 2010. The City is obligated to pay 15.2% of the debt service and operating costs associated with such transmission.

NCPA Hydroelectric Project. The NCPA Hydroelectric Project, with the exception of certain transmission facilities, is owned by the Calaveras County Water District ("CCWD") and is licensed by the Federal Energy Regulatory Commission ("FERC") pursuant to a 50 year License No. 2409 to CCWD. Pursuant to a Power Purchase Contract, NCPA (i) is entitled to the electric output of the Hydroelectric Project until 2031, (ii) managed the construction of the Hydroelectric Project and (iii) operates the generating and recreational facilities of the Hydroelectric 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 from Project No. 2409. After the present FERC license expires in the year 2031, 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.

The reservoirs for the Upper Utica, Utica and Angels projects (which were subsequently acquired by NCPA and constitute part of the Hydroelectric Project) are licensed by FERC under a 30 year license. The license was issued by FERC on September 3, 2003.

As with any hydroelectric generation project, the operation of the Hydroelectric Project is determined by consideration of its storage capacity and available stream flows. The Hydroelectric Project has a 111 year record (1895 to 2006) of streamflows. Based upon the record, the Hydroelectric Project's average production is estimated to be 550 GWh annually. Using the driest period of record (1976-1977), the Hydroelectric Project is estimated to produce 180 GWh annually. The Hydroelectric Project is optimized, together with NCPA's other resources, to economically meet the load requirements of the respective project participants. The load-following characteristics of the

project give participants a great degree of flexibility in meeting the hourly and daily variations which occur in their loads. The Hydroelectric Project generation for the fiscal year ended June 30, 2007, a dry year, was approximately 385 GWh, compared with 914 GWh for the prior fiscal year.

NCPA financed the Hydroelectric Project through the issuance of Hydroelectric Project Number One Revenue Bonds, of which approximately $476.0 million was outstanding as of June 30, 2008. The debt service on these bonds continues to the year 2032 and annual debt service ranges from $23.0 million to $38.9 million. The City's share in the Hydroelectric Project and in such bonds is 10.37%.

NCPA Combustion Turbine Project No. One. NCPA has developed its 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 of Lodi.

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.

NCPA financed the NCPA Combustion Turbine Project through the issuance of NCPA Combustion Turbine Project Number One Revenue Bonds, of which $11.6 million were outstanding as of June 30, 2008. The debt service on these bonds is approximately $4.3 million annually, with a final maturity of August 15, 2010. The City is obligated to pay 8.03% of the debt service and operating costs associated with this project.

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 energy delivered to participants in the NCPA Combustion Turbine Project is comparatively expensive. For the fiscal year ended June 30, 2007, the City received 3,543 MWh of electric energy and 521 MW-months of capacity reserves from the NCPA Combustion Turbine Project at a total cost of $2.89 million. The City determined it did not require all of the peaking capacity in this project and in October 2007, the City completed a transfer of approximately 34 MW of its rights in the NCPA Combustion Turbine Project to the City of Roseville.

Lodi Steam Injected Gas Turbine Project: In 1992, a power generating station was constructed by NCPA in the City of Lodi adjacent to the City's Wastewater Treatment Plant. The generating station consists of a single natural gas-fired steam injected gas turbine generator ("STIG"), and required auxiliary and electrical interconnection systems. NCPA financed this project through a portion of the proceeds of $152.3 aggregate principal amount of Multiple Capital Facilities Revenue Bonds issued in 1992, of which $64.2 million remained outstanding on June 30, 2008, with debt service continuing through August 2025. Annual debt service ranges from $4.0 to 5.9 million.

The STIG unit is owned and operated by NCPA, and the capacity and energy thereof is purchased by the City and the Cities of Alameda, Lompoc and Roseville. The City has a 39.50% participation share in STIG. NCPA has entered into arrangements on behalf of the Project

Participants to provide for a gas supply for STIG. NCPA has estimated the average cost of capacity from STIG to be $13.02/kW-mo. for fiscal year 2007-08.

The STIG unit is economically dispatched to meet the project participants' load, to meet other NCPA Members' load or to sell power to third parties depending on natural gas prices and electric energy prices. The unit directly connects to PG&E's 230kV transmission system. Transmission services are supplied through the NCPA-PG&E Interconnection Agreement, the California Independent System Operator ("ISO")Tariff, and the CAISO-NCPA Metered Subsystem Aggregator Agreement.

Seattle City Light Exchange Contract. NCPA, on behalf of the City and other members, 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, 2016. The City has a 40% participation in such contract.

TANC California-Oregon Transmission Project. The City is a member, together with thirteen other northern California cities and districts and one rural electric cooperative (associate member) of the Transmission Agency of Northern California (TANC). TANC, together with 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.

TANC financed its interest in the COTP through the issuance of California-Oregon Transmission Project Revenue Bonds and commercial paper notes, of which approximately $357.0 million principal amount of bonds and $86.6 million principal amount of commercial paper notes were outstanding as of May 31, 2008.

Pursuant to Project Agreement No. 3 for the COTP (the "TANC Agreement"), TANC has agreed to provide to the City and 12 other members of TANC (the "TANC Members") a participation percentage of TANC's entitlement of COTP transfer capability. In return, each TANC Member has severally agreed to pay TANC a corresponding percentage of TANC's share of the COTP construction costs, including debt service on TANC's outstanding revenue bonds, commercial paper and other obligations issued by TANC to finance its ownership share of the COTP. A TANC Member's obligations to make payments to TANC are not dependent upon the operation of the COTP and are not subject to reduction. Upon an unremedied default by one TANC Member in making a payment required under the TANC Agreement, the nondefaulting TANC Members are required to increase pro-rata their participation percentage by the amount of the defaulting TANC Member's entitlement share, provided that no such increase can result in a greater than 25% increase in the participation percentage of the nondefaulting TANC Members.

Pursuant to the TANC Agreement, the City is obligated to pay 1.9201% of TANC's COTP operating and maintenance expenses and receives approximately 26MW of COTP transfer capability 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 $1,035,000 in FY09. The City's share of TANC's bonds and commercial paper is 1.91% and 1.56%, respectively.

TANC, along with the other COI owners, is sponsoring WECC regional planning and rating increase processes for an upgrade of the COI from 4,800 MW to not less than 5,100 MW through the addition of series capacitors at either Captain Jack or Olinda Substations, along with shunt capacitors at Tracy Substation. In addition, the PacifiCorp-owned series capacitors at Malin on the Malin-

Round Mountain #2 500-kV line will be replaced. These new facilities are anticipated to be in service by the end of 2008 and expected to provide at least a 300 MW upgrade to the COI a portion of which would accrue to the City. The cost of this project is estimated to be approximately $35 million.

Tesla-Midway Transmission Service. The southern physical terminus of the COTP is near PG&E's Tesla Substation near Tracy, CA. 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 6.21 MW. The City has utilized its full allocation of Tesla—Midway transmission service for firm and non-firm power transactions.

Conoco-Phillips. Effective July 1, 2007, City entered into a three-year purchase of 25 MW of baseload energy from Conoco-Phillips. This around-the-clock power was purchased at a fixed price.

Future Power Supply Resources

Western Geothermal, Inc. Project. In 2008, NCPA on behalf of its members executed an agreement with Western Geothermal, Inc. to purchase 25 to 32 MW of geothermal energy for 20 years from the Geysers Geothermal Field in Northern California at a fixed price. The project is scheduled to be placed in service in early 2010. The City has a 4.84% right to the project's output. Such amount is expected to range from 1.2 to 1.5 MW providing as much as 2% of Lodi's annual energy needs when operational.

NCPA Lodi Energy Center. Together with other NCPA members and California public agencies, the City is participating in the permitting and design of a nominal 255 MW combined-cycle power plant to be located on City land adjacent to the City's White Slough Wastewater Treatment Plant. The City's share of the project's output is 30 MW. Commercial operation is expected to commence in early 2012.

NCPA Green Pool. In January 2008, the City entered into an agreement with NCPA related to the NCPA Green Power Project ("NGPP"). This project involves the joint purchase of renewable energy resources on behalf of eleven participating NCPA members. Through NGPP, the City is exploring proposals for up to 5 average MW (43,800 MWh/year) of green energy to be provided by a variety of suppliers. No commitments have been made to date.

Other Power Supply Resources; ***Open Position.*** Based upon its current forecasted sales and resource mix, the City believes its spot and short-term market purchases will be less than 25% of total energy requirements for the next two years.

In addition, due to the long lead time in acquiring certain resources, including renewable resources, the City, through NCPA and individually on its own behalf, continues to consider additional projects that might be included in the resource mix.

The City established a risk management policy in January 2006. Consistent with the policy, the City has established goals related to closing "open" power positions (i.e., power needs not contracted for) in the first, second and third following years to provide for orderly stabilization of future power costs.

TABLE 2
OPEN POWER POSITIONS

Timeframe	Goal	Actual[1] (as of June 1, 2008)
Current Fiscal Year	5%	6%
Next Fiscal Year	10%	13%
2nd Fiscal Year	25%	25%
3rd Fiscal Year	50%	65%

[1] Actual "open" position is percentage of total expected energy needs which are not currently contracted for by the City.

Source: City of Lodi

The City plans to make additional power purchases in the future to reduce its open position in various future years.

California Energy Market Refund Dispute and Related Litigation

The investor owned utilities (IOUs") in the State —PG&E, Edison and SDG&E—and the State of California, the California Electricity Oversight Board ("EOB") and the California Public Utilities Commission have been pursuing claims for refunds against NCPA and other power-producing municipally owned utilities ("MOUs"), including the City. NCPA and other similarly situated MOUs sold electricity into the ISO and Power Exchange ("PX") markets during the California energy crisis of 2000 and 2001. At that time, the price of electricity was uncharacteristically high.

In July 2001, FERC issued an order establishing an evidentiary hearing for the purpose of determining the amount of refunds, if any, due from entities selling into the ISO and PX organized spot markets from October 2, 2000 through June 20, 2001. During that time period, NCPA, on behalf of various of its members including the City, acted as both a seller and buyer in these organized markets. The FERC order was directed to sellers who were public utilities, such as the IOUs or commercial generators, and to sellers who were MOUs, such as NCPA. NCPA therefore had a potential refund liability under the terms of the FERC order. NCPA, along with other MOUs, asserted that FERC could not seek refunds from MOUs, which are non-FERC jurisdictional entities. The MOUs therefore sought relief from the FERC order in the courts. The MOU position, that FERC has no jurisdiction to order refunds from NCPA, was upheld by the Ninth Circuit Court of Appeals on September 6, 2005, reversing FERC's prior order. Bonneville Power Administration v. FERC, 422F.3d 908 (9th Cir., 2005). The Supreme Court denied the PG&E petition for review by certiorari on December 10, 2007.

In response to the Bonneville decision, in March 2006, the IOUs and the Electricity Oversight Board ("EOB") filed lawsuits against NCPA and other MOUs in the United States District Court. San Diego Gas and Electric Co. v. Arizona Electric Power Cooperative, Inc., Eastern District of California nos. CV-S-0559 and 0592. Those lawsuits were consolidated and sought damages based upon the theory that the ISO and PX tariffs constitute a contract between the IOUs and NCPA and the contracts by implication included a term that NCPA would not charge greater rates than those determined by FERC to be just and reasonable. On March 16, 2007, the judge dismissed the lawsuits for lack of subject matter jurisdiction. The IOUs and the State have appealed the judge's decision to the Ninth Circuit Court of Appeals, where it is currently pending.

In addition to the appeal of the federal litigation, the IOUs and the EOB also re-filed the same claims against NCPA and the MOUs in the California state court, in Los Angeles County. Pacific Gas and Electric Co. v. Arizona Electric Power Cooperative, Inc., L.A. Superior Court No. BC369141. This State court action remains pending, and is being vigorously defended by NCPA. The City does not believe that an adverse decision against NCPA in the litigation described above would materially adversely affect its ability to make Installment Payments.

Wholesale Power Trading

For a number of years, the City has used its energy and transmission resources, together with NCPA's power scheduling capabilities, to buy and sell energy in the western North American market. The principal reason for wholesale power trading is to optimize the value of the utility's assets and cost-effectively serve its retail load.

NCPA has implemented a risk management policy that is intended to set up the confines in which the trading operations undertaken on behalf of its members may occur. The objectives set forth in the policy include evaluating the creditworthiness of the counterparties, and monitoring and managing the aggregate credit exposure. Most of the sale transactions entered into by NCPA on behalf of the City are for 30 days or less. The City also adopted a Risk Management Plan and established an internal Risk Oversight Committee in January 2006 to govern its wholesale market activities.

Capital Expenditures

The budgeted capital expenditures for the Electric System for Fiscal Year 2007-08 totaled approximately $6.5 million. The primary expenditure ($5.4 million) was the retrofit of the Killelea substation. Other capital improvements included line extensions for the new Blue Shield, Reynolds Ranch and Westside developments.

The City of Lodi began retrofitting the current electric metering system to implement automated radio metering and expects to retrofit more than 25% of residential customers by the end of Fiscal Year 2008-09. The City has also recently replaced line vehicles and purchased new equipment necessary to provide and maintain reliability within the system. No significant capital expenditures are planned for Fiscal Years 2008-09 and 2009-10.

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 has a number of rate tariffs that apply to its various customer groups. Residential rates incorporate five pricing tiers with increasing tier prices ranging from $0.142 per kwh for electricity consumed in the first tier to $0.33 per kwh for usage in the fifth tier. There are six commercial/industrial rate tariffs. All commercial/industrial rates incorporate differentiated pricing for seasonal energy usage. At the higher consumption levels, the rates also provide for demand as well as energy charges. Depending on the commercial/industrial rate schedule, demand and energy charges may vary by time of day, by winter/summer seasons and by type of service received (i.e. secondary or primary voltage). The City also provides rate discounts for qualified medical, low income, and senior customers.

The City Council reviews Electric System rates periodically and makes adjustments as necessary.

In addition to the other elements of its rate tariffs described above , the City implemented an Energy Cost Adjustment ("ECA") in August 2007. The purpose of the ECA is to recover market power costs due to the fluctuations in power market conditions by charging customers a supplement amount. The ECA is reviewed monthly and is either increased or decreased as market conditions dictate. In addition, in January 2008, the City implemented a Solar Surcharge of $0.00125/kWh to fund rebates for customer-installed photovoltaic (PV) generators. The rebates are mandated by California SB 1 (see "State Legislation – Solar Power").

The following table presents a recent history of the City's average electric rates.

TABLE 3
CITY OF LODI
AVERAGE ELECTRIC UTILITY DEPARTMENT
RATES BY CUSTOMER CLASS(1)
(Dollars per kWh)

Fiscal Year ending June 30	2003	2004	2005	2006	2007
Residential	$0.1369	$0.1406	$0.1396	$0.1521	$0.1696
Commercial/Industrial	$0.1025	$0.1068	$0.1077	$0.1161	$0.1295

(1) Average rate per customer class is calculated by dividing revenues attributable to such customer class by the sales (stated in kWh) to such customer class
Source: City of Lodi.

The basic rates applicable for Fiscal Year 2007-08 remain unchanged from the prior fiscal year. For Fiscal Year 2007-08, the City expects that the ECA will constitute approximately an additional $.007 per kWh on the average customer bill.

Energy Efficiency and Conservation

AB 1890 requires that Lodi spend approximately 2.85% of gross operating revenues per year on public benefit programs. Lodi currently allocates approximately $1.7 million per year on such programs. In 1998, Lodi adopted a 2.50% rate increase to fund a portion of such additional expenditures, with the remaining portion being funded from current revenues. Expenditures are 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.The City also provides energy education for residential and non-residential customers, including on-site and on-line energy audits, and hosts a number of programs to promote renewable energy education and outreach. As part of its education and outreach efforts, the City gives in-classroom presentations on solar and other renewable energy sources, sponsors the Lodi Solar Olympics project, and offers the Lodi Energy Smart Workshop series.

Over the past 9 years, over 15,000 Lodi utility customers have been positively impacted by one or more of the City's public benefits programs, either in the form of a direct utility rebate or via one of its outreach and educational programs.

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.

TABLE 4
CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
CUSTOMERS, SALES, REVENUES AND DEMAND

	Fiscal Years Ended June 30,				
	2003	***2004***	***2005***	***2006***	***2007***
Number of Customers:					
Residential	21,994	22,264	22,554	22,870	22,928
Commercial	2,666	2,639	2,617	2,637	2,605
Industrial	34	31	32	32	33
Total Customers	24,694	24,934	25,203	25,539	25,566
Kilowatt-Hour (kWh) Sales:					
Residential	145,989,025	156,572,246	153,080,272	159,540,557	159,247,195
Commercial	155,707,623	161,609,468	159,762,255	158,633,953	165,676,594
Industrial	126,153,460	127,506,441	142,395,954	141,462,582	133,816,956
Total kWh sales	427,850,108	445,688,155	455,238,481	459,637,092	458,740,745
Revenues from Sale of Energy [(1)]					
Residential	$19,983,701	$22,020,521	$21,367,522	$24,259,736	$27,013,494
Commercial	20,561,603	22,018,890	21,936,877	23,186,847	25,313,133
Industrial	8,327,184	8,859,492	10,603,734	11,666,005	13,470,620
Total Revenues from Sale of Energy:	$48,872,487	$52,898,902	$53,908,133	$59,112,589	$65,797,247
Peak Demand (MW)	123.9	121.0	117.5	124.3	140.4

(1) Excludes revenues from California Energy Commission Tax. Columns may not add due to rounding.
Source: City of Lodi.

Largest Customers

The ten largest customers of the City's Electric System in terms of kWh sales, as of June 30, 2007 accounted for 29% of total kWh sales and 21% of revenues. The single largest customer accounted for 5.8% of total kWh sales and 4% of total revenues. The ten largest customers include customers in various industries including food preparation (8.58% of total revenues); plastics manufacturing (5.87%); government/schools (5.80%); medical facilities (0.95%); and other manufacturing (0.90%).

Outstanding Obligations

As of July 2, 2008, the City had outstanding $75,510,000 principal amount (including the Refunded 2002 Certificates as well as the accreted value of capital appreciation certificates) of Parity Obligations payable from Net Revenues. The Refunded 2002 Certificates are being refunded with the proceeds of the 2008 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 electric system. 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.

TABLE 5
CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
(Dollar Amounts in Millions)

	Outstanding Debt[1]	Lodi's Participation[2]	Lodi's Share of Outstanding Debt
NCPA			
Geothermal Project	$ 52.3	10.28%	$ 5.4
Transmission Project	2.5	15.20	0.4
Calaveras Hydroelectric Project	476.0	10.37	49.4
Combustion Turbine Project No. 1[3]	11.6	8.03	.9
Multiple Capital Facilities Project Unit One (STIG)	64.2	39.50	25.4
TANC			
Bonds	357.0	1.91	6.8
Commercial Paper Notes	86.6	1.56	1.4
TOTAL	$1,050.2		$ 89.7

(1) As of July 1, 2008 for NCPA and May 31, 2008 for TANC.
(2) Participation based on actual debt service obligation.
(3) After the City of Roseville acquired 33 MW of the NCPA Combustion Turbine Project No. 1 project from the City, the City's share was reduced from 34.78% to 8.03% (although the City remains financially responsible for its full share until 2010, when the transfer to Roseville will be completed).

Source: City of Lodi.

Significant Accounting Policies

The City's Annual Financial Report is audited by Macias, Gini & O'Connell, 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, Finance Department, 212 West Pine Street, Lodi, California 95240. See "APPENDIX B—EXCERPTS OF AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2007." 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.

Historical and Projected Operating Results

The following table contains historic and projected operating results of the Electric System as prepared by the City. The projected operating results are based upon certain assumptions and calculations and qualifications. While the City believes these assumptions to be reasonable, the assumptions may vary significantly from actual future conditions. To the extent that actual future conditions vary from those assumed by the City, the actual results will vary from those contained in the table.

The Historic and Projected Operating Results set forth on Table 6 have been prepared by the City in accordance with the conventions of the 2002 Contract and the 2008 Contract, and differ from the audited financials statements of the City, which have been prepared in accordance with generally accepted accounting principles. The unaudited "Statistical Information" section of the City's Comprehensive Annual Financial Report for the fiscal Year Ended June 30, 2007 (contained as Appendix B hereto) contains a presentation of Revenues, Operation and Maintenance Expenses, and Debt Service Coverage which does not reflect adjustments necessary for purposes of determining compliance with the 2002 Contract and the 2008 Contract. The City intends that such presentations in future Comprehensive Annual Financial Reports will reflect the conventions of the 2002 Contract and the 2008 Contract.

TABLE 6
CITY OF LODI
ELECTRIC SYSTEM
PROJECTED SUMMARY OF OPERATING RESULTS
(Ending Fiscal Year June 30)
(In 000s)

($ in 000)	Actual	Actual	Actual	Actual	Actual	Estimat	Budget	Projected	
Operating	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Rate Revenue[1]	$48,872	$52,899	$53,792	$59,113	$65,797	$64,880	$66,034	$67,355	$68,702
ECA Revenue[2]	-	-	-	-	-	3,432	6,699	6,261	4,232
Other Revenue[3, 9]	2,067	8,354	6,885	2,264	1,711	6,835	1,219	1,064	1,733
Total Operating	$50,939	$61,253	$60,677	$61,377	$67,508	$75,147	$73,953	$74,680	$74,667
Operating									
Purchase Power[4]	30,772	33,286	33,069	42,839	44,665	42,334	46,179	46,314	45,038
Non-Power Costs[5]	8,909	10,583	10,460	11,970	9,320	11,047	12,364	12,797	13,245
Total Operating	$39,681	$43,869	$43,529	$54,809	$53,985	$53,380	$58,543	$59,111	$58,283
Net Revenue	$11,258	$17,384	$17,148	$6,568	$13,523	$21,767	$15,409	$15,569	$16,384
Parity Debt									
2002 Bonds (Series	7,411	7,895	6,572	5,963	6,531	9,025	4,296	4,337	4,401
Proposed 2008	-	-	-	-	-	-	2,619	2,858	2,858
Total Net Debt	$7,411	$7,895	$6,572	$5,963	$6,531	$9,025	$6,915	$7,195	$7,259
Debt Service	**1.52**	**2.20**	**2.61**	**1.10**	**2.07**	**2.41**	**2.23**	**2.16**	**2.26**
Remaing Revenue	$3,847	$9,489	$10,576	$605	$6,992	$12,742	$8,494	$8,374	$9,125
Non Operating									
In-lieu Transfer to	(5,672)	(5,865)	(6,059)	(6,050)	(6,779)	(6,873)	(6,942)	(7,011)	(7,081)
Other Changes in	12	863	(2,965)	1,067	-	-	-	-	-
Net Cash Flow[7]	(1,813)	4,487	1,552	(4,378)	213	5,869	1,553	1,363	2,044
Beginning	$3,116	$1,303	$5,790	$7,342	$3,632	$5,470	$13,189	$14,741	$16,104
Changes in GOR[8]	-	-	-	668	1,625	1,850	-	-	-
Net	(1,813)	4,487	1,552	(4,378)	213	5,869	1,553	1,363	2,044
Ending Operating	$1,303	$5,790	$7,342	$3,632	$5,470	$13,189	$14,741	$16,104	$18,148

Source: City of Lodi

1. Rate Revenues projected assuming a 1.78% growth in sales for FY 09 and 2% annually thereafter.
2. Energy Cost Adjustments (ECA) estimates for FY 09 and thereafter based on power supply cost projections.
3. Consists primarily of investment income, payments from other City departments for services provided by the Electric System (including customer service) and income from sale of interests in various utility assets.
4. Purchase power cost projections based on NCPA estimates net of adjustments. Decrease in FY 11 reflects reduction in Lodi share of NCPA debt payments.
5. Non-power expenses include electric system personnel, materials and other operating costs, and payments for City administrative services (such as legal and accounting services). FY 09 amounts are projected to increase at 3.5% annually in FY 10 and FY 11.
6. Assumes refunding of Series 2002A and issuance of 2008 COPs in July 2008; 2008 debt service estimated at interest rates as of June 4, 2008 and shown net of interest earnings on reserve fund.
7. Consists of adjustments for non-cash accounting entries.
8. Consists of changes to amount of Electric System funds held as part of the NCPA general operating funds.
9. "Other Revenues" for FY 05 includes a transfer of $4.5 million from a rate stabilization account; these funds are not reflected in operating reserve and there are no funds currently remaining in this rate stabilization account.

DEVELOPMENTS IN THE ENERGY MARKETS

State Legislation

A number of bills affecting the electric utility industry have been enacted by the California Legislature. In general, these bills provide for reduced greenhouse gas emission standards and greater investment in energy-efficient and environmentally friendly generation alternatives through more stringent renewable resource portfolio standards. The following is a brief summary of certain of these bills.

Greenhouse Gas Emissions. On June 1, 2005, the Governor signed Executive Order S-3-05, which placed an emphasis on efforts to reduce greenhouse gas emissions by establishing Statewide greenhouse gas reduction targets. The targets are: (i) a reduction to 2000 emissions levels by 2010; (ii) a reduction to 1990 levels by 2020; and (iii) a reduction to 80% below 1990 levels by 2050. The Executive Order also called for the California Environmental Protection Agency to lead a multi-agency effort to examine the impacts of climate change on California and develop strategies and mitigation plans to achieve the targets. On April 25, 2006, the Governor signed Executive Order S-06-06 which directs the State to meet a 20% biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction.

On September 27, 2006 the Governor signed into law Assembly Bill 32 ("AB 32"), the Global Warming Solutions Act of 2006. AB 32 requires all California utilities to inventory and report greenhouse gas emissions beginning January 1, 2008 and requires the California Air Resources Board ("CARB") to adopt enforceable greenhouse gas emission limits and emission reduction measures by regulation in order to reduce greenhouse gas emissions to 1990 levels by 2020. The CARB regulations for greenhouse gas emissions limits and reduction measures will be enforceable beginning January 1, 2012.

On September 29, 2006, the Governor signed into law Senate Bill 1368 ("SB 1368"), the Greenhouse Gas Emissions Performance Standard. SB 1368 sets a greenhouse gas emission performance standard ("EPS") for baseload electric generating resources. Any new investment in baseload generation or contract for baseload generation with a term of over five years must relate to a facility with greenhouse gas emissions at or below that of a baseload, natural-gas-fired combined cycle power plant. The California Energy Commission was assigned the responsibility of establishing the EPS and associated compliance methodologies for the publicly owned utilities, including the City. The CPUC has the similar responsibility for the IOUs. The revised proposed CEC regulations were approved by the Office of Administrative Law on October 16, 2007.

The regulations promulgated by the CEC prohibit any investments in baseload generation which does not meet the EPS of 1,100 pounds of CO2 per MWh of electricity, with limited exceptions for routine maintenance, requirements of pre-existing contractual commitments, or threat of significant financial harm.

The new legislation will impact all California electric utilities as the State begins to reduce its reliance on imported, out of state, coal fired generation. The City is committed to renewable energy, demand side management and energy efficiency; however, it is widely recognized that there will still be a large demand for traditional, baseload fossil-fueled power plants in order to meet projected load growth. Currently there is a ban in California, prohibiting the development of nuclear power plants until there is a permanent storage solution for spent fuel rods. With the effective ban on new coal

power imports under SB 1368, natural gas fired, combined cycle power plants would appear to be the primary viable option for fossil fuel based baseload power plant development absent the implementation of new technologies in connection with other resource options.

There are a number of issues yet to be sorted out surrounding the State's mandatory reduction of greenhouse gas emissions. Under AB 32, CARB has delegated responsibility to the CPUC and the CEC to come up with solutions for the electric sector in order to meet the CO2 reduction targets identified (1990 levels by 2020). CARB has concluded that California's 1990 emissions level was 427 million metric tons of CO2, and thus this was adopted as the 2020 target in December 2007. Business-as-usual in 2020 was identified as being 600 million metric tons of CO2, requiring an overall reduction of 173 million metric tons of CO2. Regulations outlining the mandatory annual reporting of greenhouse gas emissions were also adopted in December 2007, and all retail providers will be required to report the emissions from their owned assets beginning in 2009 for the 2008 year as well as emissions from in-state and out-of-state purchases and sales. All unspecified purchases must be reported as having an emissions rate of 1,100 pounds of CO2 per MWh, in an effort to mimic SB 1368.

During 2008, CARB will be developing its formal scoping plan on "who" will be required to reduce "what" to reach the 1990 emissions goal of 427 million metric tons of CO2. CARB will be utilizing recommendations from the CEC and CPUC in its joint proceeding and it is already being discussed that some sectors will need to reduce more than their fair share in order to achieve this statewide, multi-sector effort. The scoping plan must be adopted by January 1, 2009, and each greenhouse gas reduction method within the plan will undergo its own individual rulemaking prior to being enforceable on January 1, 2012. The scoping plan will then be revised every 5 years as CARB proceeds with its next task of designing the mechanisms for returning the state to 80% below 1990 levels by 2050 as directed in Executive Order S-3-05.

Energy Procurement and Efficiency Reporting. Senate Bill 1037, signed by the Governor on September 29, 2005, requires that each municipal electric utility, including the City, prior to procuring new energy generation resources, first acquire all available energy efficiency, demand reduction and renewable resources that are cost effective, reliable and feasible. Senate Bill 1037 also requires each municipal electric utility to report annually to its customers and to the CEC its investment in energy efficiency and demand reduction programs. Further, California Assembly Bill 2021 ("AB 2021"), signed by the Governor on September 29, 2006 requires that the publicly-owned utilities establish, report, and explain the basis of the annual energy efficiency and demand reduction targets by June 1, 2007 and every three years thereafter for a ten-year horizon. Future reporting requirements per AB 2021 will include: (i) the identification of sources of funding for the investment in energy efficiency and demand reduction programs, (ii) the methodologies and input assumptions used to determine cost-effectiveness, and (iii) the results of an independent evaluation to measure and verify energy efficiency savings and demand reduction program impacts. The information obtained from local publicly-owned utilities will be used by the CEC to present the progress made by the publicly-owned utilities on the State's goal of reducing electrical consumption by 10% in ten years and amelioration with the greenhouse gas targets presented in Executive Order S-3-05 enacted by the Governor on June 1, 2005. In addition, a report will be developed by the CEC with recommendations for improvement to assist each local publicly-owned utility in achieving cost-effective, reliable, and feasible savings in conjunction with the established targets for reduction.

In March 2008, City submitted its annual report to the CEC regarding energy efficiency program performance and cost-effectiveness in fiscal year 2007. The analyses to-date shows an

increase in energy efficiency program utilization by our customers, increased energy savings and improved cost-effectiveness of the City's programs.

Renewable Portfolio Standards. In September 2002, the California Legislature enacted and the Governor signed into law Senate Bill 1078. Senate Bill 1078 required that the IOUs adopt a Renewable Portfolio Standard ("RPS") requiring electric utilities to meet a minimum increase of 1% of retail energy sales needs each year from renewable resources until they meet a goal of 20% of their retail energy needs from renewable energy resources by the year 2017. Senate Bill 1078 also directed the State's municipal electric utilities to implement and enforce an RPS that recognizes the intent of the Legislature to encourage development of renewable resources, taking into consideration the impact on a utility's standard on rates, reliability, financial resources, and the goal of environmental improvement. On September 26, 2006, the Governor signed Senate Bill 107 "SB 107") into law, which requires IOUs to have 20% of their electricity come from renewable sources by 2010 and still prescribes that the local publicly-owned utilities meet the intent of the Legislature. The City is currently in conformance with the intent of the Legislature with renewables in excess of 20% of retail sales.

Solar Power. California Senate Bill 1 ("SB 1") (originally known as the "Million Solar Roofs Initiative") was signed by the Governor on August 21, 2006. This legislation aims to have 3,000 MW of solar energy systems installed within ten years, and establishes requirements to have solar energy systems installed on 50% of new residential developments within 13 years. SB 1 requires that publicly owned utilities, including the City's Electric System, establish a program that adequately supports the efforts to install 3,000 MW of photovoltaic energy in California. In addition, the legislation established a January 1, 2008 deadline for the development of eligibility criteria for solar energy systems by the CEC in consultation with the CPUC, local publicly owned utilities, and interested members of the public. Publicly owned utilities are required to commence a solar initiative program in order to establish the funding of solar energy systems receiving ratepayer funded incentives, which offering shall commence no later than January 1, 2008. A publicly-owned utility has the choice of selecting an incentive based on the installed capacity, starting at $2.80 per watt, or based on the energy produced by the solar energy system, measured in kilowatt-hours. Incentives may decrease at a rate of 7% per year.

The City is meeting the requirements of SB 1 by offering its customers rebates of $2.80 per installed kW of solar in 2008, declining 7% per year, with payments of up to $600,000 of rebates per year ($6 million over the life of the ten year program). The City has established a Solar Surcharge of $.00125 per kilowatt-hour to fund the costs of this program.

Impact of Developments on the City

The effect of these developments in the California energy markets on the City's Electric System cannot be fully ascertained at this time. Volatility in energy prices in California may return 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, the adequacy of generation resources to meet peak demands, the availability and cost of renewable energy, the impact of greenhouse gas emission legislation and regulations, fuel costs and availability, weather effects on customer demand, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). This price volatility may contribute to greater volatility in the City's costs and revenues from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the Electric System.

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Energy Policy Act of 1992

The 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. 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 other person or entity generating electric energy for sale or resale, to require another 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.

Federal Energy Legislation

On August 8, 2005, President Bush signed the Energy Policy Act of 2005 ("EPACT 2005"). EPACT 2005 addresses a wide array of energy matters that could affect the entire electric utility industry, including the City's Electric System. It expands FERC's jurisdiction to require open access transmission of municipal utilities that sell more than four million megawatt hours of energy and to order refunds under certain circumstances for municipal utilities that sell more than eight million megawatt hours of energy. (The City is not able to predict when, if ever, its sales of electricity would reach four million megawatt hours, however, it currently sells less than 500,000 MWh/year.)

EPACT 2005 requires that FERC conclude its investigation into the allegations of overcharges during the California energy crisis in 2000 and 2001 and submit a report to Congress**.** It also provides for mandatory reliability standards to increase system reliability and minimize blackouts, criminal penalties for manipulative energy trading practices and the repeal of the Public Utility Holding Company Act of 1935, which prohibited certain mergers and consolidations involving electric utilities. Under EPACT 2005, by February 2007 investor-owned utilities were required to offer each of its customer classes a time-based rate schedule to enable customers to manage energy use through advanced metering and communications technology. It authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if FERC determines a state has unreasonably withheld approval. EPACT 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies, including a new two-year program for tax credit bonds for local governments, such as the Participants, to finance certain renewable energy facilities. EPACT 2005 also extends for 20 years the Price-Anderson Act, which concerns nuclear power liability protection, and provides incentives for the construction of new nuclear plants.

The City is unable to predict at this time the impact that EPACT 2005 will have on the operations and finances of the Electric System or the electric utility industry generally, but it is not expected to be material with respect to the City's operation of its electric system.

Recent ISO FERC Filings

MRTU Filing. On February 9, 2006, the ISO filed with FERC its Market Redesign and Technology Upgrade ("MRTU") tariff amendment to implement a comprehensive overhaul of the electricity markets administered by the ISO. According to the ISO, the proposed comprehensive changes include, but are not limited to, the following: perform effective congestion management in the ISO day-ahead market by enforcing all transmission constraints so as to establish feasible forward transmission schedules; create a day-ahead market for energy; automate real-time dispatch so as to balance the system and manage congestion in an optimal manner with minimal need for manual intervention; and ensure consistency across market time frames in the allocation of transmission resources to grid users and the pricing of transmission service and energy. The MRTU also is intended to ensure that the ISO has sufficient capacity available to maintain reliability on the ISO grid. The MRTU requires that all scheduling coordinators for all load-serving entities ("LSEs") such as the City meet standards concerning forward capacity and energy procurements to meet their load requirements. The ISO has requested that its MRTU filing be approved by FERC, without modification, suspension or hearing, projected to go into effect in fall of 2008. On September 21, 2006, FERC issued an order conditionally accepting the ISO's MRTU filing. At this time, the City is unable to predict the impact of MRTU on the City or the California electric utility industry generally.

Resource Adequacy Filing. In September 2005, the California Legislature enacted and the Governor signed into law Assembly Bill 380, which requires the CPUC to establish resource adequacy requirements for all LSEs within the CPUC's jurisdiction. In addition, AB 380 requires publicly owned utilities, including the City, to meet the most recent resource adequacy standard as adopted by the Western Electricity Coordinating Council. In October 2005, the CPUC issued a decision stating that LSEs under its jurisdiction would be required, by June 2006, to demonstrate that they have acquired capacity sufficient to serve their forecast retail customer load plus a 15-17% reserve margin. The Western Electricity Coordinating Council has yet to formally adopt a resource adequacy requirement. However, consistent with current practices in the West, the City utilizes a 15% planning reserve margin when assessing the need for future resources. The ISO Tariff adds a requirement for a portion of each utility's capacity to be Locationally Constrained Resources.

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 above, (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 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 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 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 has occurred in California, (n) issues relating to risk management procedures and practices with respect to, among other things, the purchase and sale of natural gas, energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of changes in the economy, (q) effects of possible manipulation of the electric markets and (r) natural disasters or other physical calamities, including, but not limited to, earthquakes and flood. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility**,** including the City's electric utility, and likely will affect individual utilities in different ways**.**

The City is unable to predict what impact such factors will have on the business operations and financial condition of the City's Electric System. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2008 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, 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 EPACT 1992. Neither the City nor the joint powers agencies with which the City has contracted for transmission capability are providing any such transmission service to others. No assurance can be given that such service will not be requested in the future.

Although its rates are not subject to approval by any federal agency, the City is subject to certain provisions of the Public Utility Regulatory Policies Act of 1978 ("PURPA") with respect to the purchase of the output of "qualified facilities" ("QFs") at prices determined in accordance with PURPA. EPACT 2005 repeals the mandatory purchase obligation for utilities (including the City) when FERC determines that the QF has access to a competitive sales market and open access transmission. The City is operating in compliance with PURPA.

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 July 1, 2008 (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 2007-08 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 not failed to comply in any material respect in the last five years 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, the City Treasurer and the City Clerk serve on the Board of Directors of the Corporation.

CERTAIN CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

California Constitution Articles XIIIA and XIIIB

Article XIIIA of the California Constitution limits the taxing powers of California public agencies. Article XIIIA provides that the maximum ad valorem tax on real property cannot exceed one percent 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 two percent 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 (or 55%, with respect to certain bonds for school facilities).

Under Article XIIIB 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 use 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 XIIIB, 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 XIIIC and XIIID to the State Constitution. Article XIIID 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 XIIID explicitly exempts fees for the provision of electric service from the provisions of such article. Article XIIIC expressly extends the people's initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. (In this regard, it should be noted that, after the City Council adopted increased water rates on September 21, 2005 to pay for the cleanup of perchloroethylene (PCE) and trichloroethylene (TCE) in the City's groundwater (see "LITIGATION" below), an initiative (Measure H) was placed on the November 7, 2006 ballot to repeal the increased rates. The resolution failed, with 63.9% of the voters rejecting the proposed rate reduction and 36.1% of voters supporting it.) The terms "fees and charges" are not defined in Article XIIIC, although the California Supreme Court held in Bighorn-Desert View Water Agency v. Verjil, 39 Cal. 4th 205 (2006), that the initiative power

described in Article XIIIC may apply to a broader category of fees and charges than the property-related fee and charges governed by Article XIIID. Moreover, in the case of Bock v. City Council of Lompoc, 109 Cal. App. 3d 43 (1980), the Court of Appeal determined that an electric rate ordinance was not subject to the same constitutional restrictions that are applied to the use of the initiative process for tax measures so as to render it an improper subject of the initiative process. 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 2008 Certificates by virtue of the "impairments clause" of the United States and California Constitutions.

Future Initiatives

Article XIIIA, Article XIIIB, and Articles XIIIC and XIIID, were each adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters. The adoption of any such initiatives might place limitations on the ability of the City to increase revenues or to increase appropriations.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the City ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates 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 components evidenced by the 2008 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 when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the 2008 Certificates is less than the amount to be paid at maturity of such 2008 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such 2008 Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the 2008 Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2008 Certificates is the first price at which a substantial amount of such maturity of the 2008 Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2008 Certificates accrues daily over the term to maturity of such 2008 Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2008 Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2008 Certificates. Beneficial owners of the 2008 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of 2008 Certificates with original issue discount, including the

treatment of beneficial owners who do not purchase such 2008 Certificates in the original offering to the public at the first price at which a substantial amount of such 2008 Certificates is sold to the public.

2008 Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like the Premium Certificates, the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such beneficial owner. Beneficial owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest components evidenced by the 2008 Certificates will not be included in federal gross income.

Inaccuracy of these representations or failure to comply with these covenants may result in the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the 2008 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and 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), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the 2008 Certificates may adversely affect the value of, or the tax status of the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 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 portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of, the 2008 Certificates may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates, to be subject, directly or indirectly, to federal

income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may affect the market price for, or marketability of, the 2008 Certificates. Prospective purchasers of the 2008 Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the 2008 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the 2008 Certificates ends with the execution and delivery of the 2008 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the City or the beneficial owners regarding the tax-exempt status of the 2008 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the City and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2008 Certificates for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2008 Certificates, and may cause the City or the beneficial owners to incur significant expense.

ABSENCE OF LITIGATION

No Litigation Relating to 2008 Certificates. 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 2008 Certificates or in any way contesting or affecting the validity of the 2008 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 to the knowledge of the City Attorney 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 2008 Certificates.

Litigation Relating to PCE, TCE. The City relies upon groundwater for providing potable water to its residents through the City's water enterprise. The City first detected the chemicals Tetrachloroethylene ("**PCE**" or "**PERC**") and Trichloroethylene ("**TCE**") in the groundwater in 1989. The contamination was caused by releases into five different contamination plumes over many decades by businesses in the City. The City filed, and has now fully resolved, a cost recovery action entitled "The People of the State of California and the City of Lodi v. M&P Investments, et. al U.S. District Court for the Eastern District of California, Case No. Civs-00-2441 FCD JFM."

The settlement with respect to one of the plumes (the "Busy Bee" plume) fully funded a contract with a remediation company which is expected to fully remediate the site of the Busy Bee plume. In addition, the settlement funded a $182,500 escrow account. In the event the contract fails to remediate the site, the escrow account can be used to cover the excess costs. The City also settled with or dismissed all potentially responsible parties in the remaining four plumes and with its own insurance carriers, raising $35.3 million through the settlements toward the estimated $49.5 million total cleanup cost.

However, the litigation program created several other liabilities for the City including the Lehman financing described below, as well as litigation and consultant costs. To finance the litigation, the City and the Lodi Public Improvement Corporation entered into a financing arrangement with Lehman Brothers Inc. ("Lehman") in June 2000 (the "2000 COPs"). Lehman advanced $15,625,000, which was repayable with interest accruing at the rate of "LIBOR" plus 20% per annum, adjusted quarterly and compounded annually. In 2004, litigation arose between Lehman and the City over the City's obligations under the 2000 COPs. The matter settled in 2005 with the City paying Lehman $6 million to fully discharge its obligations under the 2000 COPs.

The City also sued its former outside counsel, Envision Law Group ("**Envision**"), for the City of Lodi v. M&P Investments, et. al. litigation. Envision cross-claimed, alleging that the City owes it $7.0 million dollars in accrued but unpaid legal fees, $3.5 million in interest and 20% of all settlements that the City secured after Envision's termination. A trial is set for March 2009 and the City is confident that it will prevail.

The City Council adopted a $10.50 average increase to its rates for providing water services on September 21, 2005, to meet the meet the City's unfunded potential liability. The increase is projected to raise $2.7 million in additional revenue each year. The water rate increase was unsuccessfully challenged by citizen initiative in November 2006 by a vote of 63.9% to 36.1%.

After concluding the various settlements described above, the City's unfunded liability should be about $34.4 million, including a $15 million contingency**.** The City expects that the revenue from the water rate increase described in the previous paragraph will be sufficient to cover the total unfunded potential liability. The assets or revenues of the Electric System are not available to pay such liability.

APPROVAL OF LEGALITY

The execution and delivery of the 2008 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. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and for the City by its City Attorney.

RATINGS

Standard & Poor's ("S&P"), and Fitch, Inc. ("Fitch") are expected to assign the 2008 Certificates the long-term ratings of "AAA" and "AAA," respectively with the understanding that, upon the delivery of the 2008 Certificates, a policy insuring the payment of the principal and interest

represented by the 2008 Certificates when due will be issued by the Insurer. In addition, Fitch, Inc. and S&P have assigned the underlying ratings of "___" and "A-" respectively to the 2008 Certificates. 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. 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. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the 2008 Certificates.

FINANCIAL ADVISOR

Lamont Financial Services Corporation (the "Financial Advisor") has assisted the City with various matters relating to the planning, structuring and delivery of the 2008 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 2008 Certificates.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the 2008 Certificates at a price of $_____. The 2008 Certificate Purchase Contract provides that the Underwriter will purchase all the 2008 Certificates, if any are purchased. The 2008 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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Comprehensive Annual Financial Report of the City relating to the Electric System, as of June 30, 2007, is included in Appendix B to this Official Statement. 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 contained in the Comprehensive Annual Financial Report, have been audited by Macias, Gini & O'Connell, 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

The 2008 Certificates are not secured by the faith and credit or the taxing power of the City. The economic and financial data regarding the City of Lodi set forth in this section are included for information purposes only, to give a more complete description of the service area of the City's System.

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 State Route 99. The city is located on a main line of the Union Pacific Railroad and is within 5 miles of Interstate 5. The City population is 63,632 (as of Jan. 1, 2008 estimate by the California Department of Finance) and is contained in an area of approximately 13 square miles. The City has grown steadily since incorporation in 1906 and in 2006 approved development proposals that are expected to add 3,509 dwelling units in newly annexed areas to the south and west. 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).

The City has a broad-based economy that, unlike many cities in the San Joaquin Valley, does not simply depend upon agriculture. The region's growing reputation for its fine wines has boosted its image as a tourist destination, and the city's downtown, enhanced by a $25 million public and private investment, is a model for other mid-sized cities seeking to revitalize their downtowns. As it transitions to an entertainment, white-linen dining and wine-tasting destination, downtown Lodi serves as a hub for the 60 wineries located within a 10-mile radius. Sales at dining and drinking establishments grew by 31 percent from Fiscal Year 2002-2003 to 2006-2007. In 2006, the City partnered with three local wineries outside the city limits, allowing them to use the wastewater plant's capacity in return for opening a downtown wine-tasting room. Two other boutique wineries recently moved their winemaking operations within the City limits.

The City has a diversified industrial base, ranging from plastics industries that are industry leaders in producing pipes for irrigation and drainage, and injection-molded products, to Cottage Bakery, which sells specialty baked goods and frozen dough to customers nationwide. Still, agriculture plays a large role in the city's economy. In addition to wines, processed foods, nuts, fruit, vegetables and milk are major commodities of the Lodi area and supply the materials for local food processors and packagers. These products support the operations of General Mills and private-label cannery Pacific Coast Producers, among other companies. A variety of Lodi businesses serve the surrounding farms and vineyards with irrigation supplies and specialty machinery.

In addition, the City has a wide range of other financially sound businesses. These companies range in size from a few dozen to hundreds of employees and produce a wide variety of services and products. One of them, health insurance company Blue Shield of California, is expected to move into a new claims processing center in the fall of 2008 that will house its current 850-employee workforce and allow it to expand to 1,500 workers.

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 composed 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:

JOANNE MOUNCE, MAYOR, was elected to the Lodi City Council in November 2004. Ms. Mounce received an Accounting Certificate from South Lake Tahoe Community College and her Associates Degree with Honors from San Joaquin Delta College. With 24 years of accounting experience, Ms. Mounce currently works with Dougherty CPAs, Inc., a Stockton certified public accountant firm.

LARRY D. HANSEN, MAYOR PRO TEMPORE, was elected to the Lodi City Council in November 2002 and re-elected in November 2006. Mr. Hansen is a United States Navy veteran and obtained his Master of Public Administration degree in 1993 from California State University, Stanislaus. Mr. Hansen had a 30-year career with the City of Lodi Police Department, serving as Chief of Police from 1993 to 2000.

SUSAN HITCHCOCK, COUNCIL MEMBER, was elected to the Lodi City Council in November 1998 and re-elected in 2002 and 2006. Ms. Hitchcock received a Bachelor of Science in Business Administration from California State University, Sacramento, in 1979 and a teaching credential in 1991. She also received a Master 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. She has been employed by the Lodi Unified School District since 1991 and is currently the Principal of Clairmont Elementary School.

PHIL KATZAKIAN, COUNCIL MEMBER, was elected to the Lodi City Council in November 2006. Mr. Katzakian is president and co-owner of Lodi Printing, an 84-year-old business owned by the Katzakian family since 1948. Mr. Katzakian attended San Joaquin Delta College and California State University, Sacramento, before being hired by Lodi Vintners, a Lodi-area winery. He spent five years with the company, eventually becoming General Manager, before leaving to open an automotive repair business. Five years later, Mr. Katzakian joined Lodi Printing.

BOB JOHNSON, COUNCIL MEMBER, was elected to the Lodi City Council in November 2004. Mr. Johnson attained the rank of captain in the United States Marine Corps and, following his military service, was employed for more than 20 years in the financial industry in a variety of marketing and management positions in New York, Los Angeles, and San Francisco. Most recently, he has been a self-employed real estate appraiser in the Central Valley. Mr. Johnson received a Bachelor of Arts degree from St. Bonaventure University.

Investment Portfolio

All funds of the City, including surplus funds of the System, 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.

Investment Policy. 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 1, 2003, 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 Authorized 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 and the Installment Purchase Agreement, or other amounts held by the City, could have a material adverse effect on the City's finances.

Investment Results as of March 31, 2008. A summary of the City's pooled investment portfolio as of March 31, 2008 is set forth below.

CITY OF LODI
Investment Portfolio Summary
(as of March 31, 2008)

Type of Investment	Amount	Percent of Total
Local Agency Investment Fund (City)	$41,401,507.27	77.9%
Certificates of Deposit	300,000.00	0.6
Passbook/Checking Accounts	11,430,695.12	21.5
Total	53,132,202.36	100.0

Source: City of Lodi.

Population

The following chart indicates the growth in the population of the City since 1998.

CITY OF LODI
POPULATION
For Years 1998 through 2008

Year (as of January 1)	Population
1998	54,800
1999	56,000
2000	56,512
2001	58,353
2002	59,835
2003	60,951
2004	61,848
2005	62,520
2006	62,828
2007	62,934
2008	63,632

Source: State of California, Department of Finance.

Employment

The following table contains certain information relating to employment in the City.

CITY OF LODI
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE
Averages for each of the Calendar Years 2002-2008

	2002	2003	2004	2005	2006	2007	2008[1]
Employment	27,900	28,300	28,800	29,300	29,600	30,000	30,700
Unemployment	2,000	2,100	2,000	1,800	1,700	2,000	2,300
Civilian Labor Force	29,900	30,400	30,800	31,100	31,300	32,000	33,000
Unemployment Rate	6.6%	6.9%	6.5%	5.9%	5.5%	6.1%	7.1%
State Unemployment Rate	6.7%	6.8%	6.2%	5.4%	4.9%	5.4%	6.5%

Source: State of California, Employment Development Department.
2007 Benchmark
[1] Preliminary as of May 2008

Major Employers

There are several manufacturing plants in the community producing a wide variety of products: cereals, food mixes, wines, rubber products, foundry items, recreational vehicle components, electronic substrates, plastic piping and injection molded products. In addition, the City has a number of small businesses are located within the City. The main businesses in the City, however, are food processing and plastics.

The largest employers in Lodi as of June 18, 2008 are as follows:

CITY OF LODI
LARGEST EMPLOYERS

Employer	Business	Number of Employees
Lodi Unified School District	Education	3,301
Lodi Memorial Hospital	Health Care	1,360
Blue Shield	Insurance Claims Processing	850
Cottage Bakery	Baked Goods	700
General Mills	Cereals and Food Mixes	478
City of Lodi	Government	450
Pacific Coast Producers	Fruit Canning	400-1,200
Farmers & Merchants Bank	Banking	336
Wal-Mart	Retail	285
Thule/Valley Towing Products	Vehicle accessory manufacturer	204
Target	Retail	165
ArmorStruxx	Laminated Goods	161
Dart Container	Food Packaging Manufacturing	140

Source: City of Lodi, City Manager's Office.

Building Permit Activity

The following table shows the value of building permits issued in the City between 2003 and 2007.

CITY OF LODI
BUILDING PERMIT VALUATION
(in thousands)
for Calendar Years 2003 through 2007

	2003	2004	2005	2006	2007
Residential Valuation					
Single Family	$54,351	$52,189	$81,449	$19,344	$4,353
Multifamily	495	0	1,497	0	1,135
TOTAL	$54,846	$52,189	$82,946	$19,344	$5,488
New Dwelling Units					
Single Family	274	255	371	96	22
Multiple Family	4	0	14	0	4
TOTAL	278	255	385	96	26

Source: City of Lodi, Community Development Department

Taxable Sales

The following table indicates taxable transactions in the City by type of business during the fiscal years 2002-2003 through 2006-2007.

CITY OF LODI
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
for Fiscal Years 2002-2003 through 2006-2007
(in Thousands of Dollars)

Category	2002-03 Fiscal Year	2003-2004 Fiscal Year	2004-2005 Fiscal Year	2005-2006 Fiscal Year	2006-2007 Fiscal Year
Apparel Stores	13,298	17,695	17,551	17,287	17,691
Auto Dealers/Supplies	203,666	197,817	201,348	214,248	198,619
Building Materials	47,942	52,791	75,408	101,804	78,313
Drug Stores	16,105	15,165	14,088	14,076	14,419
Eating/Drinking Places	65,130	66,933	72,659	80,615	85,190
Food Stores	38,095	41,647	40,467	45,291	42,282
Furniture/Appliances	26,907	27,503	27,797	29,866	28,545
General Merchandise	130,608	132,491	129,136	130,739	129,181
Other Retail Stores	44,552	45,558	48,411	51,280	55,137
Packaged Liquor	9,132	10,321	12,729	12,799	12,911
Service Stations	55,769	55,177	64,663	73,422	80,837
Total Retail Outlets	651,204	663,099	704,257	771,427	743,126
All Other Outlets	117,237	115,104	129,776	139,768	162,952
Total Sales All Outlets	768,442	778,203	834,033	911,195	906,078

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 2002 through 2006.

TOTAL EFFECTIVE BUYING INCOME
(in Thousands)

Year	City of Lodi	County of San Joaquin	State of California	United States
2002	922,890	8,665,983	647,879,427	5,340,682,818
2003	965,963	9,269,688	674,721,020	5,466,880,008
2004	992,463	9,757,778	705,108,410	5,692,909,567
2005	1,026,645	10,360,775	720,798,106	5,894,663,364
2006	1,081,415	11,235,220	764,120,963	6,107,092,244

Source: Sales & Marketing Management Survey of Buying Power for 2002 through 2004;
Claritas Demographics for 2005 & 2006.

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

Year	City of Lodi	County of San Joaquin	State of California	United States
2002	35,315	37,577	42,484	38,035
2003	35,577	37,988	42,924	38,201
2004	36,529	39,040	43,915	39,324
2005	37,288	39,956	44,681	40,529
2006	38,540	41,693	46,275	41,255

Source: Sales & Marketing Management Survey of Buying Power for 2002 through 2004;
Claritas Demographics for 2005 & 2006.

Agriculture

Lodi is a worldwide agricultural shipping center for the San Joaquin Valley. The surrounding prime agricultural land is the nation's largest producer of premium wine grapes. Lodi businesses process and ship local produce ranging from grapes to cherries and asparagus.

Community Facilities

The City has a central library, one community center, 22 parks and five specific use facilities, covering 275 developed acres and 97 undeveloped acres, and 17 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, a San Joaquin County 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 invertebrates.

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, nonprofit, independent, acute-care hospital to the residents of the City and surrounding community. 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. The hospital broke ground in 2007 on a $200 million expansion and upgrade plan that will result in remodeled rooms and the addition of an 80-bed wing.

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 College, California State University, Stanislaus-Stockton campus, and the University of San Francisco satellite center are all within a 20-minute drive of the city. The University of California, Davis and California State University, Sacramento, and the University of Southern California satellite center are within an hour's drive of the City. Additionally, San Joaquin Delta College is developing plans to build a satellite learning center that would be annexed into the city. The plans include a housing development.

Transportation

The City is served by Interstate 5 and State Highways 12 and 99 and is located on the main line of the Union Pacific Railroad. Lodi has Amtrak passenger rail service and local, regional and national bus service. A deep-water seaport and airport with commercial passenger travel are located approximately 15 miles south in Stockton.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of June 26, 2008 is set forth below.

CITY OF LODI
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
as of June 26, 2008

CITY OF LODI

2007-08 Assessed Valuation: $5,159,270,328

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/24/08	
San Joaquin Community College District	8.116%	$ 6,507,093	
Lodi Unified School District	34.936	36,515,107	
City of Lodi 1915 Act Bonds (Estimated)	100.	595,000	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$43,617,200	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Joaquin County Certificates of Participation	8.922%	$18,512,704	
Lodi Unified School District Certificates of Participation	34.936	17,118,640	
City of Lodi Certificates of Participation	**100.**	**23,420,000**	(1)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$59,051,344	
COMBINED TOTAL DEBT		$102,668,544	(2)

(1) Excludes electric revenue certificates of participation to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:
Combined Direct Debt ($23,420,000) 0.45%
Total Overlapping Tax and Assessment Debt.....0.85%
Combined Total Debt.....1.76%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: $263

Source: California Municipal Statistics, Inc.

Assessed Valuation and Tax Collections

Taxes are levied for each fiscal Year on taxable real and personal property that 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 the 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. Collections of delinquent unsecured taxes is the responsibility of the County of San Joaquin using the several means legally available to it.

CITY OF LODI
ASSESSED VALUATIONS
For Fiscal Years 2002 through 2007
(In thousands)

Fiscal Year	Land	Improvements	Personal Property	Total	Less Exemptions	Net Assessed Value
2001-2002	889,262	2,164,121	245,611	3,298,994	190,252	3,108,742
2002-2003	960,166	2,366,887	265,339	3,592,392	200,957	3,391,435
2003-2004	1,027,462	2,549,860	248,472	3,825,794	212,102	3,613,692
2004-2005	1,107,776	2,739,061	249,812	4,096,649	217,077	3,879,572
2005-2006	1,226,293	2,989,575	258,035	4,473,903	220,590	4,253,313
2006-2007	1,431,203	3,327,453	285,340	5,043,996	229,049	4,814,947

Source: City of Lodi audited financial statements.

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 actually 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.

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, 2007.

CITY OF LODI
TEN LARGEST LOCALLY SECURED TAXPAYERS
Fiscal Year Ended June 30, 2007

	Name	Assessed Valuation
1.	General Mills, Inc.	145,809,000
2.	Pacific Coast Producers	34,451,000
3.	Pacific Coast Producers Corp.	27,719,000
4.	Cottage Bakery Inc.	24,966,000
5.	Kristmont West	21,961,000
6.	CertainTeed Corp.	19,455,000
7.	Parinehs Exchange 2004 LLC	19,318,000
8.	Dart Container Corp.	17,980,000
9.	Carl D. Panattoni, et al	13,243,000
10.	Ford Construction	13,031,000
	TOTAL	$337,933,000

Source: San Joaquin County Assessor's Office.

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2007

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and neither the City nor the Underwriters take any responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants (each as defined herein) will distribute to the Beneficial Owner (as defined herein) (a) payments of interest, principal or premium, if any, with respect to the 2008 Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2008 Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2008 Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2008 Certificates. The 2008 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity and series of the 2008 Certificates, each in the aggregate principal amount of such maturity and series, and will be deposited with DTC.

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

Purchases of the 2008 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Certificates on DTC's records. The ownership interest of each actual purchaser of each 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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2008 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the 2008 Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2008 Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2008 Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the 2008 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008 Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2008 Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest on the 2008 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions,

and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2008 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, Security certificates are required to be printed and delivered.

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

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2008 CERTIFICATES, WILL SEND ANY NOTICE OF PREPAYMENT OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE PREPAYMENT OF THE 2008 CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX F

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the City of Lodi (the "City") and The Bank of New York Trust Company, N.A., in its capacity as dissemination agent (the "Dissemination Agent") in connection with the issuance of Electric System Revenue Certificates of Participation, 2008 Series A (the "2008 Certificates"). The 2008 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of July 1, 2008 (the "Trust Agreement"), by and between the City, the Corporation and The Bank of New York Trust Company, N.A., as trustee thereunder (the "Trustee"). The City and the Dissemination Agent 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 Dissemination Agent for the benefit of the Owners and Beneficial Owners of the 2008 Certificates and in order to assist the Participating Underwriters in complying with the Rule (defined below).

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, 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 has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any 2008 Certificates (including persons holding 2008 Certificates through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the City Manager of the City or his or her designee, or such other person as the City shall designate in writing to the Trustee from time to time.

"Dissemination Agent" shall mean The Bank of New York Trust Company, N.A. or any successor Dissemination Agent designated in writing by the City which has filed with the Trustee a written acceptance of such designation.

"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.

"Official Statement" shall mean the Official Statement relating to the 2008 Certificates.

"Participating Underwriter" shall mean any of the original underwriters of the 2008 Certificates required to comply with the Rule in connection with offering of the 2008 Certificates.

"Repository" shall mean each National Repository and the State Repository.

"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 the 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 270 days after the end of the City's fiscal year (which fiscal year presently ends June 30), commencing with the report for the 2007-08 fiscal year, provide to each Repository and the Dissemination Agent an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If by such date the Trustee has not received a copy of the Annual Report, the Dissemination Agent shall contact the City and the Trustee to inquire if the City is in compliance with the first sentence of this subsection (a). Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review such Annual Report. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements 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 City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City or an employee of the City).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the 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 as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior 10 the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the City (if the Dissemination Agent is not the City) and the Trustee certifying 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.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City of Lodi (including the Electric Revenue Fund) for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board or as otherwise required by applicable State law. If the City's audited financial statements are not available by the

time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained (or incorporated by reference) in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An update of the information contained in Table 1 of the Official Statement for the most recently completed fiscal year.

(c) An update of the information contained in Table 4 of the Official Statement for the most recently completed fiscal year.

(d) An update of the information contained in Table 5 of the Official Statement for the most recently completed fiscal year.

(e) An update of the information contained in Table 6 of the Official Statement for the most recently completed fiscal year; provided, however, that projections need not be updated.

SECTION 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2008 Certificates, if material;

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. optional, contingent or unscheduled bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the 2008 Certificates;

8. unscheduled draws on debt service reserves reflecting financial difficulties.

9. unscheduled draws on credit enhancements reflecting financial difficulties;

10. substitution of credit or liquidity providers, or their failure to perform;

11. release, substitution or sale of property securing repayment of the 2008 Certificates.

(b) The Dissemination Agent (if other than the City) shall, as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(f) and

promptly direct the Dissemination Agent whether or not to report such event to the Bondholders. In the absence of such direction, the Dissemination Agent shall not report such event unless otherwise required to be reported by the Dissemination Agent to the Bondholders under the Trust Agreement. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the Dissemination Agent if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Trust Agreement. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

Whenever the City obtains knowledge of the occurrence of a Listed Event, because of a notice from the Dissemination Agent pursuant to Section 5(b) or otherwise, 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 (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section 5(1).

(d) If in response to a request under Section 5(b), 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 (if other than the City) not to report the occurrence pursuant to Section 5(f).

(e) If the Dissemination Agent is not the City and 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 and the Repositories with a copy to the City. Notwithstanding the foregoing, notice of Listed Events described in Sections 5(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 the Owners of affected 2008 Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2008 Certificates. If the City's obligations under the Installment Purchase Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the City and the original City shall have no further responsibility hereunder. If such termination occurs prior to the final maturity of the 2008 Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

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 Agent, with or without appointing a successor Dissemination Agent. 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, provided, the Trustee shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) 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), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2008 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 2008 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 (1) is approved by the Owners of the 2008 Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the 2008 Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the 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, (1) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), 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 or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. if the City chooses to include. any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. The City may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the Securities and Exchange Commission or Securities and Exchange Commission staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 11. 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% in aggregate principal amount of Outstanding 2008 Certificates, shall), or any Owner or Beneficial Owner of the 2008 Certificates may take such actions as may be necessary and appropriate, including seeking 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. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement or the Installment Purchase Agreement, and 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 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII 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 and the Trustee shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The 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 defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bondholders or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2008 Certificates.

SECTION 13. Notices. Any notices or communications to or among any of the parties related to this Disclosure Agreement may be given as follows:

To the City: City of Lodi
221 West Pine Street
Lodi, California 95241-1910
Attention: City Manager

To the Dissemination Agent or the Trustee:

BNY Western Trust Company
550 Kearny St., Suite 600
San Francisco, California 94108
Attention: Corporate Trust Administration

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriters, and Owners and Beneficial Owners from time to time of the 2008 Certificates, and shall create no rights in any other person or entity.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: July 24, 2008

CITY OF LODI

By:_____
City Manager

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By:_____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of Lodi, California
Name of Bond Issue:	Electric System Revenue Certificates of Participation, 2008 Series A
Name of Obligated Person:	City of Lodi
Date of Issuance:	July 24, 2008

NOTICE IS HEREBY GIVEN that the City of Lodi has not provided an Annual Report with respect to the above-named 2008 Certificates as required by the Continuing Disclosure Agreement, dated as of July 1, 2008, between the City and The Bank of New York Trust Company, N.A., in its capacity as dissemination agent (the "Dissemination Agent"). The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY. OF LODI

By:_____

TRUST AGREEMENT

by and between

LODI PUBLIC IMPROVEMENT CORPORATION

and

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

as Trustee

Dated as of July 1, 2008

Relating to

Electric System Revenue
Certificates of Participation
2008 Series A

TRUST AGREEMENT

THIS TRUST AGREEMENT, dated as of July 1, 2008 (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 THE BANK OF NEW YORK TRUST COMPANY, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America (the "Trustee");

W I T N E S S E T H:

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.

"Annual Budget" means, for each Fiscal Year, the budget for the Electric System for such Fiscal Year prepared by the City pursuant to Section __ of the Contract.

"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 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 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 Denomination" means with respect to the 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.

"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 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 are authorized or required by law to close or (iii) a day on which the New York Stock Exchange is closed.

"Certificates" means the Electric System Revenue Certificates of Participation 2008 Series A evidencing proportionate, ownership interests of the Owners thereof in the Installment Payments.

"Certificate 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 Certificates as provided therein.

"Certificate Insurer" means Assured Guaranty, as issuer of the Certificate Insurance Policy.

"Certificate of Completion" means a Certificate of the City certifying that all Costs of the 2008 Project to be paid from the Improvement Fund have been disbursed or reserved.

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

"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.

"Completion Date" means, with respect to each component of the 2008 Project, the date of completion of such component as evidenced by a Certificate of the City delivered pursuant to Section 3.7 of the Agreement.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement, dated July __, 2008, between the City and the Trustee with respect to the Certificates.

"Contract" means that certain Installment Purchase Contract, dated as of July 1, 2008, by and between the City and the Corporation, as amended or supplemented from time to time.

"Corporate Trust Office" means: with respect to the Trustee, the principal corporate trust office of the Trustee at San Francisco, California or such other office designated by the Trustee from time to time.

"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.

"Cost" means, with respect to the 2008 Project, the costs, expenses and liabilities paid or incurred or to be paid or incurred by the City in connection with the planning, engineering, designing, acquiring, constructing, installing, and financing of the 2008 Project or any portion thereof, and the obtaining of all governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, the cost of any demolitions or relocations necessary

in connection therewith, any good faith or other similar payment or deposits, the cost of acquisition by or for the City of real and personal property or any interests therein, costs of physical construction and costs of the City incidental to such construction or acquisition, all costs relating to injury and damage claims, the costs of any indemnity or surety bonds and premiums on insurance, including obligations to a stock, mutual or reciprocal insurance company or exchange, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal fees and expenses, administration and general overhead expenses and costs of keeping accounts and making reports required by the Contract and this Trust Agreement prior to or in connection with the completion of construction, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with the 2008 Project during the period of construction thereof and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City. It is intended that this definition of Cost be broadly construed to encompass all costs, expenses and liabilities of the City which are chargeable to the capital accounts of the 2008 Project in accordance with generally accepted accounting principles.

"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.

"Costs of Issuance Fund" means the fund entitled the "City of Lodi Electric System Revenue Certificates of Participation 2008 Series A Costs of Issuance Fund" established pursuant to Section 3.07.

"Credit Agreement" means an agreement to reimburse a bank, bond insurance company or other provider of credit enhancement for the payment of the Installment Payments or Parity Obligations for amounts drawn under such credit enhancement and the interest thereon.

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

"Defeasance Securities" mean the following:

A. U.S. Treasury Obligations as defined in paragraph 1 of the definition of Permitted Investments.

B. Pre-refunded municipal obligations as defined in paragraph 9 of the definition of Permitted Investments.

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of

the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

"Delivery Date" means [July 24], 2008.

"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 depositary 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 Fund" means the City of Lodi Electric System Revenue Certificates of Participation 2002 Series A Escrow Fund established pursuant to Section 3.06.

"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 to the Contract.

"Finance Director" means the Finance Director of the City.

"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.

"Improvement Fund" means the fund entitled "City of Lodi Electric System Revenue Certificates of Participation 2008 Series A Improvement Fund" established pursuant to Section 3.06.

"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 "Mergent/FIS, Inc.," 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond 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.

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

"Interest Installments" mean, with respect to the Installment Payments, the interest on the unpaid Principal Installments set forth in Schedule A to the Contract determined at the applicable rate or rates set forth in Schedule A to the Contract.

"Interest Payment Date" means with respect to the Certificates each January 1 and July 1, commencing January 1, 2009.

"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 the 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 the 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 Payments" means the scheduled net payments to be made by the City pursuant to a Payment Agreement.

"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) Credit 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 the Contract.

"Owner" means any person who shall be the Owner of any Certificate.

"Parity Obligations" mean the 2002 Series C Certificate, the 2002 Series D Certificates and 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:

1. (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("U.S. Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, and (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are <u>not</u> backed by the full faith and credit of the United States of America:

a) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes

c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations

d) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of any bank, including the Trustee and its affiliates, the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation, in banks, including the Trustee and its affiliates, which have capital and surplus of at least $15 million.

6. Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

7. Money market funds rated "Aam" or "AAm-G" by S&P, or better and if rated by Moody's rated "Aa2" or better, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

8. "State Obligations", which means:

a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least "A3" by Moody's <u>and</u> at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated "A-1+" by S&P and "MIG-1" by Moody's.

c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (b) above and rated "AA-" or better by S&P and "Aa3" or better by Moody's.

9. Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

b) the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

c) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest,

and premium, if any, due and to become due on the municipal obligations ("Verification Report");

d) the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

e) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and

f) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements: with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A-" by S&P and "A3" Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A-" by S&P and "A3" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at least "A-" by S&P and "A3" Moody's and acceptable to the Certificate Insurer (each an "Eligible Provider"), provided that:

a) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"); the Trustee or a third party acting solely as agent therefor or for the City (the "Custodian") has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books) and such collateral shall be marked to market;

b) the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the City and the Certificate Insurer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

c) the repurchase agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of the Certificate Insurer;

d) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

e) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, notify the City, the Trustee and the Certificate Insurer within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall either: (i) provide a written guarantee acceptable to the Certificate Insurer, (ii) post Eligible Collateral, or (iii) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the Trustee (who shall give such direction if so directed by the Certificate Insurer) repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the City or the Trustee.

11. Investment agreements: with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's, and acceptable to the Certificate Insurer (each an "Eligible Provider"); provided that:

a) interest payments are to be made to the trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Improvement Fund, construction draws) on the Certificates;

b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the City and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

c) the provider shall send monthly reports to the Trustee, the City and the Certificate Insurer setting forth the balance the City or Trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider;

d) the investment agreement shall state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider

to its other depositors and its other unsecured and unsubordinated creditors;

e) the investment agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of the Certificate Insurer;

f) the City, the Trustee and the Certificate Insurer shall receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;

g) the City, the Trustee and the Certificate Insurer shall receive an opinion of foreign counsel to the provider (if applicable) that (i) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms, (b) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in such country would uphold such choice of law, and (c) any judgment rendered by a court in the United States would be recognized and enforceable in such country;

h) the investment agreement shall provide that if during its term:

i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (i) provide a written guarantee acceptable to the Certificate Insurer, (ii) post Eligible Collateral with the City, the Trustee or a third party acting solely as agent therefor (the "Custodian") free and clear of any third party liens or claims, or (iii) assign the agreement to an Eligible Provider, or (iv) repay the principal of and accrued but unpaid interest on the investment;

ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", the provider must, at the direction of the City or the Trustee (who shall give such direction if so directed by the Certificate Insurer), within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the City or Trustee.

i) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized

mortgage obligations shall be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"). In addition, the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the City and the Certificate Insurer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

j) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

k) the investment agreement must provide that if during its term: (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the City or the Trustee (who shall give such direction if so directed by the Certificate Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate.

12. Other forms of investments (including repurchase agreements) approved in writing by the Certificate Insurer.

"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.

"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 Debt Service Fund established pursuant to Section 3.03 hereof.

"Principal Installments" mean with respect to the Installment Payments, the amount designated as such in Schedule A to the Contract.

"Principal Payment Date" means each date on which a Principal Installment is scheduled to be paid as set forth in Schedule A to the Contract.

"Prior Contract" means the Installment Purchase Contract, dated as of January 1, 2002, between the City and the Corporation.

"Qualified Counterparty" means a party (other than the City) who is the other party to a Payment Agreement and (1) (a) whose senior debt obligations are rated in one of the three (3) highest rating categories of each of the Rating Agencies then rating the Certificates or any Parity Obligations (without regard to any gradations within a rating category), or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been or whose debt service obligations have been assigned a credit rating in one of the three highest rating categories of each of the Rating Agencies then rating the Certificates or any Parity Obligations (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, eighty percent (80%) of the LIBOR Index Rate.

"Rebate Fund" means the City of Lodi Electric System 2008 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 with respect to an Interest Payment Date, the fifteenth day of the month prior to such Interest Payment Date, whether or not a Business Day.

"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 2008 Certificates Reserve Fund established pursuant to Section 3.04 of this Trust Agreement.

"Reserve Requirement" means with respect to the Certificates, as of any date of determination, the least of (a) ten percent (10%) of the initial offering price to the public of the Certificates as determined under the Code, or (b) the greatest Annual Debt Service with respect to the 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) one hundred twenty-five percent (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 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.

"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.

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

"Securities Depositaries" 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 depositaries as the Corporation may designate in a Certificate of the Corporation to the Trustee.

"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 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.

"Termination Payments" means the amount, if any, payable by the City pursuant to a Payment Agreement as the result of the termination of such Payment Agreement prior to its scheduled expiration date.

"Trust Agreement" means this Trust Agreement, dated as of July 1, 2008, 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 The Bank of New York Trust Company, N.A., 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.

"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.

"2002 Series A Certificates" means the City of Lodi Electric System Revenue Certificates of Participation 2002 Series A, evidencing the proportionate interests of the owners thereof in certain installment payments, executed and delivered by the Trustee pursuant to the 2002 Series A Trust Agreement.

"2002 Series A 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.

"2002 Series A Trust Agreement" means the Trust Agreement, dated as of January 1, 2002, between the City and The Bank of New York Trust Company, N.A.

"2002 Series C Certificates" means the City of Lodi Electric System Revenue Certificates of Participation 2002 Series C, evidencing the proportionate interests of the owners thereof in certain installment payments, executed and delivered by the Trustee pursuant to the 2002 Series C and D Trust Agreement.

"2002 Series D Certificates" means the City of Lodi Electric System Revenue Certificates of Participation 2002 Series D, evidencing the proportionate interests of the owners thereof in certain installment payments, executed and delivered by the Trustee pursuant to the 2002 Series C and D Trust Agreement.

"2002 Series C and D Trust Agreement" means the Trust Agreement, dated as of July 1, 2002, between the City and The Bank of New York Trust Company, N.A.

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, 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, ownership interests. References in this Trust Agreement and the Contract to the maturity of Certificates shall refer to the date on which the Principal Installments as to which such Certificates evidence proportionate, ownership interests. are due as set forth in Schedule A to the Contract and Section 2.02.

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 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 Certificates in the aggregate principal amount of $_____, evidencing proportionate interests in the Installment Payments. The Certificates shall be designated "Electric System Revenue Certificates of Participation 2008 Series A".

Section 2.02 **General Terms of the Certificates**. (a) Each Certificate shall be dated the Delivery Date and shall mature (subject to prior prepayment or acceleration) on the dates and in the principal amounts and evidence interest calculated at the rates as set forth in the following schedule:

Maturity Date (July 1)	Principal Amount	Interest Rate
	$	%

(b) The Interest Installments of the Installment Payments evidenced by the Certificates are payable in lawful money of the United States of America at the respective rates set forth above payable on each Interest Payment Date in each year to the maturity or prepayment prior thereto. The Certificates shall evidence Interest Installments of the 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 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 Certificates, in which event such Certificate shall evidence interest from the Delivery Date; provided, that if at the time of execution of any Outstanding Certificate, interest evidenced by such Certificate is then in default, such Certificate shall evidence interest from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Certificate. 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) ont he next succeeding Business Day and no interest shall accrue from the date when due. Interest on the Certificates shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months.

(c) The Certificates shall be issuable only in Authorized Denominations. The 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 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 **Mandatory Prepayment**. (a) The Certificates with a maturity date of July 1, _____ shall be subject to mandatory prepayment prior to their maturity, in part, on July 1, ____ and on each July 1 thereafter in a principal amount equal to the Principal Installments of the 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.

Section 2.04 **Optional Prepayment**. (a) The Certificates with a maturity date of July 1, ____ and thereafter shall be subject to prepayment from prepayments of Installment Payments made at the option of the City from any source of funds in whole or in part on any 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.

Section 2.05 **Selection of Certificates for Prepayment**.

If less than all Outstanding Certificates are to be prepaid at any one time, the City may determine the principal amount of Certificates of each maturity to be prepaid and if less than all of the Outstanding Certificates of a maturity are to be prepaid at any one time, the Trustee shall select the Certificates of such maturity to be prepaid by lot in a manner which the Trustee deems to be fair. For purposes of selecting Certificates to be prepaid, Certificates 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 2.06 **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 Securities Depositories and (iii) 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 or by such other method acceptable to such institutions. 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 maturity are to be prepaid, the distinctive certificate numbers of the Certificates of such maturity 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, subject to the provisions of the penultimate paragraph of this Section, 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, 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 or 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 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 of Certificates when the funds required for such prepayment are not delivered to the Trustee at or before the time notice of prepayment is given to the Owners of the Certificates to be prepaid, such notice of prepayment may state, at the direction of the City, that the prepayment is conditioned on the delivery to the Trustee, on or before the prepayment date, of moneys equal to the prepayment price of the Certificates (or portions thereof) to be prepaid and shall further state, at the direction of the City, that in the event that such moneys are not so 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 2.07 **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 2.08 **Transfer and Payment of Certificates**. Any Certificate 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 Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver to the transferee a new Certificate or Certificates of the same maturity 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 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 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 by such Certificates shall be made only to such 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 2.09 **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 maturity 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 2.10 **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 2.11 **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 2.12 **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 2.13 **Use of Book-Entry System for Certificates**.

(a) The Certificates shall be delivered in the form of a single executed fully registered securities certificate for each stated maturity of such Certificates, in the aggregate principal amount of the Certificates of such maturity. 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 maturity 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 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 by the Certificates.

Section 2.14 **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, upon receipt of the proceeds of the sale thereof and receipt of the Certificate Insurance Policy, and upon receipt of compliance with the requirements for the issuance of Parity Obligations (as defined in the 2002 Series C and D Trust Agreement) as set forth in the 2002 Series C and D Trust Agreement. Upon receipt of the proceeds of the sale of the Certificates from the purchaser thereof in the amount of $_____ (representing an aggregate amount of $_____, less an Underwriter's discount of $_____, and less $_____ premium for the Certificate Insurance Policy to be wired by such purchaser to the Certificate Insurer), the Trustee shall set aside and deposit the balance of the proceeds received from such sale 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 Fund the sum of $_____;

(b) The Trustee deposit in the Reserve Fund the sum of $_____; and

(c) The Trustee shall deposit in the Costs of Issuance Fund the sum of $_____.

The Trustee, in its capacity as Trustee under the 2002 Series A Trust Agreement, is hereby directed by the Corporation to transfer all moneys on deposit in, and all securities credited to, the 2002 Improvement Fund to the Escrow Fund.

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 2008 Certificates Debt Service Fund" (the "Debt Service Fund") for so long as any Certificates shall be Outstanding hereunder. Except as otherwise provided in Section 3.04(c), 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,

(b) Principal Account, and

(c) Prepayment 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.

(d) Interest Account. On each Interest Payment Date, commencing on July 1, 2008, 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 maturity).

(e) Principal Account. On each Certificate maturity 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 by the Outstanding Certificates maturing on the next succeeding Certificate maturity date.

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 maturity dates or on prior prepayment.

(f) Prepayment Account. All prepayments of Principal Installments made by the City shall be deposited in the Prepayment Account and applied to the payment, or provision for the payments, of Outstanding Certificates as directed by the City.

Section 3.04 **Reserve Fund**.

(a) The Trustee shall establish and hold under this Trust Agreement a fund separate from any other fund established and maintained hereunder designated as the "City of Lodi Electric System Revenue Certificates of Participation 2008 Series A Reserve Fund" (the "Reserve Fund"). Moneys in the Reserve Fund shall be applied in accordance with this Section.

(b) Upon the execution and delivery of the Certificates, the Trustee shall credit the deposit required by Section 2.14 hereof to the Reserve Fund to satisfy the initial Reserve Requirement with respect to the Certificates. The Trustee shall deposit in the Reserve Fund any amounts received from the City pursuant to Section 4.01(b) (iii) of the Contract. If the amount credited to the Reserve Fund shall be in excess of the Reserve Requirement, such excess amount shall be transferred to the Debt Service Fund.

(c) 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 Certificates. The Trustee shall deposit in the Reserve Fund the proceeds of the Certificates to satisfy the initial Reserve Requirement as provided in Section 2.14, and all amounts paid by the City as delinquent Installment Payments if deficiencies in the Debt Service Fund were made up from amounts in the Reserve Fund, and such other amounts transferred to the Trustee by the City pursuant to Section 4.01(b)(iii) 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 be valued on January 1 of each year beginning in January 2009.

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 2008 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 Certificates.

Section 3.06 **Escrow Fund**.

(a) The Trustee shall establish, maintain and hold under this Trust Agreement a fund separate from any other fund established and maintained hereunder designated as the "City of Lodi Electric System Revenue Certificates of Participation 2002 Series A Escrow Fund." Moneys in the Escrow Fund shall be applied by the Trustee to the payment to BNP Paribas of all amounts due under the Standby Agreement in exchange for the transfer of all 2002 Series A Certificates held by BNP Paribas. Upon receipt by the Trustee, such 2002 Series A Certificates shall be delivered for cancellation to the Trustee under the 2002 Series A Trust Agreement.

Section 3.07 **Costs of Issuance Fund**. (a) The Trustee shall establish, maintain and hold under this Trust Agreement a fund separate from any other fund established and maintained hereunder designated as the "City of Lodi Electric System Revenue Certificates of Participation 2008 Series A Costs of Issuance Fund." Moneys in the Costs of Issuance Fund shall be expended for Costs of Issuance in accordance with this Section.

(b) There shall be credited to the Costs of Issuance Fund the following amounts:

(i) the proceeds of sale of the Certificates required to be deposited therein pursuant to Section 2.03 hereof; and

(ii) any other funds from time to time deposited with the Trustee to pay Costs of Issuance.

(c) The Trustee shall disburse moneys in the Costs of Issuance Fund from time to time to pay for Costs directly or to reimburse the City for payment thereof upon receipt by the Trustee of a Written Request of the City substantially in the form of Exhibit C hereto. The Trustee shall not be responsible for the representations made in such Requisition and may conclusively rely thereon. The Trustee shall be absolutely protected in making any disbursement from the Costs of Issuance Fund in reliance upon a Written Request of the City.

(d) Upon the earlier of December 31, 2008 or the Trustee's receipt of written certification from the City that all Costs of Issuance have been paid, the Trustee shall withdraw all remaining moneys in the Costs of Issuance Fund (other than any moneys retained therein to pay costs not then due and payable as certified by a City Representative), shall transfer such moneys to the Improvement Fund and shall close the Costs of Issuance Fund.

Section 3.08 **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 City (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 in 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 principal or agent, sponsor, advisor, principal, agent or manager in connection with any investments made by the Trustee hereunder. For investment purposes only, the Trustee may commingle the funds and accounts

established hereunder, but shall maintain separate records relating to the investments for fund or account.

(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 3.09 **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

COVENANTS OF THE CORPORATION AND THE TRUSTEE

Section 4.01 **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 4.02 **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 4.03 **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 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 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 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 Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, or any other funds of the Corporation, that would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code. To that end, so long as any 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 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 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 4.04 **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 4.05 **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 4.06 **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 4.07 **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 4.08 **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 V

THE TRUSTEE

Section 5.01 **The Trustee**.

(a) The Bank of New York Trust Company, N.A.,, 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 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, acceptable to the Certificate Insurer, 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 5.02 **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 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 2008 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 2008 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 5.03 **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 5.04 **Paying Agent**. The Trustee, with the written approval of the City, 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 City or any other party to make funds available to the Trustee or Paying Agent. The Trustee is the initial Paying Agent.

Section 5.05 **Notices to Rating Agencies**. The Trustee shall provide the Rating Agencies, with copies to the City, and the Certificate Insurer (but shall incur no liability for any failure to do so), with written notice upon the occurrence of: (i) the expiration, termination, extension 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 or the Contract, 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.

ARTICLE VI

AMENDMENT OF THE TRUST AGREEMENT

Section 6.01 **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 with the written consent of the Certificate Insurer or, if the Certificate Insurer is in default under a Certificate Insurance Policy, the written consent 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 maturity 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 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 with the prior written consent of the Certificate Insurer if the Certificate Insurer is in default under a Certificate Insurance Policy and 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 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 6.02 **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 6.03 **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 6.04 **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 VII

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Section 7.01 **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 may with the consent of the Certificate Insurer if the Certificate Insurer is not in default under the Certificate Insurance Policy, and shall at the direction of the Certificate Insurer if the Certificate Insurer is not in default under the Certificate Insurance Policy and at the direction of the Owners of a majority in principal amount of the Outstanding Certificates, 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 by such Owner's Certificates.

Section 7.02 **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 7.03 **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 7.04 **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 7.05 **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 7.06 **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 VIII

DEFEASANCE

Section 8.01 **Defeasance of Certificates**.

(a) Methods. If and when any Outstanding Certificates shall be paid and discharged in any one or more of the following ways —

(1) Payment: by well and truly paying or causing to be paid the principal and interest evidenced by such Certificates, together with any and prepayment premiums, as and when the same become due and payable;

(2) Cash: by irrevocably depositing with the Trustee, in trust, at or before maturity or the date of prepayment, as applicable, an amount of cash which (together with cash then on deposit in the Debt Service Fund and the Reserve Fund, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates, including all principal and interest evidenced by such Certificates, together with any premium, as the same become due; provided, however, that if such Certificates are prepaid prior to their maturity dates, the Trustee shall have given, or shall receive irrevocable instructions to give, notice of such prepayment as provided in this Trust Agreement; or

(3) Defeasance Securities: by irrevocably depositing with the Trustee, in trust, at or before maturity or the date of prepayment, as applicable, subject to the prior consent of the Certificate Insurer, non-callable Defeasance Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant delivered to the Trustee, together with interest to accrue thereon (and, in the event of payment or provision for payment of all Outstanding Certificates moneys then on deposit in the Debt Service Fund

and the Reserve Fund together with the interest to accrue thereon), be fully sufficient to pay such Certificates (including all principal and interest evidenced by such Certificates, together with any and prepayment premiums), as the same became due; provided, however, that if such Certificates are prepaid prior to their maturity dates, the Trustee shall have given, or shall receive irrevocable instructions to give, notice of such prepayment as provided in this Trust Agreement;

then, notwithstanding that any such Certificates shall not have been surrendered for payment, all obligations under this Trust Agreement of the Corporation (if any), the Trustee and the City with respect to such Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, solely from funds deposited pursuant to paragraphs (i), (ii) or (iii) of this Section, as applicable, to the Owners of the Certificates not so surrendered and paid all sums due with respect to the principal and interest evidenced by such Certificates, and in the event of deposits pursuant to paragraphs (1), (2) and (3) of this Section, the Certificates shall continue to evidence proportionate interests of the Owners thereof in Installment Payments under the Agreement.

(b) To accomplish defeasance, the Corporation shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Certificate Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Certificates in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Certificate Insurer), (iii) an opinion of nationally recognized special counsel to the effect that the Certificates are no longer "Outstanding" under the Trust Agreement and (iv) a certificate discharge of the Trustee with respect to the Certificates; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Corporation, Trustee and Certificate Insurer. The Certificate Insurer shall be provided with the final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

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 of the applicable Certificates at the addresses listed on the Certificate Register, stating that (a) moneys or Defeasance Securities are so held by it, and (b) that all obligations under this Trust Agreement with respect to such Certificates have been released in accordance with the provisions of this Section except only the obligation of the Trustee to pay or cause to be paid, solely from the funds and Defeasance Securities deposited pursuant to this Section, all sums due with respect to the principal and interest evidenced by such Certificates.

Section 8.02 **Discharge of Trust Agreement**. When all Certificates shall have been paid and discharged as provided in Section 9.01 (except for the right of the Owner and the obligation of the Trustee to have the money and securities mentioned therein applied to the payment of Certificates 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 with respect to Installment Payments, all balances remaining in any of the funds or accounts held hereunder other than the Rebate Fund and 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 Installment Payments evidenced by the Certificates, and after such payment, this Trust Agreement shall become void.

Upon receipt of a Request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Agreement and this Trust Agreement.

Section 8.03 **Surviving Provisions**. Notwithstanding the satisfaction and discharge hereof, the Trustee shall retain such rights, powers and privileges hereunder as may be necessary or convenient for the payment of the principal, interest and prepayment premium, if any, on the Certificates and for the registration, transfer and exchange of the Certificates.

Section 8.04 **Payments by Certificate Insurer**. Notwithstanding anything contained in this Trust Agreement to the contrary, in the event that the Interest Installments and/or the Principal Installments evidenced by any of the Certificates shall be paid by the Certificate Insurer pursuant to a 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 including, without limitation, any rights that such Owners may have in respect of securities law violations arising from the offer and sale of the Certificates.

ARTICLE IX

PROVISIONS RELATING TO CERTIFICATE INSURANCE POLICY

Section 9.01 **Payment Procedure Pursuant to the Certificate Insurance Policy**. As long as the Certificate Insurance Policy shall be in full force and effect, the Trustee agrees to comply with the following provisions:

(a) At least two (2) Business Days prior to each Interest Payment Date, the Trustee will determine whether there will be sufficient funds to pay all principal of and interest on the Certificates due on the related payment date and shall immediately notify the Certificate Insurer or its designee on the same Business Day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of any deficiency. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such Certificates will be deficient as to principal or interest or both. 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.

(b) The Trustee shall, after giving notice to the Certificate Insurer as provided in (a) above, make available to the Certificate Insurer and, at the Certificate Insurer's direction, to any fiscal agent designated by the Certificate Insurer (the "Fiscal Agent"), the Certificates registration books maintained by the Trustee and all records relating to the funds maintained under this Trust Agreement.

(c) The Trustee shall provide the Certificate Insurer and any Fiscal Agent with a list of registered Owners of Certificates entitled to receive principal or interest payments from the Certificate Insurer under the terms of the Certificate Insurance Policy, and shall make arrangements with the Certificate Insurer, the Fiscal Agent or another designee of the Certificate Insurer to (i) mail checks or drafts to the registered Owners of Certificates entitled to receive full or partial interest payments from the Certificate Insurer and (ii) pay principal upon Certificates surrendered to the Certificate Insurer, the Fiscal Agent or another designee of the Certificate Insurer by the registered Owners of Certificates entitled to receive full or partial principal payments from the Certificate Insurer.

(d) The Trustee shall, at the time it provides notice to the Certificate Insurer of any deficiency pursuant to clause (a) above, notify Owners of Certificates entitled to receive the payment of principal or interest thereon from the Certificate Insurer (i) as to such deficiency and its entitlement to receive principal or interest, as applicable, (ii) that the Certificate Insurer will remit to them all or a part of the interest payments due on the related payment date upon proof of its entitlement thereto and delivery to the Certificate Insurer or any Fiscal Agent, in form satisfactory to the Certificate Insurer, of an appropriate assignment of the Owner's right to payment, (iii) that, if they are entitled to receive partial payment of principal from the Certificate Insurer, they must surrender the related Certificates for payment first to the Trustee, which will note on such Certificates the portion of the principal paid by the Trustee and second to the Certificate Insurer or its designee, together with an appropriate assignment, in form satisfactory to the Certificate Insurer, to permit ownership of such Certificates to be registered in the name of the Certificate Insurer, which will then pay the unpaid portion of principal, and (iv) that, if they are entitled to receive full payment of principal from the Certificate Insurer, they must surrender the related Certificates for payment to the Certificate Insurer or its designee, rather than the Trustee, together with the an appropriate assignment, in form satisfactory to the Certificate Insurer, to permit ownership of such Certificates to be registered in the name of the Certificate Insurer.

(e) In addition, if the Trustee has notice that any Owners of the Certificates has been required to disgorge payments of principal or interest on the Certificates previously due for payment pursuant to a final non-appealable order 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 electronic notice, confirmed in writing by registered or certified mail.

(f) The Trustee will be hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners of the Certificates as follows:

(i) If and to the extent there is a deficiency in amounts required to pay interest on the Certificates, the Trustee shall (a) execute and deliver to the

Certificate Insurer, in form satisfactory to the Certificate Insurer, 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, (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Certificate Insurance Policy payment from the Certificate Insurer with respect to the claims for interest so assigned, and (c) disburse the same to such respective Owners; and

(ii) If and to the extent of a deficiency in amounts required to pay principal of the Certificates, the Trustee shall (a) execute and deliver to the Certificate Insurer, in form satisfactory to the Certificate Insurer, an instrument appointing the Certificate Insurer as agent for such Owner in any legal proceeding related to the payment of such principal and an assignment to the Certificate Insurer of the Certificate surrendered to the Certificate Insurer in an amount equal to the principal amount 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 Certificate Insurer is received), (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Certificate Insurance Policy payment therefor from the Certificate Insurer, and (c) disburse the same to such Owners.

(g) The Certificate Insurer shall be entitled to pay principal of or interest on the Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such terms are defined in the Certificate Insurance Policy) and any amounts due on the Certificates as a result of acceleration of the maturity thereof in accordance with this agreement, whether or not the Certificate Insurer has received a Notice (as defined in the Certificate Insurance Policy) of Nonpayment or a claim upon the Certificate Insurance Policy.

(h) In addition, the Certificate Insurer shall, to the extent it makes any payment of principal or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Certificate Insurance Policy, and to evidence such subrogation (i) in the case of claims for interest, the Trustee shall note the Certificate Insurer's rights as subrogee on the Certificates registration books maintained by the Trustee, upon receipt of proof of payment of interest thereon to the registered Owners of the Certificates, and (ii) in the case of claims for principal, the Trustee, if any, shall note the Certificate Insurer's rights as subrogee on the Certificates registration books maintained by the Trustee, upon surrender of the Certificates together with receipt of proof of payment of principal thereof.

Section 9.02 **Certificate Insurer as Owner of Certificates.** Except as otherwise provided herein in the event the Certificate Insurer is in default under the Certificate Insurance Policy, the Certificate Insurer shall be deemed to be the sole Owner of the Certificates insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Certificates insured by it are entitled to take pursuant hereto, including pursuant to this Article; provider, however the Certificate Insurer shall be deemed to be the Owner of any Certificate and any right to receive an Interest Installment if

the Certificate Insurer has paid the principal amount of such Certificate or the interest on a Certificate evidencing such Interest Installment, as applicable, pursuant to the Certificate Insurance Policy.

Section 9.03 **Amendments and Supplements**. With respect to amendments or supplements to this Trust Agreement which do not require the consent of the Owners, the Certificate Insurer must be given prior written notice of any such amendments or supplements. With respect to amendments or supplements to this Trust Agreement which do require the consent of the Owners, the Certificate Insurer's prior written consent is required as provided in Section 9.01. Copies of any amendments or supplements to such documents which are consented to by the Certificate Insurer shall be sent to the rating agencies that have assigned a rating to the Certificates. Notwithstanding any other provision of this Trust Agreement, in determining whether the rights of Owners will be adversely affected by any action taken pursuant to the terms and provisions thereof, the Trustee shall consider the effect on the Owners as if there were no Certificate Insurance Policy.

Section 9.04 **Certificate Insurer as Third-Party Beneficiary.** To the extent that this Trust Agreement confers upon or gives or grants to the Certificate Insurer any right, remedy or claim under or by reason of this Trust Agreement, the Certificate Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.

Section 9.05 **Rights of Certificate Insurer.** So long as the Certificate Insurance Policy is in full force and effect, the provisions of this Section shall apply.

(a) Any provision of this Trust Agreement expressly recognizing or granting rights in or to the Certificate Insurer may not be amended in any manner that affects the rights of the Certificate Insurer hereunder without the prior written consent of the Certificate Insurer.

(b) Wherever this Trust Agreement requires the consent of Owners, the Certificate Insurer’s consent shall also be required as provided in Section 9.01.

(c) Upon the occurrence of an event of default (as defined in the Contract), the Trustee may, with the consent of the Certificate Insurer if the Certificate Insurer is not in default under the Certificate Insurance Policy, and shall at the direction of the Certificate Insurer or the Owners with the prior written consent of the Certificate Insurer if the Certificate Insurer is not in default under the Certificate Insurance Policy, and of the Owners of a majority in principal amount of the Outstanding Certificates if the Certificate Insurer is in default under the Certificate Insurance Policy, by written notice to the Corporation and the City, declare the principal of the Certificates to be immediately due and payable, whereupon that portion of the principal of the Certificates thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Trust Agreement or the Certificates to the contrary notwithstanding.

(d) The Certificate Insurer shall have the right to receive such additional information with respect to the Certificates or matters relating to this Trust Agreement as it may reasonably request.

ARTICLE X

MISCELLANEOUS

Section 10.01 **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 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 and the Owners.

Section 10.02 **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 10.03 **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, maturity 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 10.04 **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 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 10.05 **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 10.06 **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 corporate trust 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 10.07 **Notices**. Unless otherwise provided herein, all notices, certificates or other communications hereunder shall be deemed sufficiently given upon actual receipt thereof when received by the City, the Corporation, the Trustee, the Certificate Insurer, and the Rating Agencies, as the case may be, at the respective address provided pursuant to this Section or, if mailed by first class mail, postage prepaid, addressed to the appropriate address provided pursuant to this Section, six Business Days after deposit in the United States mail, the initial address for notices, counterparts and other communications hereunder is 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:	The Bank of New York Trust Company, N.A., 550 Kearny St., Suite 600 San Francisco, California 94108 Attention: Corporate Trust Administration
If to the Certificate Insurer:	Assured Guaranty Corp. 1325 Avenue of the Americas New York, New York 10019 Attention: General Counsel Facsimile: (212) 581-3268
with a copy to:	Assured Guaranty Corp. 1325 Avenue of the Americas New York, New York 10019 Attention: Risk Management Department Public Finance Surveillance Facsimile: (212) 581-3268
If to S&P, to:	Standard & Poor's Ratings Services 55 Water Street, 38th Floor New York, New York 10041 Attention: Municipal Structured Group Facsimile: (212) 438-2152 Telephone: (212) 438-2124
If to Fitch, to:	Fitch, Inc. 650 California Street, 8th Floor San Francisco, California 94018 Attention: U.S. Public Finance Group Facsimile: (415) 732-5770 Telephone: (415) 732-5610

The City, the Trustee, the Corporation, the Certificate Insurer, and the Rating Agencies may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Unless otherwise requested by the City, the Trustee, the Corporation, the Certificate Insurer, or, the Rating Agencies, any notice required to be given hereunder in writing may be given by any form of Electronic Notice capable of making a written record. Each such party shall file with the Trustee information appropriate to receiving such form of Electronic Notice.

Section 10.08 **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 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 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 10.10 **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 22, 2008, by and between the City and the Underwriter and each agrees to comply with the terms thereof; provided that the Trustee agrees to comply only with the terms directly applicable to it and shall have no responsibility for any covenants of any other party.

Section 10.11 **California Law**. This Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

Section 10.12 **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.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the Lodi Public Improvement Corporation has caused this Trust Agreement to be signed in its name by its President and The Bank of New York Trust Company, N.A.,, 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: _____
President

Attest:

_____
Secretary to the Corporation

APPROVED:

_____
Attorney for the Corporation

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

By: _____
Authorized Officer

EXHIBIT A

FORM OF CERTIFICATE

ELECTRIC SYSTEM REVENUE
CERTIFICATE OF PARTICIPATION,
2008 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 Owner hereof, Cede & Co., has an interest herein.

No. R- $_____

Interest Rate	Maturity Date	Dated Date	CUSIP
_____%	July 1, _____	July __, 2008	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

THIS IS TO CERTIFY that the Owner of this Certificate set forth above, is the owner of a proportionate interest in certain 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 July 1, 2008, 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 The Bank of New York Trust Company, N.A., a National banking association duly organized and existing under and by virtue of the laws of the United States of America, 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 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 maturity date set forth above, upon surrender of this Certificate on such Certificate maturity 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 Owner's proportionate share of the Installment Payments constituting principal installments becoming due and payable on such Certificate maturity date or on the date of prepayment prior thereto, and to receive Interest Installments on such principal installment at the rate set forth above, payable on each Interest Payment Date to the respective Certificate maturity date or date of prepayment prior thereto. The 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 Owner's proportionate share of the Interest Installments, evidenced 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 December 15, 2008, in which event from the Dated Date specified above); provided that if at the time of execution of this Certificate, interest evidenced 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 by this Certificate due on or before the Certificate maturity 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 Owner hereof; provided, that if the 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 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 Owner), interest shall be paid by wire transfer in immediately available funds. The principal evidenced hereby is payable in lawful money of the United States of America at the Corporate Trust Office of the Trustee.

Interest with respect to the Certificates will be paid on each Interest Payment Date provided that if any Interest Payment Date is not a Business Day, such interest shall be mailed or wired as provided above on the next succeeding Business Day and no interest shall accrue from the date when due. Interest Payment Date means each January 1 and July 1, commencing January 1, 2009. Interest shall be computed on the basis of a 360 day year of twelve 30 day months.

This Certificate is one of the duly authorized certificates of participation designated "Electric System Revenue Certificates of Participation, 2008 Series A" (the "Certificates") aggregating _____ Million _____ Thousand Dollars ($_____) in principal amount, which have been executed and delivered by the Trustee under and pursuant to the provisions of the Trust Agreement. 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 City's Electric System and amounts in the Electric Revenue Fund 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, as provided in the Contract, incur other obligations, payable from the System Net Revenues on a parity with the Installment Payments.

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 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.

In the Contract, the City has certified that all acts, conditions and things required by the Constitution and statutes of the State of California, to have been performed, to have happened and to exist precedent to and in connection with the execution and delivery of the Contract, have been performed, have happened and do exist in regular and due time, form and manner as required by law.

The Certificates with a maturity date of July 1, _____ are subject to mandatory prepayment prior to their maturity date, in part, on July 1, ____ and on each July 1 thereafter in a principal amount equal to the Principal Installments of the 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.

The Certificates with a maturity date of July 1, ____ are subject to prepayment from prepayments of Principal Installments Payments made from any service of funds at the option of the City in whole or in part and on any date on and after July 1, _____ 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 Owner hereof, subject to and in accordance with provisions of the Trust Agreement. 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 by this Certificate shall cease to accrue, and the 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 by the Person 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 evidencing 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 a like aggregate principal amount of Certificates of other authorized denominations. The Trustee may deem and treat the Owner hereof as the absolute owner hereof for the purpose of receiving payment of the interest and principal and prepayment premium, if any, evidenced 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 by this Certificate shall be made only to such 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 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 by the Certificates; but rather the Trustee's sole obligations are those stated in the Trust Agreement.

No member, officer or employee of the City or the Corporation shall be individually or personally liable for the payment of the interest or principal or prepayment premiums, if any, evidenced 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.

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 maturity date of this Certificate, or change the payment dates of, or reduce the rate of interest or principal or prepayment premium, if any, evidenced hereby, without the express written consent of the 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 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.

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

By: _____
Authorized Signatory

STATEMENT OF INSURANCE

[TO COME]

[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.

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EXHIBIT A FORM OF CERTIFICATE A-1

An extra section break has been inserted above this paragraph. Do not delete this section break if you plan to add text after the Table of Contents/Authorities. Deleting this break will cause Table of Contents/Authorities headers and footers to appear on any pages following the Table of Contents/Authorities.

ASSURED GUARANTY®

ENDURING FINANCIAL STRENGTH℠
AAA S&P • Aaa Moody's • AAA Fitch

June 23, 2008

Mr. Blair King
City of Lodi
221 West Pine Street
Lodi, California 95241-1910

Re: Not to Exceed $65,000,000 City of Lodi, California
Electric System Revenue Certificates of Participation, 2008 Series A

Dear Mr. King:

Enclosed please find the original and one copy of the commitment (the "Commitment") of Assured Guaranty Corp. ("Assured Guaranty") pertaining to the prospective issuance of its financial guaranty insurance policy (the "Policy") with respect to the captioned obligations (the "Obligations"). **The Commitment duly executed by or on behalf of the addressee should be delivered to Assured Guaranty Corp., 1325 Avenue of the Americas, New York, New York 10019, Attention: Legal Department-Public Finance and a copy thereof held by or on behalf of the addressee.** To the extent that the Commitment is not accepted as contemplated thereby, each copy should be destroyed or returned to Assured Guaranty.

Enclosed with the Commitment you will find the **Assured Guaranty Closing Package**, which contains the Assured Guaranty Disclosure language to be inserted into the preliminary Official Statement and the final Official Statement, the legend to appear on the Obligations, the specimen Policy, the form of opinion of counsel to Assured Guaranty, the form of Assured Guaranty tax, disclosure and no default certificate, and the form of instructions for wiring the insurance premium to the account of Assured Guaranty at closing. ***The information in the Assured Guaranty Closing Package may also be downloaded from Assured Guaranty's website at www.assuredguaranty.com/products.***

Upon acceptance of the Commitment, the following must occur in order for Assured Guaranty to complete its review of applicable disclosure and legal documents in advance of the closing date, and timely issue its Policy:

- Please notify Assured Guaranty of the closing date for the issuance of the Obligations and provide a draft Official Statement as soon as possible in order that Assured Guaranty may prepare the Policy for prompt and timely submission to the applicable rating agencies.

- Once determined, the final debt service schedule for the Obligations should be delivered to Assured Guaranty, Attention: Closing Coordinator, by fax and/or e-mail in order that we may confirm the premium to be paid for the Policy.

- A copy of (i) the preliminary Official Statement and the final Official Statement, each of which shall include the disclosure provided by Assured Guaranty and the specimen policy with respect to the Obligations and any other references to Assured Guaranty, and (ii) the Obligations, together with the bond legend to be affixed to such Obligations must be delivered to Assured Guaranty by fax or e-mail in order that Assured Guaranty may confirm its accuracy.

- Please refer to the Commitment for conditions that must be satisfied prior to Assured Guaranty's release of its Policy and legal opinion. **Drafts of documents reflecting Assured Guaranty's legal requirements (blacklined to reflect all revisions from any previous drafts) with respect to this transaction, as reflected in the Commitment, must be faxed and/ or e-mailed as soon as possible to the contact person(s) listed below, and Assured Guaranty will review changes to these drafts.**

- To access the Assured Guaranty logo, please access contact the Closing Coordinator. The Assured Guaranty logo may only be used in preparation of the preliminary Official Statement or the final Official Statement. All other uses are strictly prohibited.

Assured Guaranty Corp.

1325 Avenue of the Americas
New York, NY 10019

main 212 974 0100
fax 212 581 3268

info@assuredguaranty.com

www.assuredguaranty.com

- In addition, as noted in the Commitment, the rating agencies assess separate fees in connection with the issuance of rating letters with respect to the Obligations. Such fees must be paid by or on behalf of the Issuer, and questions with respect thereto should be addressed to the applicable agency.

Assured Guaranty contact information:

Joseph Chu
Director
Telephone: (212) 261-5558
Fax: (212) 581-3268
Email: jchu@assuredguaranty.com

Natalie Woodruff, Esq.
Director and Counsel
Telephone: (212) 261-5553
Fax: (212) 581-3268
Email: nwoodruff@assuredguaranty.com

Nicole DiMarco
Closing Coordinator
Telephone: (212) 261-5593
Fax: (212) 581-3268
Email: ndimarco@assuredguaranty.com

If you have any questions, please do not hesitate to contact us at the contact information listed above. We appreciate the opportunity to insure this transaction and look forward to a successful closing.

Very truly yours,

ASSURED GUARANTY CORP.

By: _____
Joseph Chu
Director

cc: Jim Krueger, City of Lodi
George Morrow, City of Lodi
Tom Dunphy, Lamont Financial

Enclosures

ASSURED GUARANTY®

ENDURING FINANCIAL STRENGTH℠
AAA S&P • Aaa Moody's • AAA Fitch

Commitment to Issue Financial Guaranty Insurance Policy

Issuer: Lodi Public Improvement Corporation

Obligor: City of Lodi, California

Commitment Date: June 23, 2008

Expiration Date: August 16, 2008

Obligations: Not to Exceed $65,000,000 City of Lodi, California Electric System Revenue Certificates of Participation, 2008 Series A

Insurance Premium: The Issuer will pay to Assured Guaranty on the date of issuance of the Obligations a non-refundable premium in an amount equal to 1.95% of the total principal and interest on the Obligations.

Commitment: On the terms and subject to the conditions set forth herein and in Exhibit A attached hereto and made a part hereof, and upon compliance with the procedures set forth in the letter delivered herewith (this commitment, such Exhibit A and such letter hereinafter, collectively, the "Commitment"), Assured Guaranty Corp., a Maryland insurance corporation ("Assured Guaranty"), hereby commits to issue a financial guaranty insurance policy relating to the Obligations referenced above, which financial guaranty insurance policy shall be substantially in the form attached hereto (the "Policy").

Unless accepted by the counterparty (the "Counterparty") hereto, this Commitment shall expire, and be of no further force and effect, at 5:00 p.m., Eastern Standard Time, on the Expiration Date, unless extended by Assured Guaranty in its sole discretion by written notice to the Counterparty. Any request by the Counterparty for any such extension must be made to Assured Guaranty prior to 5:00 p.m., Eastern Standard Time, on the Expiration Date set forth above. "Business Day", for all purposes hereof, shall mean any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee or the Paying Agent (as defined in the Policy) or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in New York City or in the States of Maryland or New York.

Upon acknowledgement and acceptance by the Counterparty, this Commitment shall constitute a binding agreement between Assured Guaranty and the Counterparty, with respect to the subject matter hereof, enforceable against each such party in accordance with its terms; *provided, however,* that this Commitment shall expire, and be of no further force and effect, to the extent that Assured Guaranty shall not have issued the Policies as contemplated hereby on or prior to the Expiration Date. Upon the execution of this Commitment by Assured Guaranty and the Counterparty, and in consideration of the issuance of this Commitment by Assured Guaranty, the Counterparty hereby agrees that it will not enter into any discussions or negotiations with, or seek any commitment from, any financial guarantor other than Assured Guaranty, for the issuance of a financial guaranty insurance policy with respect to the Obligations, *provided, that,* the Issuer or the Obligor may determine prior to the Expiration Date not to issue Obligations that are guaranteed by any financial guarantor, in which case the Counterparty agrees to notify Assured Guaranty immediately after making such determination.

Capitalized terms not defined herein shall have meaning ascribed to such terms as set forth in the Assured Guaranty Closing Package.

The issuance of the Policy by Assured Guaranty is subject to the satisfaction or waiver by Assured Guaranty of the following conditions, and the Counterparty hereby further agrees as follows:

Guaranteed Obligations: The Policy will guaranty the timely payment of scheduled principal and interest on the Obligations.

Offering Documents and Other Legal Documentation: Assured Guaranty shall be provided with:

a. Executed copies of all financing documents (including documentation evidencing the Obligor's ability and intent to comply with the Internal Revenue Code of 1986, as amended and certified copies of the ordinance relating to the approval and issuance of the Obligations), the Official Statement (or any other disclosure document) with respect to the Obligations (any such disclosure collectively, the "Official Statement") and all legal opinions delivered in connection with the issuance and sale of the Obligations. The legal opinions shall include all opinions as are customary

for financings of the type contemplated, including without limitation the unqualified approving opinion of bond counsel rendered by a law firm acceptable to Assured Guaranty in its sole discretion. Such opinions shall be addressed to Assured Guaranty or, if not so addressed, a letter shall be provided to Assured Guaranty expressly providing that Assured Guaranty is entitled to rely on such opinions as if such opinions were addressed to Assured Guaranty.

b. A copy of any insurance policy, surety bond, guaranty, indemnification, or any other policy, contract or agreement, which provides for the payment of all or any portion of the Obligations, or in any way secures, insures or enhances the cash flow available to pay the Obligations.

c. Confirmation that an amount equal to the insurance premium to be paid to Assured Guaranty upon issuance of the Policies has been deposited to the account of Assured Guaranty.

Assured Guaranty Disclosure Must be Approved: A Statement of Insurance, in the form contained in the Assured Guaranty Closing Package attached hereto, shall be printed on, or attached to the Obligations. The Obligations and the Official Statement shall contain no reference to Assured Guaranty, to the Policy, or to the financial guaranty insurance evidenced thereby, except as expressly approved by Assured Guaranty.

No Material Adverse Change: On the date hereof and on the closing date pertaining to the issuance of the Obligations, there shall have been no material adverse change in or affecting the Issuer or the Obligations (including, without limitation, the security for the Obligations or the proposed debt service schedule of the Obligations), the Official Statement, the financing documents to be executed and delivered with respect to the Obligations, the legal opinions to be executed and delivered in connection with the issuance and sale of the Obligations, or any information submitted to Assured Guaranty with respect to the Issuer, the Obligor or the Obligations, from that previously delivered or otherwise communicated to Assured Guaranty.

No Event Affecting Purchase of Obligations: No event shall have occurred which would permit any otherwise committed purchaser of the Obligations to elect not to purchase the Obligations on the date scheduled for the issuance and delivery thereof.

No Untrue Statement or Omission: The Official Statement, the financing documents to be executed and delivered in connection with the issuance and sale of the Obligations and all information submitted to Assured Guaranty with respect to the Obligations, the Obligor and the Issuer, shall not contain any untrue or misleading statement of material fact, nor omit to state a material fact necessary in order to make the information contained therein not misleading.

Final Documents: Assured Guaranty shall have received the substantially final forms of all financing documents (including, without limitation, legal opinions, schedules and exhibits), incorporating Assured Guaranty's comments in a manner acceptable to Assured Guaranty, on or prior to the fifth (5th) Business Day prior to the proposed closing of the issuance of the Obligations and such financing documents shall contain for the benefit of Assured Guaranty as bond insurer, such right as are customary for financing of the type contemplated. Any provisions or requirements of any other documentation which refer to Assured Guaranty or to the Policy must be delivered to Assured Guaranty no later than five (5) Business Days prior to the contemplated sale of the Obligations.

Offering Documents; Closing Transcript: Assured Guaranty shall be provided with at least six (6) copies of each of the preliminary Official Statement and the final Official Statement as soon as they are printed and available (and in any event prior to the closing of the Obligations). On the day of issuance and delivery of the Obligations, as a condition of delivery of the Policy, duplicate originals of the financing documents and legal opinions shall be immediately delivered by hand, sent via overnight mail or by e-mail for delivery no later than the day of closing. **Within thirty (30) days after the Closing Date, Assured Guaranty will be provided with four (4) complete sets of executed documents, preferably on CD-Rom or, if CD-Rom's are not available, loose bound printed sets.**

Inspection Rights; Financial Statements: The Issuer and the Obligor must allow Assured Guaranty or its agent access to all non-confidential records. The Issuer and the Obligor must provide to Assured Guaranty such records and notices as reasonably may be requested by Assured Guaranty, including without limitation the following: financial reports, operational statistics and strategic plans, if any, and any other records or notices to be provided to the Trustee pursuant to the terms of the financing documentation relating to the Obligations.

Rating Agency Fees: Each rating agency rating the Obligations assesses fees with respect to such rating, which fees are payable by or on behalf of the Issuer directly to each such rating agency. Questions with respect to such fees should be addressed by or on behalf of the Issuer directly to the applicable rating agency.

Legal Fees: Assured Guaranty will be responsible for its own legal fees and expenses.

Very truly yours,

ASSURED GUARANTY CORP.

By: _____
Joseph Chu
Director

The undersigned hereby accepts the commitment of Assured Guaranty Corp. to issue its Policy with respect to the captioned Obligations on the terms and subject to the conditions set forth in the Commitment with respect thereto issued by Assured Guaranty Corp. on the Commitment Date set forth above.

Acknowledged, accepted and agreed to
as of _____, 2008

CITY OF LODI, CALIFORNIA

By: _____
Name:
Title:

Exhibit A

Assured Guaranty Corp.
Additional Terms and Conditions
Financial Guaranty Insurance Policy

The Commitment is subject to the terms and conditions set forth below pertaining to the financing documents, and any other documentation for the captioned Obligations (the "Financing Documents"), all of which shall be in form and substance satisfactory to Assured Guaranty, in its sole discretion, and shall contain such representations, warranties, covenants, events of default and rights, for the benefit of Assured Guaranty, as bond insurer, as are customary for financings of the type contemplated. The following terms and conditions are subject in all respects to modification and supplement based on review of the Financing Documents and other materials by Assured Guaranty and its counsel.

1. **Defined terms.** Terms not otherwise defined herein shall have the meanings as set forth in the trust Agreement dated as of June 1, 2008 (the "Trust Agreement") by and between the Issuer and the trustee for the Obligations (the "Trustee").

2. **Security.** The Obligations shall be limited obligations of the Issuer payable from and secured by a pledge and lien on (i) the Net Revenues of the Electric System, and (ii) the amounts on deposit in the Electric Revenue Fund established under the Trust Agreement (collectively, the "Pledged Revenues").

3. **Rate Covenant.** The Obligor shall covenant to fix, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System, which will produce in each fiscal year (a) Adjusted Annual Revenues for such fiscal year equal to the sum of (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 Obligor and (b) Adjusted Annual Net Revenues equal to at least 120% of the Adjusted Annual Debt Service with respect to Installment Payments and Parity Obligations for each fiscal year. The Obligor may make adjustments from time to time in such fees and charges and may make such classification as it deem 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 rate covenant.

4. **Additional Parity Obligations.** The Obligor shall be permitted to issue additional Parity Obligations, provided, the Obligor is not in default in the performance or observance of any term or condition of the Installment Purchase Contract and the Obligor obtains: (a) a certificate of an authorized officer of the Obligor certifying that for the 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 120% of the debt service for all Outstanding Installment Payments and all Outstanding Parity Obligations for that period plus the proposed Parity Obligations, and (b) a certificate of the Obligor or an Engineer's Report on file with the Obligor, stating that (i) the Projected Adjusted Annual Net Revenues during each of the succeeding five (5) complete fiscal years beginning with the first fiscal year following the issuance of such Parity Obligations in which interest is not capitalized in whole from the proceeds of Parity Obligations, is at least equal to 120% of Maximum Annual Debt Service in such five (5) year period for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed and (ii) the Projected Adjusted Annual Net Revenues during each of the fiscal years in which the Obligations are outstanding, is at least equal to 120% of Average Annual Debt Service for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed.

5. **Debt Service Reserve Fund.** The debt service reserve fund shall be fully funded in an amount equal to the lesser of (a) maximum annual debt service on the Obligations, (ii) 125% of average annual debt service or (iii) 10% of the proceeds of the Obligations. Unless otherwise consented to by Assured Guaranty a surety will not be deemed an acceptable substitute.

6. **Sale, Lease or disposition of the Electric System.** The Obligor shall covenant not to sell, lease or otherwise dispose of all or substantially all of the Electric System unless (i) the purchaser, assignee or lessee shall assume all of such Obligor's obligations under the Installment Purchase Contract, (iii) the purchaser, assignee or lessee shall be rated investment grade, and (iv) the Obligor shall determine by resolution that such sale, lease or other disposition will not affect the security for the Obligations.

7. **No Purchase in Lieu of Redemption.** Without the prior written consent of Assured Guaranty, no Obligations insured by Assured Guaranty shall be purchased by the Issuer or the Obligor in lieu of redemption, unless such Obligations are redeemed, defeased or cancelled.

8. **Insurance.** The Obligor shall maintain insurance covering risks (including, without limitation, property and casualty, general liability and professional liability) in amounts as customarily maintained by organizations of similar size and conducting similar operations of the Obligor. All insurers must be rated at least "A" by A.M. Best or S&P. All general liability insurance policies shall be endorsed to show the trustee as additional insured. Prior to the expiration of any such policy, the Obligor shall furnish to Assured Guaranty satisfactory evidence that such policy has been renewed or replaced or is no longer required by the Financing Documents. All policies evidencing such required insurance shall provide thirty (30) days' prior written notice to the Issuer, the Obligor, the trustee and Assured Guaranty of any cancellation, reduction in amount or material change in coverage. Reasonable deductibles approved by the insurance Consultant shall be permitted. *Self Insurance.* The Obligor may self insure (for liability only), provided that the Obligor's self insurance plan provides for (i) the maintenance of a separate segregated self-insurance fund funded in an amount determined (initially and on at least an annual basis) by an independent actuary satisfactory to Assured Guaranty employing accepted actuarial techniques, and (ii) the establishment and maintenance of a claims processing and risk management program. No later than one hundred twenty (120) days after the end of each fiscal year, the Obligor shall cause an independent actuary, satisfactory to Assured Guaranty, to submit a written report to the trustee and Assured Guaranty setting forth a determination, employing accepted actuarial techniques, of an adequate amount of reserves to be maintained in the such member's self insurance trust fund. The Obligor shall immediately deposit any amount necessary to cause such the self insurance trust fund to be funded in the amount determined by such actuary. The Obligor may not self-insure against casualty losses to any real or personal property owned, leased or used by it, including plant, property and equipment.

9. **Interest Rate Exchange Agreement.** Any in interest rate exchange agreement ("Interest Rate Exchange Agreement ") entered into by the Obligor shall meet the following conditions: (i) the Interest Rate Exchange Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, or (b) debt then outstanding, or (c) debt reasonably expected to be issued within the next twelve (12) months, and (ii) the Interest Rate Exchange Agreement shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Unless otherwise consented to in writing by Assured Guaranty, any uninsured net settlement, breakage or other termination amount then in effect shall be subordinate to debt service on the Obligations and on any debt on parity with the Obligations. The Obligor shall not terminate Interest Rate Exchange Agreement unless it demonstrates to the satisfaction of Assured Guaranty prior to the payment of any such termination amount that such payment will not cause the Obligor to be in default under the Financing Documents, including but not limited to, any monetary obligations thereunder. All counterparties or guarantors to the Interest Rate Exchange Agreement must have a rating of at least "A-" and "A3" by Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). If the counterparty or guarantor's rating falls below "A-" or "A3" by either S&P or Moody's, the counterparty or guarantor shall execute a credit support annex to the Interest Rate Exchange Agreement, which credit support annex shall be acceptable to Assured Guaranty. If the counterparty or the guarantor's long term unsecured rating falls below "Baa1" or "BBB+" by either Moody's or S&P, a replacement counterparty or guarantor, acceptable to Assured Guaranty, shall be required.

10. **Reporting Requirements.** The Obligor will furnish or cause to be furnished to Assured Guaranty:

    (a) annual audited financial statements of the Obligor prepared by an independent certified public accountant, within one hundred eighty (180) days of the completion of the Obligor's fiscal year;

    (b) prior to issuing additional parity obligations, any disclosure document or financing agreement pertaining to such additional debt, which disclosure document or financing agreement shall include, without limitation, the applicable maturity schedule, interest rate or rates, redemption and security provisions pertaining to any such additional debt;

    (c) immediate notice of any draw on the debt service reserve fund;

    (d) within thirty (30) days following any litigation or investigation that may have a material adverse affect on the financial position of the Obligor notice of such litigation; and

    (e) copies of all continuing disclosure filings with national recognized municipal securities repositories with respect to the Obligor and the major Participants in the Catawba Project.

11. **Opinions.** Assured Guaranty shall be addressed or entitled to rely upon the following: (a) the unqualified approving opinion of bond counsel; (b) the opinion of bond counsel or general counsel to the Issuer stating that (i) the Issuer is a not for profit public benefit corporation of the State of California duly created and validly

existing and has all requisite power and authority to enter into and perform its obligations under the Financing Documents, (ii) the Financing Documents have been duly executed, are in full force and effect, and are valid and enforceable against the Issuer, (iii) the Obligations have been duly authorized and issued and constitute valid and binding limited obligations of the Issuer payable solely from and secured by a lien on the trust estate created pursuant to the Resolution, (iv) there is no action, suit, proceeding, inquiry or investigation, by or before any court or public board or body pending, or, to the best of its knowledge, after due inquiry, threatened against or affecting the Issuer, which in any way questions the creation, existence or powers of the Issuer, or wherein an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of the Financing Documents or the Obligations, and (v) the Issuer has full corporate power and authority to assign as security a security interest in the Pledged Revenues and such security interest is a valid, binding and perfected first lien security interest free and clear of any lien, pledge, encumbrance and (c) on opinion of counsel to the Obligor stating (i) the Obligor is a political subdivision of the State of California duly created and validly existing and has all requisite power and authority to enter into and perform its obligations under the Financing Documents, to which it is a party, (ii) the Financing Documents, to which it is a party, have been duly executed, are full force and effect, and are valid and enforceable against the Obligor, and (iv) there is no action, suit, proceeding, inquiry or investigation, by or before any court or public board or body pending, or, to the best of its knowledge, after due inquiry, threatened against or affecting the Obligor, which in any way questions the creation, existence or powers, or wherein an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of the Financing Documents.

Schedule 1

GENERAL DOCUMENT PROVISIONS

A. Notices and Other Information. The Financing Documents must provide that:

1. Any notice that is required to be given to holders of the Obligations (the "Bondholders"), nationally recognized municipal securities information repositories or state information depositories pursuant to Rule 15c2-12(b) (5) adopted by the Securities and Exchange Commission or to the Trustee pursuant to the financing documents shall also be provided to Assured Guaranty, simultaneously with the sending of such notices. In addition, to the extent that the Issuer has entered into a continuing disclosure agreement with respect to the Obligations, all information furnished pursuant to such agreement shall also be provided to Assured Guaranty, simultaneously with the furnishing of such information. All notices required to be given to Assured Guaranty shall be in writing and shall be sent by registered or certified mail addressed to Assured Guaranty Corp., 1325 Avenue of the Americas, New York, New York 10019, Attention: General Counsel, with a copy to Assured Guaranty, Attention: Risk Management Department - Public Finance Surveillance.

2. Assured Guaranty shall have the right to receive such additional information as it may reasonably request.

3. The Issuer will permit Assured Guaranty to discuss the affairs, finances and accounts of the Issuer or any information Assured Guaranty may reasonably request regarding the security for the Obligations with appropriate officers of the Issuer, and will use best efforts to enable Assured Guaranty to have access to the facilities, books and records of the Issuer on any business day upon reasonable prior notice.

4. The Trustee shall notify Assured Guaranty of any failure of the Issuer to provide notices, certificates and other information under the Documentation.

B. Defeasance. In the event that the principal and/or interest due on the Obligations shall be paid by Assured Guaranty pursuant to the Policy, the Obligations shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the registered owners shall continue to exist and shall run to the benefit of Assured Guaranty, and Assured Guaranty shall be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Obligations.

In addition, Assured Guaranty will require the following items:

1. An opinion of counsel that the defeasance will not adversely impact the exclusion from gross income for federal income tax purposes of interest on the Obligations or refunded bonds.

2. An escrow agreement and an opinion of counsel regarding the validity and enforceability of the escrow agreement.

3. The escrow agreement shall provide that:

   a. Any substitution of securities shall require verification by an independent certified public accountant and the prior written consent of Assured Guaranty.

   b. The Issuer will not exercise any optional redemption of Obligations secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (i) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (ii) as a condition of any such redemption there shall be provided to Assured Guaranty a verification of an independent certified public accountant as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption.

   c. The Issuer shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of Assured Guaranty.

C. Trustee. The Financing Documents must include the following provisions:

1. Assured Guaranty shall receive prior written notice of any name change of the Trustee or the removal, resignation or termination of the Trustee.

2. No removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to Assured Guaranty, shall be appointed.

3. The Trustee may be removed at any time, at the request of Assured Guaranty, for any breach of its obligations under the financing documents.

Amendments and Supplements. With respect to amendments or supplements to the Financing Documents, which do not require the consent of the Bondholders, Assured Guaranty must be given notice of any such amendments or supplements. With respect to amendments or supplements to the Financing Documents, which require the consent of the Bondholders, Assured Guaranty's prior written consent is required. All Financing Documents must contain a provision that requires that copies of any amendments or supplements to such documents, which are consented to by Assured Guaranty shall be sent to the rating agencies that have assigned a rating to the Obligations. Notwithstanding any other provision of such Financing Document, in determining whether the rights of Bondholders will be adversely affected by any action taken pursuant to the terms and provisions thereof, the Trustee shall consider the effect on the Bondholders as if there were no Policy.

D. Assured Guaranty as Third Party Beneficiary. To the extent that the Financing Documents confer upon or give or grant to Assured Guaranty any right, remedy or claim under or by reason of the Financing Documents, the Financing Documents must contain a provision which states that Assured Guaranty is explicitly recognized as being a third party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

5. Control Rights. Assured Guaranty shall be deemed to be the holder of all of the Obligations for purposes of (a) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default (as defined in the resolution, indenture or ordinance), and (b) granting any consent, direction or approval or taking any action permitted by or required under the indenture, resolution or ordinance, as the case may be, to be granted or taken by the holders of such Obligations.

[In transactions for which acceleration is not a remedy for an event of default, the following provision is to be included in the Financing Documents]

Anything in this Agreement to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein, Assured Guaranty shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under this Agreement.

[In transactions for which acceleration is a remedy for an event of default, the following provisions are to be included in the Financing Documents in lieu of the provision above.]

Anything in this Agreement to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein, Assured Guaranty shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under this Agreement, including, without limitation, (i) the right to accelerate the principal of the Obligations as described in this Agreement, and (ii) the right to annul any declaration of acceleration. Assured Guaranty also shall be entitled to approve all waivers of events of default.

E. Consent Rights of Assured Guaranty. The Financing Documents shall include the following consent provisions:

1. *Consent of Assured Guaranty.* Any provision of this Financing Document expressly recognizing or granting rights in or to Assured Guaranty may not be amended in any manner that affects the rights of Assured Guaranty hereunder without the prior written consent of Assured Guaranty.

Consent of Assured Guaranty in Addition to Bondholder Consent. Wherever the Financing Documents require the consent of Bondholders, Assured Guaranty's consent shall also be required.

2. *Consent of Assured Guaranty in the Event of Insolvency.* Any reorganization or liquidation plan with respect to the Issuer must be acceptable to Assured Guaranty. In the event of any reorganization or liquidation, Assured Guaranty shall have the right to vote on behalf of all Bondholders who hold Obligations guaranteed by Assured Guaranty, absent a default by Assured Guaranty under the Policy.

3. *Consent of Assured Guaranty Upon Default.* Upon the occurrence of an event of default as defined herein, the Trustee may, with the consent of Assured Guaranty, and shall at the direction of Assured Guaranty or the Bondholders with the consent of Assured Guaranty, by written notice to the Issuer and Assured Guaranty, declare the principal of the Obligations to be immediately due and payable, whereupon that portion of the principal of the Obligations thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this financing document or the Obligations to the contrary notwithstanding.

F. Payment Procedure Under the Policy. The Financing Documents shall include the following provisions:

1. At least two (2) Business Days prior to each payment date on the Obligations, the Trustee, will determine whether there will be sufficient funds to pay all principal of and interest on the Obligations due on the related payment date and shall immediately notify Assured Guaranty or its designee on the same Business Day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of any deficiency. Such notice shall specify the amount of the anticipated deficiency, the Obligations to which such deficiency is applicable and whether such Obligations will be deficient as to principal or interest or both. If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify Assured Guaranty or its designee.

2. The Trustee, shall after giving notice to Assured Guaranty as provided above, make available to Assured Guaranty and, at Assured Guaranty's direction, to any Fiscal Agent, the registration books of the Issuer maintained by the Trustee and all records relating to the funds maintained under the Documentation.

3. The Trustee shall provide Assured Guaranty and any Fiscal Agent with a list of registered owners of Obligations entitled to receive principal or interest payments from Assured Guaranty under the terms of the Policy, and shall make arrangements with Assured Guaranty, the Fiscal Agent or another designee of Assured Guaranty to (i) mail checks or drafts to the registered owners of Obligations entitled to receive full or partial interest payments from Assured Guaranty and (ii) pay principal upon Obligations surrendered to Assured Guaranty, the Fiscal Agent or another designee of Assured Guaranty by the registered owners of Obligations entitled to receive full or partial principal payments from Assured Guaranty.

4. The Trustee, shall, at the time it provides notice to Assured Guaranty of any deficiency pursuant to clause 1. above, notify registered owners of Obligations entitled to receive the payment of principal or interest thereon from Assured Guaranty (i) as to such deficiency and its entitlement to receive principal or interest, as applicable, (ii) that Assured Guaranty will remit to them all or a part of the interest payments due on the related payment date upon proof of its entitlement thereto and delivery to Assured Guaranty or any Fiscal Agent, in form satisfactory to Assured Guaranty, of an appropriate assignment of the registered owner's right to payment, (iii) that, if they are entitled to receive partial payment of principal from Assured Guaranty, they must surrender the related Obligations for payment first to the Trustee, which will note on such Obligations the portion of the principal paid by the Trustee and second to Assured Guaranty or its designee, together with the an appropriate assignment, in form satisfactory to Assured Guaranty, to permit ownership of such Obligations to be registered in the name of Assured Guaranty, which will then pay the unpaid portion of principal, and (iv) that, if they are entitled to receive full payment of principal from Assured Guaranty, they must surrender the related Obligations for payment to Assured Guaranty or its designee, rather than the Trustee, together with the an appropriate assignment, in form satisfactory to Assured Guaranty, to permit ownership of such Obligations to be registered in the name of Assured Guaranty.

5. In addition, if the Trustee has notice that any holder of the Obligations has been required to disgorge payments of principal or interest on the Obligations previously Due for Payment pursuant to a final non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify Assured Guaranty or its designee of such fact by telephone or electronic notice, confirmed in writing by registered or certified mail.

6. The Trustee will be hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Obligations as follows:

    a. If and to the extent there is a deficiency in amounts required to pay interest on the Obligations, the Trustee shall (a) execute and deliver to Assured Guaranty, in form satisfactory to Assured Guaranty, an instrument appointing Assured Guaranty as agent for such holders in any legal proceeding related to the payment of such interest and an assignment to Assured Guaranty of the claims for interest to which such deficiency relates and which are paid by Assured Guaranty, (b) receive as designee of the respective holders (and not as Trustee) in accordance with the tenor of the Policy payment from Assured Guaranty with respect to the claims for interest so assigned, and (c) disburse the same to such respective holders; and

    b. If and to the extent of a deficiency in amounts required to pay principal of the Obligations, the Trustee shall (a) execute and deliver to Assured Guaranty, in form satisfactory to Assured Guaranty, an instrument appointing Assured Guaranty as agent for such holder in any legal proceeding related to the payment of such principal and an assignment to Assured Guaranty of the Obligation surrendered to Assured Guaranty in an amount equal to the principal amount 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 Assured Guaranty is received), (b) receive as designee of the respective holders (and not as Trustee) in accordance with the tenor of the Policy payment therefore from Assured Guaranty, and (c) disburse the same to such holders.

7. Payments with respect to claims for interest on and principal of Obligations disbursed by the Trustee from proceeds of the Policy shall not be considered to discharge the obligation of the Issuer with respect to such Obligations, and such Obligations shall remain outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Issuer, and Assured Guaranty shall become the owner of such unpaid Obligation and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise; and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the registered owners shall continue to exist and shall run to the benefit of Assured Guaranty, and Assured Guaranty shall be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Obligations.

8. Irrespective of whether any such assignment is executed and delivered, the Issuer and the Trustee hereby agree for the benefit of Assured Guaranty that:

    a. they recognize that to the extent Assured Guaranty makes payments directly or indirectly (*e.g.,* by paying through the Trustee), on account of principal of or interest on the Obligations, Assured Guaranty will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Issuer, with interest thereon as provided and solely from the sources stated in the financing documents and the Obligations; and

    b. they will accordingly pay to Assured Guaranty the amount of such principal and interest, with interest thereon as provided in the financing documents and the Obligations, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Obligations to holders, and will otherwise treat Assured Guaranty as the owner of such rights to the amount of such principal and interest.

9. Assured Guaranty shall be entitled to pay principal or interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Policy) and any amounts due on the Obligations as a result of acceleration of the maturity thereof in accordance with this agreement, whether or not Assured Guaranty has received a Notice (as defined in the Policy) of Nonpayment or a claim upon the Policy.

10. In addition, Assured Guaranty shall to the extent it makes any payment of principal or interest on the Obligations become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy, and to evidence such subrogation (i) in the case of claims for interest, the Trustee shall note Assured Guaranty's rights as subrogee on the registration books of the Issuer maintained by the Trustee, upon receipt of proof of payment of interest thereon to the registered holders of the Obligations, and (ii) in the case of claims for principal, the Trustee, if any, shall not Assured Guaranty's rights as subrogee on the registration books of the Issuer maintained by the Trustee, upon surrender of the Obligations together with receipt of proof of payment of principal thereof.

11. The Issuer hereby agrees to pay or reimburse Assured Guaranty, to the extent permitted by law, (A) for all amounts paid by Assured Guaranty under the terms of the Policy, and (B) any and all charges, fees, costs and expenses which Assured Guaranty may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of the trust agreement or any other financing document including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the Issuer or any affiliate thereof) relating to this agreement or any other Financing Document, any party to this agreement or any other Financing Document or the transaction contemplated by the Financing Documents, (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under this agreement or any other Financing Document, or the pursuit of any remedies under this agreement or any other Financing Document, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, or (iv) any amendment, waiver or other action with respect to, or related to, this agreement or any other Financing Document whether or not executed or completed; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of Assured Guaranty spent in connection with the actions described in clauses (ii) - (iv) above. In addition, Assured Guaranty reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this agreement or any other Financing Document. The Issuer will pay interest on the amounts owed in this paragraph from the date of any payment due or paid, at the per annum rate of interest publicly announced from time to time by JP Morgan Chase Bank, National Association at its principal office in New York, New York as its prime lending rate (any change in such prime rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank, National Association) plus three percent (3%) per annum (the "Reimbursement Rate"). The Reimbursement Rate shall be calculated on the basis of the actual number of days elapsed over a 360-day year. In the event JPMorgan Chase Bank ceases to announce its prime rate publicly, the prime rate shall be the publicly announced prime rate or base lending rate of such national bank, as Assured Guaranty shall specify.

12. In addition to any and all rights of reimbursement, subrogation and any other rights pursuant hereto or under law or in equity, the Issuer agrees to pay or reimburse Assured Guaranty, to the extent permitted by law, any and all charges, fees, costs, claims, losses, liabilities (including penalties), judgments, demands, damages, and expenses which Assured Guaranty or its officers, directors, shareholders, employees, agents and each Person, if any, who controls Assured Guaranty within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended, may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, of any nature in connection with, in respect of or relating to the transactions contemplated by this agreement or any other Financing Document by reason of:

    a. any omission or action (other than of or by Assured Guaranty) in connection with the offering, issuance, sale, remarketing or delivery of the Obligations;

    b. the negligence, bad faith, willful misconduct, misfeasance, malfeasance or theft committed by any director, officer, employee or agent of the Issuer in connection with any transaction arising from or relating to this agreement or any other Financing Document;

    c. the violation by the Issuer of any law, rule or regulation, or any judgment, order or decree applicable to it;

    d. the breach by the Issuer of any representation, warranty or covenant under this agreement or any other Financing Document or the occurrence, in respect of the Issuer, under this agreement or any other Financing Document of any "event of default" or any event which, with the giving of notice or lapse of time or both, would constitute any "event of default"; or

    e. any untrue statement or alleged untrue statement of a material fact contained in any official statement relating to the Obligations, if any, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such claims arise out of or are based upon any untrue statement or omission in information included in an official statement, if any, and furnished by Assured Guaranty in writing expressly for use therein.

Assured Guaranty Corp.
Document and Disclosure Information
For Municipal Finance Transactions

The information contained herein is intended for use by bond counsel, underwriter's counsel, printers and any other entities involved with municipal finance transactions that will be insured by Assured Guaranty. Copies of the preliminary and final official statements, financing documents and the bond forms should be delivered to Assured Guaranty for review and comment prior to the printing of the preliminary and final official statements, the execution of the final financing documents and the execution and delivery of the bonds.

FORM OF DISCLOSURE

1. The following are Assured Guaranty's requirements for printing the preliminary and final official statements:

    a. Both the preliminary and final official statements must contain the language set forth in this packet and Assured Guaranty must be provided with final drafts for its approval thereon at least two business days prior to the printing thereof.

    b. Any changes made to the Assured Guaranty disclosure language for inclusion in the preliminary and final official statements must first be approved by Assured Guaranty.

    c. We must receive four final transcripts, preferably on CD-ROM, or if CD-ROMS are not available, printed unbound copies, within thirty days of the closing date for the issuance.

(NOTE: THE INFORMATION IN THIS DISCLOSURE PACKET MAY ALSO BE DOWNLOADED FROM ASSURED GUARANTY'S WEBSITE, AT WWW.ASSUREDGUARANTY.COM/PRODUCTS)

2. The following language is to be printed on the cover of the official statement:

    a. When Assured Guaranty is insuring the entire issue:

    The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY CORP.

    b. When Assured Guaranty is insuring less than the entire issue:

    The scheduled payment of principal of and interest on the Bonds maturing on _____ of the years _____ through _____, inclusive (the "Insured Bonds"), when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY CORP.

3. The following language is to be printed on the inside cover of the official statement

    Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance" and "Exhibit ___ - Specimen Financial Guaranty Insurance Policy".

[If necessary, change all references to the Bonds to Certificates or Notes.]

4. The following disclosure language is to be printed in the body of the official statement or as any exhibit:

BOND INSURANCE

The following information is not complete and reference is made to Appendix [_] for a specimen of the financial guaranty insurance policy (the "Policy") of Assured Guaranty Corp. ("Assured Guaranty" or the "Insurer").

THE INSURANCE POLICY

Assured Guaranty has made a commitment to issue the Policy relating to the Bonds, effective as of the date of issuance of such Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Bonds, the stated maturity date thereof, or the date on which such Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on the Bonds. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the Holder (as such term is defined in the Policy) of such Bond in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or the Paying Agent to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the Holders of the Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

The Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

THE INSURER

Assured Guaranty Corp. ("Assured Guaranty") is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "AAA" by Fitch, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's"). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above

ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of Assured Guaranty Corp.

As of March 31, 2008, Assured Guaranty had total admitted assets of $1,518,398,730 (unaudited), total liabilities of $1,138,285,708 (unaudited), total surplus of $380,113,022 (unaudited) and total statutory capital (surplus plus contingency reserves) of $1,001,533,924 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2007, Assured Guaranty had total admitted assets of $1,361,538,502 (audited), total liabilities of $961,967,238 (audited), total surplus of $399,571,264 (audited) and total statutory capital (surplus plus contingency reserves) of $982,045,695 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") in making such determinations.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 29, 2008);
- The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 (which was filed by AGL with the SEC on May 9, 2008); and
- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "Bond Insurance - The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at *http://www.sec.gov* and at AGL's web site at *http://www.assuredguaranty.com*, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance."

[If necessary, change all references to the Bonds to Certificates or Notes.]

STATEMENT OF INSURANCE
This information is not to be included in the Official Statement

5. The following language is to be printed on the bond form:

a. When Assured Guaranty is insuring the entire issue:

Assured Guaranty Corp. ("Assured Guaranty"), a Maryland-domiciled insurance company, has delivered its financial guaranty insurance policy (the "Policy") with respect to the scheduled payments of principal of and interest on this Bond to [*insert name of Trustee or Paying Agent*], as paying agent on behalf of the holders of the Bonds (the "Paying Agent"). Such Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from Assured Guaranty or the Paying Agent. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Bond acknowledges and consents to the subrogation rights of Assured Guaranty as more fully set forth in the Policy.

b. When Assured Guaranty is insuring less than the entire issue:

Assured Guaranty Corp. ("Assured Guaranty"), a Maryland-domiciled insurance company, has delivered its financial guaranty insurance policy (the "Policy") with respect to the scheduled payments of principal of and interest on the Bonds maturing on _____ of the years _____ through _____, inclusive (the "Insured Bonds"), to [*insert name of Trustee or Paying Agent*], as paying agent on behalf of the holders of the Bonds (the "Paying Agent"). Such Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from Assured Guaranty or the Paying Agent. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Bond acknowledges and consents to the subrogation rights of Assured Guaranty as more fully set forth in the Policy.

[If necessary, change all references to the Bonds to Certificates or Notes.]

FORM OF WIRE INSTRUCTIONS

Premium Payment Instructions for Assured Guaranty Corp.:

Bank: JP Morgan Chase New York
Account Name: Assured Guaranty Corp. - Premium
Account Number: 323-355919
ABA Number: 021-000-021
Reference: [Insert Issuance]

Confirmation of Receipt of Premium:

Please provide Assured Guaranty Corp. Attention: Closing Coordinator, with a wire reference number when such premium is sent. Upon confirmation of the premium payment and satisfaction of all other conditions set forth in the commitment letter, Assured Guaranty will release the Policy.

If you have any questions, please contact the Closing Coordinator at Assured Guaranty Corp.

ASSURED GUARANTY®

ENDURING FINANCIAL STRENGTH℠
AAA S&P • Aaa Moody's • AAA Fitch

Financial Guaranty Insurance Policy

Issuer: **Policy No.:**

Obligations: **Premium:**

Effective Date:

Assured Guaranty Corp., a Maryland corporation (**"Assured Guaranty"**), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the **"Trustee"**) or the paying agent (the **"Paying Agent"**) for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. **"Avoided Payment"** means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. **"Business Day"** means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. **"Due for Payment"** means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. **"Holder"** means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. **"Insured Payments"** means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. **"Nonpayment"** means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. **"Receipt"** or **"Received"** means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. **"Term"** means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the **"Fiscal Agent"**) for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to

SPECIMEN

be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation: its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

SPECIMEN

ASSURED GUARANTY CORP.

(SEAL)

By:_____
Authorized Officer

Signature attested to by:

_____
Counsel

NOTICE OF NONPAYMENT

This form is not to be included in the Official Statement

Assured Guaranty Corp.
1325 Avenue of the Americas
New York, New York 10019
Attention: Risk Management Department - Public Finance Surveillance and General Counsel

The undersigned, [a duly authorized officer of [TRUSTEE][PAYING AGENT]] (the **"Trustee"** or the **"Paying Agent"**), hereby certifies to Assured Guaranty Corp. (**"Assured Guaranty"**) with reference to Financial Guaranty Insurance Policy No. _____ (the **"Policy"**), that:

The deficiency with respect to the Insured Payment that is Due for Payment and unpaid by reason of Nonpayment on [insert applicable payment date] is $[insert applicable amount] (the **"Deficiency Amount"**).

The [Trustee][Paying Agent] is making a claim under the Policy for the Deficiency Amount.

The [Trustee][Paying Agent] agrees that, following payment by Assured Guaranty made with respect to the Deficiency Amount which is the subject of this Notice of Nonpayment, it will (a) cause such amounts to be applied directly to the payment of the applicable Insured Payment; (b) insure that such funds are not applied for any other purpose; and (c) cause an accurate record of such payment to be maintained with respect to the appropriate Insured Payment(s), the corresponding claim on the Policy, and the proceeds of such claim.

The [Trustee][Paying Agent], on behalf of the Holders, hereby assigns to Assured Guaranty all rights of the [Trustee][Paying Agent] and the Holders with respect to the Obligations to the extent of any payments under the Policy, including without limitation any amounts due to the Holders in respect of securities law violations arising from the offer and/or sale of the Obligations; provided, that payments to Assured Guaranty in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Holders to receive all payments in respect of the Obligations. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to Assured Guaranty in respect of such payments. The [Trustee][Paying Agent][Holder] shall take such action and deliver such instruments as may be reasonably requested or required by Assured Guaranty to effectuate the purpose or provisions of this paragraph (iv).

The [Trustee][Paying Agent], on its behalf and on behalf of the Holders, hereby appoints Assured Guaranty as agent and attorney-in-fact for the [Trustee][Paying Agent] and each such Holder in any legal proceeding with respect to the Obligations. The [Trustee][Paying Agent] hereby agrees that, so long as Assured Guaranty shall not be in default in its payment obligations under the Policy, Assured Guaranty may at any time during the continuation of any proceeding by or against the Issuer under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an **"Insolvency Proceeding"**) direct all matters relating to such Insolvency Proceeding, including, without limitation, (A) all matters relating to any claim in connection with an Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the Obligations (a **"Preference Amount"**), (B) the direction of any appeal of any order relating to any Preference Amount at the expense of Assured Guaranty but subject to reimbursement as provided in the documentation providing for the issuance of and securing the Obligations, if any, and (C) the posting of any surety, supersedeas or performance bond pending any appeal. In addition, the [Trustee][Paying Agent] hereby agrees that Assured Guaranty shall be fully subrogated to, and the [Trustee][Paying Agent] on its behalf and on behalf of each Holder, hereby delegates and assigns, to the fullest extent permitted by law, the rights of the [Trustee][Paying Agent] and each Holder in the conduct of any Insolvency Proceeding, including without limitation all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

Payment should be made by credit to the following account:

_____

_____

Capitalized terms used in this Notice of Nonpayment and not otherwise defined herein shall have the respective meanings ascribed thereto in the Policy.

This Notice of Nonpayment may be revoked at any time by written notice of such revocation by the [Trustee][Paying Agent][Holder] to the Assured Guaranty.

ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON FILES AN APPLICATION FOR INSURANCE OR STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION, OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO, COMMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME AND SHALL ALSO BE SUBJECT TO A CIVIL PENALTY NOT TO EXCEED FIVE THOUSAND DOLLARS AND THE STATED VALUE OF THE CLAIM FOR EACH SUCH VIOLATION.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of Nonpayment as of the __ day of _____ of ____.

[TRUSTEE/PAYING AGENT]

By: _____
Name:
Title:

SAMPLE

FORM OF OPINION OF ASSURED GUARANTY CORP.

Re: Financial Guaranty Insurance Policy No. _____ (the "Policy") relating to _____

Ladies and Gentlemen:

This opinion letter has been requested of the undersigned, in the capacity of the undersigned as _____ of Assured Guaranty Corp., a Maryland corporation ("Assured Guaranty"), in connection with the issuance by Assured Guaranty of its Policy effective as of the date hereof.

In connection with this opinion letter, I have examined an execution copy of the Policy and such documents, certificates, agreements and instruments and proceedings as I have considered necessary or appropriate under the circumstances to render the following opinion. As to all questions of fact material to this opinion letter, which have not been independently established by me, I have relied upon certificates or comparable documents of public officials or of officers and representatives of Assured Guaranty. In addition, I have assumed the genuineness of all signatures other than those of representatives of Assured Guaranty, the authenticity of all documents submitted to me as originals, the conformity to the original document of certified or photostatic copies thereof and the authenticity of the originals of such latter documents.
Based upon the foregoing, and subject to the limitations and qualifications hereinafter set forth, I am of the opinion that:

1. Assured Guaranty is a corporation duly incorporated and validly existing under the laws of the State of Maryland and has all requisite corporate power and authority to issue and to perform its obligations under the Policy in accordance with the terms thereof.

2. The execution and delivery by Assured Guaranty of the Policy, and the performance by Assured Guaranty of its obligations thereunder, have been duly authorized by all necessary corporate action on the part of Assured Guaranty.

3. The Policy has been validly executed and delivered by Assured Guaranty, and constitutes the legal, valid and binding obligation of Assured Guaranty, enforceable against Assured Guaranty in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, liquidation, rehabilitation, moratorium, arrangement, fraudulent conveyance or similar laws or enactments now or hereafter enacted affecting the enforcement of creditors' rights generally, as well as to equitable principles of general application limiting the availability of equitable remedies and the discretion of the court before which any proceeding therefor may be brought (regardless, in each case, of whether enforcement is sought in a proceeding in equity or at law).

I am licensed to practice law in the State of New York, and do not purport to be an expert as to, or to express any opinion concerning the laws of any other jurisdiction other than the laws of the State of New York and the federal laws of the United States of America to the extent specifically referred to herein. To the extent that the opinions set forth herein purport to deal with matters of Maryland law, the statements made therein are based solely upon my review of the corporate documents of Assured Guaranty, my reading of the Maryland General Corporation Law and, in respect of the opinion set forth in paragraph (1) above, my reading of the Maryland Insurance Code.

The opinions expressed herein are limited to the matters expressly set forth herein, and no opinion is implied or may be inferred beyond the matters expressly set forth herein. The opinions expressed herein are based solely on factual matters in existence as of the date hereof and laws and regulations in effect on the date hereof. I assume no obligation to revise or supplement this opinion letter should such factual matters change or should such laws or regulations be changed by legislative or regulatory action, judicial decision or otherwise, and I hereby express no opinion as to the effect any such changes may have on the foregoing opinions.

This opinion letter is being delivered to you solely for your benefit in connection with the issuance of the Policy, and may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose by any other person, in each case without my express prior written consent.

Very truly yours,

FORM OF CERTIFICATE OF ASSURED GUARANTY CORP.

In connection with the issuance of _____(the "Obligations") by _____ (the "Issuer"), Assured Guaranty Corp. ("Assured Guaranty") is issuing financial guaranty insurance policy no. D-_____ (the "Policy") guaranteeing, when due, the principal of and interest on the Obligations, all as set forth in the Policy.

On behalf of Assured Guaranty, the undersigned hereby certifies that:

(i) the Policy is an unconditional and recourse obligation of Assured Guaranty (enforceable on behalf of the holders of the Obligations) to pay the scheduled payments of interest and principal on the Obligations in the event of a Nonpayment by the Issuer (as defined in the Policy);

(ii) the insurance premium of $_____ was determined in an arm's length negotiation in accordance with our standard procedure, and is required to be paid as a condition of the issuance of the Policy;

(iii) no portion of such premium represents a payment for any direct or indirect services other than the transfer of credit risk;

(iv) Assured Guaranty is not a co-obligor on the Obligations and does not reasonably expect that it will be called upon to make any payment under the Policy;

(v) the Issuer is not entitled to a refund of premium for the Policy in the event that the Obligations are retired prior to their stated maturity;

(vi) there has not come to the attention of the undersigned any information which would cause the undersigned to believe that the description of the Insurer under the caption "Insurance - Assured Guaranty Corp." in the official statement relating to the above referenced Obligations dated _____ (the "Official Statement"), as of the date of the Official Statement or as of the date of this certificate, contains any untrue statement of a material fact 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;

(vii) Assured Guaranty is not currently in default nor has Assured Guaranty ever been in default under any policy or obligation guaranteeing the payment of principal of or interest on an obligation; and

(viii) Except for the insurance premium referred to in paragraph (ii) above, neither Assured Guaranty nor any party related to Assured Guaranty within the meaning of Section 1.150-1(b) of the Treasury Regulations will use any portion of the proceeds of the Obligations.

IN WITNESS WHEREOF, Assured Guaranty has caused this certificate to be executed in its name on this ___ day of _____, 20__, by one of its duly authorized officers.

ASSURED GUARANTY CORP.

By:_____
Authorized Officer

ASSURED GUARANTY CORP.
QUALIFIED INVESTMENTS FOR INDENTURED FUNDS

1. (a) Cash (fully insured by the Federal Deposit Insurance Corporation), (b) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("U.S. Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated. **THE ABOVE REFERENCED OBLIGATIONS MAY CONSTITUTE DEFEASANCE OBLIGATIONS.**

   Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are <u>not</u> backed by the full faith and credit of the United States of America:

   a) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

   b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes

   c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations

   d) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation, in banks which have capital and surplus of at least $15 million.

6. Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

7. Money market funds rated "Aam" or "AAm-G" by S&P, or better and if rated by Moody's rated "Aa2" or better.

8. "State Obligations", which means:

   a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least "A3" by Moody's <u>and</u> at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated "A-1+" by S&P and "MIG-1" by Moody's.

c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (b) above and rated "AA-" or better by S&P and "Aa3" or better by Moody's.

9. Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

b) the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

c) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification Report");

d) the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

e) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and

f) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements: with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A-" by S&P and "A3" Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A-" by S&P and "A3" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at least "A-" by S&P and "A3" Moody's and acceptable to Assured Guaranty (each an "Eligible Provider"), provided that:

a) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral");

b) the trustee or a third party acting solely as agent therefore or for the issuer (the "Custodian") has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books) and such collateral shall be marked to market;

c) the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the trustee, the issuer and Assured Guaranty setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

d) the repurchase agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of Assured Guaranty;

e) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

f) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, notify the issuer, the trustee and Assured Guaranty within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall either: (i) provide a written guarantee acceptable to Assured Guaranty, (ii) post Eligible Collateral, or (iii) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the trustee (who shall give such direction if so directed by Assured Guaranty) repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the issuer or the trustee.

11. Investment agreements: with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's, and acceptable to Assured Guaranty (each an "Eligible Provider"); provided that:

a) interest payments are to be made to the trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the issuer and the trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

c) the provider shall send monthly reports to the trustee, the issuer and Assured Guaranty setting forth the balance the issuer or trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider;

d) the investment agreement shall state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

e) the investment agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of Assured Guaranty;

f) the issuer, the trustee and Assured Guaranty shall receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;

g) the issuer, the trustee and Assured Guaranty shall receive an opinion of foreign counsel to the provider (if applicable) that (i) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms, (b) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in

such country would uphold such choice of law, and (c) any judgment rendered by a court in the United States would be recognized and enforceable in such country;

h) the investment agreement shall provide that if during its term:

   i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (i) provide a written guarantee acceptable to Assured Guaranty, (ii) post Eligible Collateral with the Issuer, the trustee or a third party acting solely as agent therefore (the "Custodian") free and clear of any third party liens or claims, or (iii) assign the agreement to an Eligible Provider, or (iv) repay the principal of and accrued but unpaid interest on the investment;

   ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", the provider must, at the direction of the issuer or the trustee (who shall give such direction if so directed by the Insurer), within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the issuer or trustee.

i) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"). In addition, the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the trustee, the issuer and Assured Guaranty setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

j) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

k) the investment agreement must provide that if during its term: (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the issuer or the trustee (who shall give such direction if so directed by the Assured Guaranty), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the issuer or trustee, as appropriate, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the issuer or trustee, as appropriate.

TERMINATION AGREEMENT

Termination Agreement (this "Termination Agreement") dated as of June [__], 2008 between CITIGROUP FINANCIAL PRODUCTS INC. (formerly known as Salomon Brothers Holding Company Inc, "Party A") and CITY OF LODI ("Party B").

WHEREAS, Party A and Party B are parties to an ISDA Master Agreement, dated as of September 29, 1999 (the "Master Agreement"), a Schedule to the Master Agreement dated as of September 29, 1999 (the "Schedule" and collectively with the Master Agreement, the "Agreement");

WHEREAS, in accordance with the terms of the Master Agreement, Party A and Party B have heretofore entered into an Insured Transaction pursuant to a Confirmation, dated January 24, 2002 (the "Confirmation"), with an initial Notional Amount equal to USD 46,760,000 and a Termination Date of July 1, 2032 (the "Transaction"); and

WHEREAS, the parties have agreed to terminate their obligations under the Transactions;

NOW, THEREFORE, in consideration of the foregoing and other valuable consideration, it is hereby agreed as follows:

1. Payment and Termination. (a) The Transaction is hereby terminated as of June [__], 2008 (the "Termination Date") and neither Party A nor Party B shall have any obligations thereunder following the Termination Date. In full consideration of this Termination Agreement and in complete satisfaction of all obligations of all of the parties in respect of the Transaction, Party B shall pay to Party A on June __, 2008 (the "Payment Date") the amount of USD [____] (which includes all accrued but unpaid regularly scheduled payments under the Transactions) (the "Termination Amount"). The parties hereby acknowledge and agree that Party B shall pay the Termination Amount to Party A notwithstanding Paragraph 5 of the Confirmation of the Transaction, which states that the Termination Amount shall be determined pursuant to Section 6 of the Agreement.

(b) In the event that Party B does not issue its [_____] (the "Refunding Bonds") on or prior to the Payment Date and Party B does not exercise its right to pay the Termination Amount from other available funds, (i) Party B shall not be required to make the payment specified in Section 1(a) of this Termination Agreement, (ii) the termination of the Transaction shall be cancelled, (iii) the terms of the Transaction as set forth in the Confirmation shall continue in full force and effect, (iv) Party A will determine its Loss, if any, in connection with continuing the terms of the Transaction evidenced by the Confirmation, and (v) if the Loss is a positive number, an amount equal to the Loss will be payable by Party B to Party A on the Payment Date and, if the Loss is a negative number, an amount equal to the Loss will be payable by Party A to Party B on the Payment Date. "Loss" shall mean an amount that Party A reasonably determines in good faith to be its total losses and costs (expressed as a positive number) or gains (expressed as a negative number) in connection with continuing the terms of the Transaction evidenced by the Confirmation, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

(c) In the event the Refunding Bonds are not issued by the Payment Date, Party B has the right, but not the obligation, to pay the Termination Amount on the Payment Date from any available funds with the same force and effect as if the Termination Amount were paid from the Refunding Bonds proceeds.

(d) By its execution hereof, MBIA Insurance Corporation consents to the termination of the Transaction on the terms and conditions set forth herein and acknowledges that if the Refunding Bonds are not issued on or prior to the Payment Date and Party B does not pay the Termination Amount from other sources as provided herein, the Transaction shall continue in full force and effect and the Interest Rate Swap Insurance Policy bearing Policy No. 37303(3) shall remain in full force and effect with respect to the Transaction.

2. Insurer Consent. By its execution hereof, the Insurer hereby acknowledges that it has given its prior written consent to the termination of the Transaction as required by Paragraph 5 of the Confirmation.

3. Representations. Each party hereto represents to the other party hereto that:

(a) it is duly organized and validly existing under the laws of the jurisdiction of its organization or incorporation;

(b) it has the power and authority to execute and deliver this Termination Agreement;

(c) the person executing this Termination Agreement on its behalf is duly authorized to do so;

(d) its execution, delivery and performance of this Termination Agreement do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(e) it has obtained all governmental and other consents, if any, that it is required to obtain in connection with its execution and delivery of this Termination Agreement, all such consents are in full force and effect and all conditions of any such consents have been complied with;

(f) its obligations under this Termination Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application, regardless of whether enforcement is sought in a proceeding in equity or in law); and

(g) it has made its own independent decision to enter into this Termination Agreement based upon its own judgment and upon advice from such advisors as it has deemed necessary and no other party is acting as a fiduciary for or as an advisor to it in respect of this Termination Agreement.

4. Documents to be Delivered.

(a) The following documents shall be delivered by Party B to Party A promptly upon execution of this Termination Agreement:

(i) an opinion of counsel to Party B with respect to the enforceability of this Termination Agreement against Party B;

(ii) evidence reasonably satisfactory to Party A of the (i) authority of Party B to enter into this Termination Agreement and (ii) the authority and genuine signature of the individual signing this Termination Agreement on behalf of Party B to execute the same; and

(iii) a certified copy of the resolution or resolutions (or the equivalent thereof) of the governing body of Party B, certified by an appropriate official of Party B, pursuant to which Party B is authorized to enter into this Termination Agreement.

(b) The following documents shall be delivered by Party A to Party B promptly upon execution of this Termination Agreement:

(i) an opinion of counsel to Party A with respect to the enforceability of this Termination Agreement against Party A; and

(ii) evidence reasonably satisfactory to Party B of the (i) authority of Party A to enter into this Termination Agreement and (ii) the authority and genuine signature of the individual signing this Termination Agreement on behalf of Party A to execute the same.

5. Governing Law. This Termination Agreement shall be governed by and construed in accordance with the laws of the State of New York, without reference to choice of law doctrine.

6. Counterparts. This Termination Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the parties have executed this Termination Agreement as of the date first above written.

CITY OF LODI, a municipal corporation

_____
BLAIR KING, City Manager

Attest:

_____
RANDI JOHL, City Clerk

APPROVED AS TO FORM:

_____
D. STEPHEN SCHWABAUER
City Attorney

CITIGROUP FINANCIAL PRODUCTS INC.

By:_____

Acknowledged and Agreed:
MBIA INSURANCE CORPORATION

By:_____

RESOLUTION NO. 2008-____

A RESOLUTION OF THE LODI PUBLIC IMPROVEMENT CORPORATION RELATING TO ELECTRIC SYSTEM REVENUE CERTIFICATES OF PARTICIPATION 2008 SERIES A; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INSTALLMENT PURCHASE CONTRACT AND A TRUST AGREEMENT IN CONNECTION THEREWITH; AND AUTHORIZING CERTAIN OTHER MATTERS RELATED 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 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 Corporation proposes to enter into a Trust Agreement (the "Trust Agreement") providing for the execution and delivery of Electric System Revenue Certificates of Participation 2008 Series A (the "Certificates"), evidencing the proportionate ownership interests of the owners thereof in the installment payments to be made by the City pursuant to the Installment Purchase Contract; 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 Corporation 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 BOARD OF DIRECTORS THE LODI PUBLIC IMPROVEMENT CORPORATION, AS FOLLOWS:

Section 1. The Board of Directors of the Corporation hereby specifically finds and determines it is desirable and furthers the Corporation's public purpose to assist the City in the refinancing of the Existing Facilities as provided in the Installment Purchase Contract through the actions authorized hereby and that the statements, findings and determinations of the Corporation set forth above and in the preambles of the documents approved herein are true and correct.

Section 2. The Installment Purchase Contract, in the form presented at this meeting and on file with the Secretary of the Corporation, and the performance by the Corporation of its obligations thereunder, are hereby approved, and each member of this Board of Directors and the President and the Treasurer of the Corporation (each an Authorized Officer"), each acting singly, are hereby authorized and directed, for and in the name and on behalf of the Corporation, to execute and deliver to the City the Installment Purchase Contract in substantially said form, with such changes therein as such officer executing such document may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The Trust Agreement, in the form presented at this meeting and on file with the Secretary of the Corporation, and the performance of by the Corporation of its obligations thereunder, are hereby approved, and each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the Corporation, to execute and deliver to The Bank of New York Trust Company, NA City the Trust Agreement in substantially said form, with such changes therein as such officer executing such document may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that the aggregate principal amount of the Certificates to be executed and delivered thereunder shall not exceed $65,000,000, and the final principal payment date of the Certificates shall be not later than 35 years from their date of delivery.

Section 4. The Secretary of the Corporation is hereby authorized and directed to attest the signatures of the Authorized Officers of the Corporation, as may be required or appropriate, in connection with the execution and delivery of the Installment Purchase Contract and the Trust Agreement.

Section 5. The officers of the Corporation are hereby authorized and directed, jointly and severally, to do any and all things (including the negotiating and obtaining of a municipal bond insurance policy or reserve fund surety bond with respect to the Certificates if the City Manager or Finance Director of the City receives evidence 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 Trust Agreement and the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 6. This Resolution shall take effect immediately upon its passage.

Dated: July 2, 2008
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I hereby certify that Resolution No. LPIC2008-____ was passed and adopted by the Board of Directors of the Lodi Public Improvement Corporation in a regular meeting held July 2, 2008, by the following vote:

AYES: DIRECTORS –

NOES: DIRECTORS –

ABSENT: DIRECTORS –

ABSTAIN: DIRECTORS –

RANDI JOHL
Secretary

RESOLUTION NO. 2008-____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI RELATING TO ELECTRIC SYSTEM REVENUE CERTIFICATES OF PARTICIPATION, 2008 SERIES A; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INSTALLMENT PURCHASE CONTRACT, A CERTIFICATE PURCHASE CONTRACT, A PRELIMINARY OFFICIAL STATEMENT AND A CONTINUING DISCLOSURE AGREEMENT; 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 January 1, 2002, between the City and the Corporation and the termination of the interest rate swap transaction (the "Transaction") with Citigroup Financial Products Inc. (CFPI") relating to such obligations through the execution and delivery of a Termination Agreement (the "Termination Agreement")

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 Certificates of Participation, 2008 Series A (the "Certificates") pursuant to a Trust Agreement (the "Trust Agreement"), proposed to be executed by the Corporation and The Bank of New York Trust Company, NA (the "Trustee"); and

WHEREAS, the City proposes to execute and deliver a Certificate Purchase Contract (the "Certificate Purchase Contract") with Stone & Youngberg LLC (the "Underwriter"), pursuant to which the Underwriter will purchase the Certificates for reoffering to the public; and

WHEREAS, the offer of the Certificates to the public is to be made pursuant to a Preliminary Official Statement (the "Preliminary Official Statement"); 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 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 Termination Agreement, in substantially 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 CFPI the Termination 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; provided, that the Termination Amount thereunder shall not exceed ten million dollars.

Section 4. The Certificate Purchase Contract, proposed to be executed and entered into by and between the City and the Underwriter, in the form presented at this meeting and on file with the City Clerk, and the performance 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 the Purchase Contract in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; 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 5. The Preliminary Official Statement, in the form presented at this meeting and on file with the City Clerk, and its use by the Underwriter in connection with the offering of the Certificates, 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 the Underwriter and 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 6. The preparation and delivery of a final Official Statement relating to the Certificates (the "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, 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.

The City Manager and the Director of the Electric Utility, acting singly, are hereby authorized to determine that the Preliminary Official Statement and the Official Statement is deemed final for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

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 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 9. 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 receive evidence 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 Termination Agreement, the Certificate Purchase Contract, the Preliminary Official Statement, the Official Statement and the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

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

Dated: July 2, 2008

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I hereby certify that Resolution No. 2008-____ was passed and adopted by the City Council of the City of Lodi in a regular meeting held July 2, 2008, by the following vote:

AYES: COUNCIL MEMBERS –

NOES: COUNCIL MEMBERS –

ABSENT: COUNCIL MEMBERS –

ABSTAIN: COUNCIL MEMBERS –

RANDI JOHL
City Clerk