

In the opinion of Brown & Wood LLP, San Francisco, California, Special Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended, as described herein, the portion of each 1997 Payment due under the Contract designated as and comprising interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates for federal income tax purposes. In the further opinion of Special Counsel, the portion of each 1997 Payment due under the Contract designated as and comprising interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of each 1997 Payment is, however, included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Special Counsel, the portion of each 1997 Payment due under the Contract designated as and comprising interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS
Moody's: Aaa
Standard & Poor's: AAA
 (See "RATINGS" herein)

\$11,880,000

**Electric System Revenue Certificates of Participation,
 Series 1997**

**Evidencing and Representing the Proportionate Interests of the Owners
 Thereof in 1997 Payments to be made by the City of Roseville**

Dated: November 1, 1997

Due: February 1, as shown below

The Electric System Revenue Certificates of Participation, Series 1997 (the "Certificates") evidence and represent the proportionate interests of the Owners thereof in certain installment payments (the "1997 Payments") to be made by the City of Roseville (the "City") under the terms of the Master Installment Purchase Contract between the City and the Roseville Finance Authority (the "Authority"), as supplemented by the 1997 Supplemental Installment Purchase Contract (collectively, the "Contract"). Pursuant to the Contract, the City will make the 1997 Payments to the Authority from Net Revenues of the City's Electric System.

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of November 1, 1997 (the "Trust Agreement"), between the Authority and First Trust of California, National Association, as trustee (the "Trustee"). The Certificates will be delivered in fully registered form and will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased, in denominations of \$5,000 or any integral multiple thereof, in book-entry form only as described herein. Upon receipt of payments of principal of, premium, if any, and interest evidenced by the Certificates, DTC is obligated in turn to remit such principal, premium, if any, and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES—Book-Entry System" herein. Interest evidenced by the Certificates is payable semiannually on February 1 and August 1 of each year, commencing February 1, 1998.

Payment of the principal and interest evidenced by the Certificates when due will be insured by a municipal bond insurance policy issued by Ambac Assurance Corporation simultaneously with the delivery of the Certificates.



The Certificates are subject to optional and mandatory prepayment prior to their respective maturity dates as described herein.

The proceeds of the sale of the Certificates will be used primarily (i) to finance the costs of a substation for the Electric System, (ii) to refinance the costs of certain additions, betterments and improvements which were previously refinanced with the proceeds of the Prior Certificates (as described herein), (iii) to fund a Parity Reserve Fund and (iv) to fund the costs of executing and delivering the Certificates.

The obligation of the City to make the 1997 Payments is a special obligation of the City payable solely from Net Revenues 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 1997 Payments. The City may incur other obligations payable from Net Revenues on a parity with the 1997 Payments in accordance with the Contract, as described herein.

**Maturity Schedule
 \$7,590,000 Serial Certificates**

<u>Maturity Date (February 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity Date (February 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
1998	\$1,485,000	3.6%	NRO	2003	\$270,000	4.3%	4.4%
1999	1,400,000	4.0	NRO	2004	285,000	4.4	4½
2000	1,450,000	4.0	4.05%	2005	295,000	4½	4.6
2001	1,510,000	4.1	4.15	2006	310,000	4%	4.7
2002	260,000	4.2	4¼	2007	325,000	4.7	4¾

\$1,070,000 5.00% Term Certificates due February 1, 2010 — Price 99.540%
\$3,220,000 5¼% Term Certificates due February 1, 2017 — Price 98.505%
(Plus accrued interest from November 1, 1997)

This cover page contains certain information for general reference only. It is *not* a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. The Certificates are offered when, as and if executed and delivered and accepted by the Underwriter, subject to the approval of validity of the Certificates by Brown & Wood LLP, San Francisco, California, Special Counsel. Certain legal matters will be passed upon for the Authority and the City by the City Attorney of the City of Roseville, and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California. The Certificates in definitive form are expected to be available for delivery through the DTC book-entry system in New York, New York on or about November 13, 1997.

PaineWebber Incorporated

Dated: October 31, 1997

No broker, dealer, salesman or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations other than as set forth herein and if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the City or the Underwriter. 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 Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth in this Official Statement has been obtained from official sources and other sources which are believed to be reliable, but it is not guaranteed as to the accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the 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 Authority or the City since the date hereof. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CITY OF ROSEVILLE

City Council

Claudia Gamar, Mayor
Harry Crabb, Mayor Pro Tempore
Randy Graham
Jim Gray
Pauline Roccucci

City Staff

Allen E. Johnson, City Manager
Phil E. Ezell, Finance Director
George Fraser, Electric Utility Director
Mark Doane, Esq., City Attorney
Carolyn Parkinson, City Clerk

ROSEVILLE FINANCE AUTHORITY

Authority Members

Claudia Gamar, Chair
Harry Crabb, Vice-Chair
Randy Graham
Jim Gray
Pauline Roccucci

Authority Officers

Allen E. Johnson, Executive Director
W. Craig Robinson, Assistant Director
Phil E. Ezell, Controller/Treasurer
Mark Doane, Esq., General Counsel
Carolyn Parkinson, Secretary

SPECIAL SERVICES

Special Counsel

Brown & Wood LLP
San Francisco, California

Financial Advisor

Public Financial Management, Inc.
San Francisco, California

Trustee

First Trust of California, National Association
San Francisco, California

LOCATION MAP

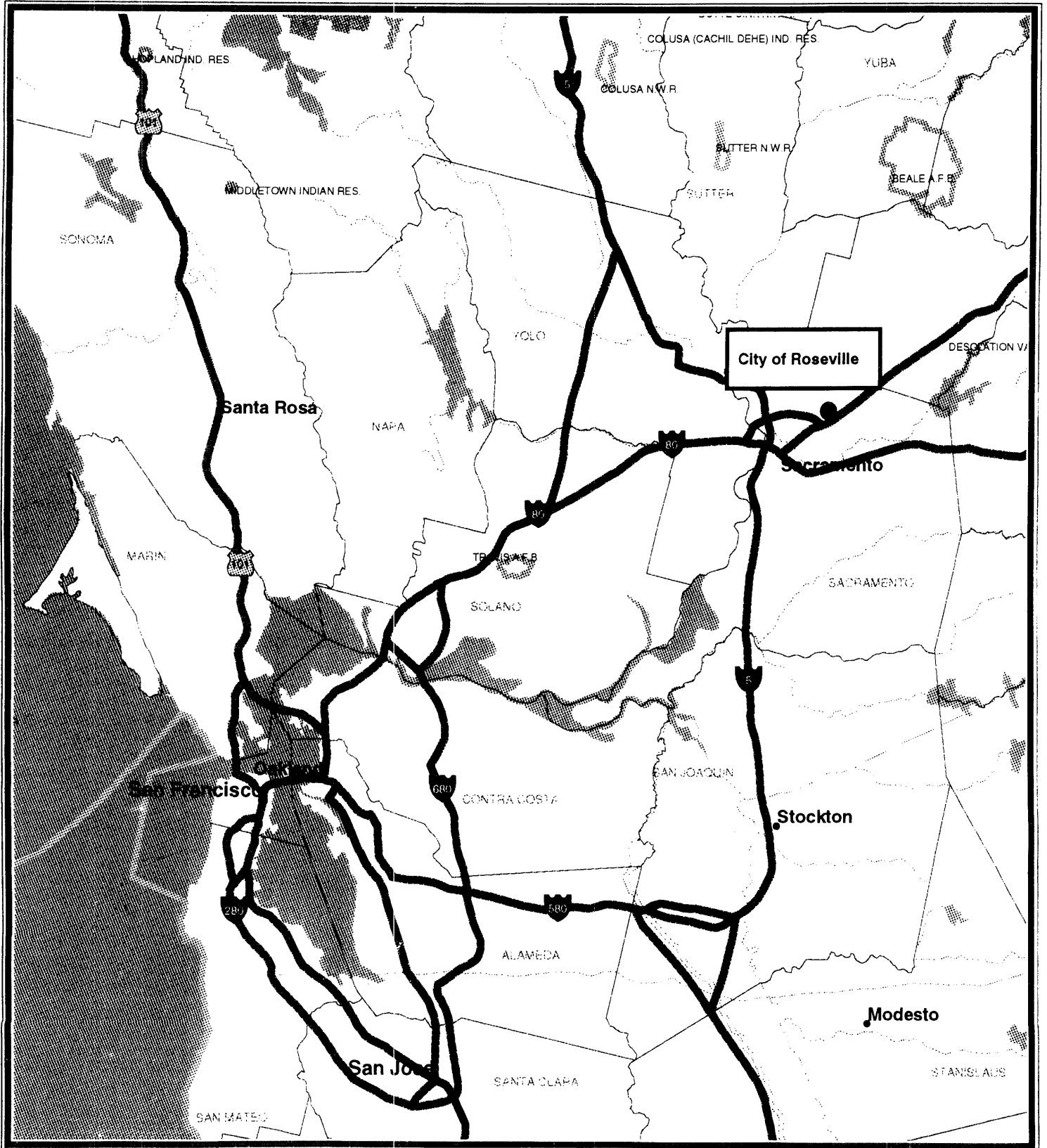


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OFFICIAL STATEMENT
\$11,880,000
ELECTRIC SYSTEM REVENUE CERTIFICATES OF PARTICIPATION,
SERIES 1997
Evidencing and Representing the Proportionate Interests of the Owners Thereof
in 1997 Payments to be made by the City of Roseville

INTRODUCTION

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), provides certain information concerning the City of Roseville and the sale and delivery of the Electric System Revenue Certificates of Participation, Series 1997 (the "Certificates"), in the aggregate principal amount of \$11,880,000. This introduction is not a summary of the Official Statement. It is only a brief description of, and is qualified by more complete and detailed information contained in, the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Certificates to potential investors is made only by means of the entire Official Statement.

The Certificates

The Certificates evidence and represent the proportionate interests of the owners thereof in certain installment payments (the "1997 Payments") to be made by the City of Roseville (the "City") to the Roseville Finance Authority (the "Authority"), pursuant to the Master Installment Purchase Contract, dated as of November 1, 1997 (the "Master Contract"), by and between the City and the Authority, as supplemented by the 1997 Supplemental Installment Purchase Contract, dated as of November 1, 1997, by and between the City and the Authority (the "1997 Supplemental Contract" and, together with the Master Contract, the "Contract"). The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of November 1, 1997 (the "Trust Agreement"), between the Authority and First Trust of California, National Association, as trustee (the "Trustee").

Use of Proceeds

The proceeds of the sale of the Certificates will be used (i) to finance a portion of, and refinance a portion of, the costs of the 1997 Project which consists of (a) the acquisition, construction and installation of a substation and related facilities for the Electric System (as hereinafter defined) of the City and (b) the acquisition and construction of certain additions, betterments, extensions and improvements that were previously refinanced with the proceeds of the Prior Certificates (as hereinafter defined), (ii) to fund a parity reserve fund (the "Parity Reserve Fund") for the Certificates and payments under other contracts supplementary to the Master Contract, and (iii) to pay certain expenses relating to the execution and delivery of the Certificates. See "THE 1997 PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS."

Terms of Certificates

The Certificates will be issued in denominations of \$5,000 or any integral multiple thereof, in book-entry form only. The interest components evidenced by the Certificates will be due and payable semiannually on February 1 and August 1 of each year, commencing February 1, 1998. The Certificates will be subject to optional and mandatory prepayment as set forth in this Official Statement.

Special Obligation

The obligation of the City to make the 1997 Payments is a special obligation of the City payable solely from Net Revenues 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 1997 Payments.

Pledge of Net Revenues

Pursuant to the Contract, all Net Revenues (as defined in the Contract) of the Electric System are pledged to the payment of Parity Obligations (as defined in the Contract), including the 1997 Payments. The City may incur Parity Obligations payable from Net Revenues on a parity with the 1997 Payments on the terms and conditions set forth in the Master Contract.

Rate Covenant

To provide additional security for the Certificates and any Parity Obligations, the City covenants in the Master Contract that it will at all times fix, prescribe and collect minimum rates and charges for the services, facilities and electricity of the Electric System in the amounts determined pursuant to the Master Contract. See "SECURITY FOR THE CERTIFICATES – Rate Covenant." The City's ability to comply with the foregoing rate covenant may be limited by deregulation and open access in the electric industry in California. See "CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA."

Bond Insurance

Payment of the principal and the interest evidenced by the Certificates when due will be insured by a municipal bond insurance policy to be issued by AMBAC Assurance Corporation (the "Insurer") simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" herein.

Parity Reserve Fund

A Parity Reserve Fund is established with the Trustee pursuant to the Trust Agreement in an amount equal to the Reserve Fund Requirement (as defined in the Contract). Moneys in the Parity Reserve Fund will be transferred by the Trustee to the Debt Service Fund to pay principal and interest evidenced and represented by the Certificates and other payments under Supplemental Contracts to the Master Contract in the event amounts on deposit are insufficient for such purposes. See "SECURITY FOR THE CERTIFICATES — PARITY RESERVE FUND."

The Electric System

The City owns, operates and maintains the Electric System. The Electric System is the sole retail provider of electricity to almost all of the residential, commercial and industrial consumers located within the incorporated area of the City. The City is preparing to adjust the operations of the Electric System to the deregulated and open access environment for the electric industry in California. See "THE ELECTRIC SYSTEM," "CITY'S RESPONSE TO COMPETITION" and "CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA."

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE" and "APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Summaries and References to Documents

The summaries 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. See "APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for definitions of certain capitalized terms used herein. Capitalized terms not defined elsewhere in this Official Statement shall have the meanings assigned to such terms in the Trust Agreement or, if not defined in the Trust Agreement, in the Contract.

THE CERTIFICATES

General

The Certificates evidence and represent the proportionate interests of the Owners thereof in 1997 Payments to be made by the City of Roseville pursuant to the Contract. The Certificates initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased, in denominations of \$5,000 or any integral multiple thereof, in book-entry form only. See "Book-Entry System."

The Certificates will be dated, will mature on the dates (each a "Certificate Payment Date"), will evidence the principal components, and will evidence interest payable at the rates, all as set forth on the cover page of this Official Statement. The interest evidenced by the Certificates will be computed on the basis of a 360-day year of twelve 30-day months and will be payable semiannually on February 1 and August 1 of each year, commencing February 1, 1998 (each such date an "Interest Payment Date").

Prepayment

Optional Prepayment. The Certificates with a Certificate Payment Date on or after February 1, 2009 are subject to optional prepayment prior to their respective stated Certificate Payment Dates, upon notice as provided in the Trust Agreement, from prepayments of 1997 Payments made by the City pursuant to the Contract, as a whole or in part (from such Certificate Payment Dates as are designated by the Authority to the Trustee at the direction of the City or, if the Authority fails to designate such Certificate Payment Dates, in inverse order of Certificate Payment Date and by lot within a Certificate Payment Date) on any date on or after February 1, 2008, at the following prepayment prices (expressed as percentages of the principal amount evidenced by the Certificates called for prepayment), plus accrued and unpaid interest evidenced thereby to the prepayment date:

Prepayment Period (<u>dates inclusive</u>)	Prepayment Price
February 1, 2008 through January 31, 2009	101%
February 1, 2009 through January 31, 2010	100½
February 1, 2010 and thereafter	100

Mandatory Sinking Fund Prepayment. The Certificates with a Certificate Payment Date of February 1, 2010, are subject to mandatory prepayment prior to such Certificate Payment Date, in part by lot, on February 1 of each year on and after February 1, 2008, upon notice as provided in the Trust Agreement, from and in the amount of the principal installment of 1997 Payments due and payable on such dates, at a prepayment price equal to the sum of the principal amount evidenced thereby plus accrued and unpaid interest evidenced thereby to the prepayment date, without a prepayment premium, in the principal amounts and in the years as set forth in the following table:

Term Certificates Maturing February 1, 2010	
<u>(February 1)</u>	<u>Principal Amount</u>
2008	\$340,000
2009	355,000
2010*	375,000

* Certificate Payment Date

The Certificates with a Certificate Payment Date of February 1, 2017, are subject to mandatory prepayment prior to such Certificate Payment Date, in part by lot, on February 1 of each year on and after February 1, 2011, upon notice as provided in the Trust Agreement, from and in the amount of the principal installment of 1997 Payments due and payable on such dates, at a prepayment price equal to the sum of the principal amount evidenced thereby plus accrued and

unpaid interest evidenced thereby to the prepayment date, without a prepayment premium, in the principal amounts and in the years as set forth in the following table:

Term Certificates Maturing February 1, 2017	
<u>(February 1)</u>	<u>Principal Amount</u>
2011	\$390,000
2012	415,000
2013	435,000
2014	460,000
2015	480,000
2016	505,000
2017*	535,000

* Certificate Payment Date

Notice of Prepayment. Notice of prepayment of the Certificates will be mailed by the Trustee, not less than 30 nor more than 60 days prior to the prepayment date to (i) the respective Owners of the Certificates designated for prepayment at their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories (as designated in the Trust Agreement) and (iii) one or more Information Services. Each notice of prepayment will 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 Certificate Payment Date are to be prepaid, the distinctive certificate numbers of the Certificates of such Certificate Payment Date to be prepaid and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount evidenced and represented thereby to be prepaid. Each such notice will also state that on said date there will become due and payable on each of said Certificates the prepayment price thereof and in the case of a Certificate to be prepaid in part only, the specified portion of the principal amount evidenced and represented thereby to be prepaid, together with accrued and unpaid interest evidenced and represented thereby to the prepayment date, and that from and after such prepayment date interest evidenced and represented thereby will cease to accrue, and will require that such Certificates be then surrendered at the address of the Trustee specified in the prepayment notice. Failure to receive such notice will not invalidate any of the proceedings taken in connection with such prepayment.

In the event of prepayment of Certificates (other than sinking fund prepayment), the Trustee will mail a notice of prepayment upon receipt of a Written Request of the Authority but only after the Authority files a Certificate of the Authority with the Trustee that on or before the date set for prepayment, the Authority will deposit with or otherwise make available to the Trustee for deposit in the Prepayment Account the money required for payment of the prepayment price, including accrued interest evidenced thereby, 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.

Unless the book-entry only system shall have been discontinued, the Authority, the City and the Trustee will only recognize DTC or its nominee as an Owner. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to Beneficial Owners (as such terms are hereinafter defined) will be governed by arrangements between them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Selection of Certificates for Prepayment. If less than all Outstanding Certificates of any particular Certificate Payment Date are to be prepaid at any one time, the Trustee will select the portions of the Certificates of such Certificate Payment Date to be prepaid by lot in a manner which the Trustee deems to be fair. For purposes of such selection, Certificates shall be deemed to be composed of \$5,000 multiples and any such multiple may be separately prepaid.

Effect of Prepayment. If notice of prepayment has been duly given as described above and money for the payment of the prepayment price of the Certificates called for prepayment is held by the Trustee, then on the prepayment date designated in such notice Certificates so called for prepayment will become due and payable, and from and after the date so designated interest evidenced by such Certificates will cease to accrue, and the Owners of such Certificates will have no rights in respect thereof except to receive payment of the prepayment price thereof.

Parity Obligations

Under the terms set forth in the Master Contract, the City may, under certain conditions, incur obligations payable from Net Revenues on a parity with the 1997 Payments. See “SECURITY FOR THE CERTIFICATES — Parity Obligations.”

Book-Entry System

The Certificates will be initially delivered in the form of a single executed fully registered securities certificate for each stated Certificate Payment Date, registered in the name of Cede & Co., as nominee of DTC, as registered owner of all the Certificates. The Certificates will be retained and immobilized in the custody of DTC.

DTC is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the “Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants (“Direct Participants”) include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a

Direct Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

PREPAYMENT NOTICES WILL BE SENT BY THE TRUSTEE TO CEDE & CO. IF LESS THAN ALL OF THE CERTIFICATES ARE BEING PREPAID, DTC'S PRACTICE IS TO DETERMINE BY LOT THE AMOUNT OF THE INTEREST OF EACH DIRECT PARTICIPANT IN SUCH ISSUE TO BE PREPAID. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE PREPAYMENT OF THE CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

THE AUTHORITY, THE CITY, THE TRUSTEE AND THE UNDERWRITER HAVE NO RESPONSIBILITY OR LIABILITY FOR ANY ASPECT OF THE RECORDS RELATING TO OR PAYMENTS MADE ON ACCOUNT OF BENEFICIAL OWNERSHIP, OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO BENEFICIAL OWNERSHIP, OF INTERESTS IN THE CERTIFICATES.

Neither DTC nor Cede & Co. will consent or vote with respect to the Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of the principal and the interest evidenced by the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest evidenced by the Certificates to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

THE AUTHORITY, THE CITY, THE TRUSTEE AND THE UNDERWRITER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE PAYMENTS TO DTC PARTICIPANTS OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS WITH RESPECT TO THE CERTIFICATES RECEIVED BY DTC OR ITS NOMINEES AS THE REGISTERED OWNER, ANY PREPAYMENT NOTICES OR OTHER NOTICES TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVICE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

In the event the Authority and the Trustee determine not to continue the DTC book-entry only system or DTC determines to discontinue its services with respect to the Certificates and the Authority does not select another qualified securities depository, the Authority and the Trustee will deliver one or more Certificates in such principal amount or amounts, in denominations of \$5,000 or any integral multiple thereof, and registered in whatever name or names, as DTC shall designate. In such event, transfers and exchanges of Certificates will be governed by the provisions of the Trust Agreement.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority, the City and the Underwriter believe to be reliable, but they take no responsibility for the accuracy thereof.

SECURITY FOR THE CERTIFICATES

1997 Payments

The Certificates evidence and represent the proportionate interests of the Owners in the 1997 Payments to be made by the City to the Authority pursuant to the Contract. The City's 1997 Payments under the Contract represent the purchase price of the 1997 Project, which the Authority is selling to the City. The Contract provides that the City's obligations to pay the 1997 Payments is, subject to the provisions of the Contract relating to defeasance, absolute and unconditional, and until such time as the 1997 Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Contract), the City will not discontinue or suspend any 1997 Payments required to be paid by it under the Contract when due, whether or not the Electric System or any part thereof (including the 1997 Project) is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such 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 Contract, however, the City is not required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the 1997 Payments or for the performance of any agreements or covenants required to be performed by it contained in the Contract.

As discussed under the headings "THE ELECTRIC SYSTEM — Power Supply" and "— Transmission" and "ELECTRIC SYSTEM FINANCIAL INFORMATION," the City participates in certain joint powers agencies. Obligations of the City under its financing agreements with these joint powers agencies constitute operating expenses of the City payable prior to the 1997 Payments.

Pursuant to the Trust Agreement, the Authority transfers, assigns and sets over to the Trustee, subject to the provisions of the Trust Agreement, all of the 1997 Payments and any and all rights and privileges it has under the Contract, including without limitation, the right to collect and receive directly all of the 1997 Payments and the right to enforce the provisions of the Contract. The Trust Agreement provides that the 1997 Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall 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 1997 Payments and as beneficiary of any other rights to security for the Certificates which the Trustee may receive in the future.

The Trust Agreement provides that all of the 1997 Payments received by the Trustee shall be immediately deposited in the Debt Service Fund. All of the 1997 Payments shall be held in trust by the Trustee for the benefit of the Owners of the Certificates but shall be disbursed, allocated and applied solely for the uses and purposes provided in the Trust Agreement.

Pledge of Net Revenues

Pursuant to the Contract, all Net Revenues of the Electric System are irrevocably pledged to the payment of the Payments, including 1997 Payments, and all other payments under the Contract or under any Parity Obligations, and the Net Revenues of the Electric System may not be used for any other purpose while any of the Payments remain unpaid; provided, however, that out of Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Contract. The Contract provides that such pledge constitutes a first pledge of and charge and lien upon the Net Revenues of the Electric System for the payment of the amounts due with respect to the Contract and all other Parity Obligations in accordance with the terms of the Contract.

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

“Net Revenues” is defined under the Contract to mean, for any Fiscal Year or any designated twelve-month period in question, the Revenues during such Fiscal Year or twelve-month period, less the Maintenance and Operation Costs during such Fiscal Year or twelve-month period.

“Revenues” is defined under the Contract to mean all gross income and revenue received or receivable by the City from the ownership or operation of the Electric System, determined in accordance with Generally Accepted Accounting Principles, including all rates and charges received by the City for the Electric Service and the other services and facilities of the Electric System and 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 arising from the Electric System, and including all Payment Agreement Receipts, and including 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 charges collected by any person to amortize or otherwise relating to the payment of the uneconomic portion of costs associated with assets and obligations (“stranded costs”) of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than Contracts, the payments of which obligations will be applied or pledged to, or otherwise set aside for, the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City.

“Maintenance and Operation Costs” is defined under the Contract to mean the costs paid or incurred by the City for maintaining and operating the Electric System, determined in accordance with Generally Accepted Accounting Principles, including 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, all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Electric System in good repair and working order, 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, and all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Contract or any resolution authorizing the execution of any Parity Obligations or of such Contract or Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, remarketing agent or surety costs for any such Parity Obligations, letter of credit fees for any such Parity Obligations, fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles. Anything contained in the Contract to the contrary notwithstanding, “Maintenance and Operation Costs” shall include all amounts required to be paid by the City under contracts with a joint powers agency for the purchase of capacity, energy, transmission capability or any other commodity or service in connection with the foregoing, which contract requires payments by the City to be made thereunder to be treated as Maintenance and Operation Costs.

Rate Covenant

Pursuant to the Contract, the City covenants that it will at all times fix, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield Adjusted Annual Net Revenues for such Fiscal Year equal to at least 110% of the Adjusted Annual Debt Service for such Fiscal Year (the “Rate Covenant”). 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 from such reduced rates and charges will at all times be sufficient to meet the requirements described in the preceding sentence.

“Adjusted Annual Net Revenues” is defined under the Contract to mean, for any Fiscal Year or 12-month period in question, the Adjusted Annual Revenues during such Fiscal Year or 12-month period less the Maintenance and Operation Costs during such Fiscal Year or 12-month period.

“Adjusted Annual Revenues” is defined under the Contract to mean, for any Fiscal Year or 12-month period in question, the Revenues during such Fiscal Year or 12-month period, plus, for purposes of the Rate Covenant only, the amounts on deposit in the Rate Stabilization Fund (or any other unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Maintenance and Operation Costs and/or Annual Debt Service for such Fiscal Year or 12-month period), as of the first day of such Fiscal Year or 12-month period, minus, for the purposes of the Rate Covenant only, earnings from the investments

in the Parity Reserve Fund that are deposited in the Electric Revenue Fund in such Fiscal Year or 12-month period.

“Adjusted Annual Debt Service” is defined under the Contract to mean, for any Fiscal Year or 12-month period in question, the Annual Debt Service for such Fiscal Year or 12-month period minus the sum of (i) for purposes of the Rate Covenant only, the earnings from the investments in the Parity Reserve Fund that have been deposited in the Electric Revenue Fund in such Fiscal Year or 12-month period, and (ii) the amount of the Annual Debt Service paid from the proceeds of Parity Obligations or interest earned thereon (other than from the Parity Reserve Fund), all as set forth in a Certificate of the City.

“Annual Debt Service” is generally defined under the Contract to mean, for any Fiscal Year or 12-month period in question, the required payments scheduled to be made with respect to all Outstanding Parity Obligations in such Fiscal Year or 12-month period; provided, that for purposes of determining compliance with the Rate Covenant, the Reserve Fund Requirement and conditions for the execution of Parity Obligations, certain additional provisions are applicable as described in APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — DEFINITIONS — Annual Debt Service.”

The City’s ability to comply with the foregoing rate covenant may be limited by deregulation and open access in the electric industry in California. See “CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA.”

Parity Reserve Fund

Pursuant to the Trust Agreement, the Trustee will establish and maintain the Parity Reserve Fund so long as any Parity Obligations remain Outstanding. A portion of the proceeds of the Certificates will be deposited in the Parity Reserve Fund in an amount equal to the Reserve Fund Requirement.

“Reserve Fund Requirement” is defined under the Contract to mean, as of any date of determination and excluding any Parity Obligations which are not Supplemental Contracts and the debt service thereon, the least of (a) 10% of the initial offering price to the public of the Parity Obligations as determined under the Internal Revenue Code of 1986 (the “Code”), or (b) the Maximum Annual Debt Service, or (c) 125% of the Average Annual Debt Service, all as computed and determined by the City and specified in writing to the Trustee; provided, that such requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit equal to “Aa” or higher assigned by Moody’s (if Moody’s is then rating any of the Parity Obligations) and “AA” or higher assigned by S&P (if S&P is then rating any of the Parity Obligations) and that maintain at all times ratings at least equal to the lowest ratings (without giving effect to municipal bond insurance or other credit enhancement) on any of the Parity Obligations provided by Moody’s (if Moody’s is then rating any of the Parity Obligations) and by S&P (if S&P is then rating any of the Parity Obligations). If at any time obligations

insured by any such municipal bond insurer issuing a policy of municipal bond insurance or surety bond or a bank or other institution issuing a letter of credit as permitted by this definition shall no longer maintain ratings as required in accordance with the immediately preceding sentence, the City shall provide or cause to be provided cash or a substitute municipal bond insurance policy or surety bond or a letter of credit meeting such requirements.

Amounts in the Parity Reserve Fund shall be transferred to the Debt Service Fund to pay principal and interest evidenced and represented by the Certificates on any Interest Payment Date in the event amounts on deposit therein are insufficient for such purposes. The Trustee shall also transfer amounts in the Parity Reserve Fund to any applicable debt service fund established under a trust agreement under which any obligations are issued in connection with a Supplemental Contract, without preference or priority between transfers made as described in this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference.

Flow of Funds

The City agrees and covenants in the Contract that all Revenues it receives will be deposited when and as received in the Electric Revenue Fund, which the City is required to establish and maintain separate and apart from other moneys of the City so long as any Parity Obligations remain unpaid and all money on deposit in the Electric Revenue Fund shall be applied and used only as provided in the Contract. The City is to pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Electric Revenue Fund as they become due and payable. The Contract requires the City to deposit and set aside all remaining money in the Electric Revenue Fund at the following times in the following order of priority:

- (1) *Parity Obligation Payment Fund Deposits.* On or before the third Business Day before each date on which interest or principal becomes due and payable under any Parity Obligation or any net payment becomes due and payable under any Parity Payment Agreement, the City will, from the money in the Electric Revenue Fund, deposit in the Parity Obligation Payment Fund which fund the City agrees and covenants to establish and maintain separate and apart from other moneys of the City so long as any Parity Obligations remain unpaid, a sum equal to the amount of interest and principal becoming due and payable under all Parity Obligations on such due date, plus the net payments due on all Parity Payment Agreements on such due date, except that no such deposit need be made if there is money in the Parity Obligation Payment Fund available therefor at least equal to the amount of interest and principal becoming due and payable under all Parity Obligations on such date on which interest or principal becomes due and payable under any Parity Obligations plus the net payments due on all Parity Payment Agreements on the next succeeding due date. Moneys on deposit in the Parity Obligation Payment Fund will be transferred by the City to the Trustee to make and satisfy the payments due on the next

applicable date on which interest or principal becomes due and payable under any Parity Obligation at least one Business Day prior to such next applicable due date.

- (2) *Parity Reserve Fund Deposits.* On or before the third Business Day before each Payment Date, the City will, from the remaining money on deposit in the Electric Revenue Fund after deposits and transfers pursuant to paragraph (1) above, transfer to the Trustee for deposit in the Parity Reserve Fund that sum, if any, necessary to restore the Parity Reserve Fund to an amount equal to the Reserve Fund Requirement. The City will also, from such remaining moneys in the Electric Revenue Fund, transfer or cause to be transferred to the reserve fund or account for any Parity Obligations which are not Supplemental Contracts, without preference or priority between transfers made in accordance with this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to such Parity Obligations.

After making the foregoing deposits and transfers in each Fiscal Year, the City may apply any remaining money in the Electric Revenue Fund for any lawful purpose of the City, including for the payment of any Subordinate Obligations in accordance with the instruments authorizing such Subordinate Obligations; provided, however, that no moneys in the Electric Revenue Fund shall be applied to the payment of any Subordinate Obligations in any Fiscal Year unless amounts on deposit in the Electric Revenue Fund shall be sufficient to make the transfers hereinabove required to be made in such Fiscal Year.

Rate Stabilization Fund

Pursuant to the Contract, the City is also required to establish and maintain the Rate Stabilization Fund so long as any Parity Obligations remain unpaid. The City may at any time deposit in the Rate Stabilization Fund any Net Revenues after providing for the payment of Parity Obligations and any other money available for such deposit. The City may at any time withdraw any or all of the money from the Rate Stabilization Fund for any legal purpose. All interest or other earnings upon deposits in the Rate Stabilization Fund will be accounted for as Revenues. Notwithstanding the foregoing, no Revenues will be deposited in the Rate Stabilization Fund to the extent that such amount was included by the City in Adjusted Annual Revenues for purposes of determining compliance with the conditions for the execution of Parity Obligations contained in the Contract or for the Rate Covenant and deduction of the amounts to be deposited in the Rate Stabilization Fund would have caused noncompliance with such conditions.

The City's ability to set rates, fees and charges for electricity at levels which would permit the City to make deposits into the Rate Stabilization Fund may be limited by deregulation and open access in the electric industry in California. See "CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA."

Parity Obligations

The City may at any time execute a Supplemental Contract or other obligation (collectively, "Parity Obligations"), the payments of which are payable from the Net Revenues on a parity with the 1997 Payments, but only subject to the specific conditions set forth in the Contract, which are conditions precedent to the execution of any such Parity Obligations, including the condition that there be on file with the Trustee either:

- (1) A Certificate of the City demonstrating that during any 12 consecutive calendar months out of the immediately preceding 18-calendar month period, the Adjusted Annual Net Revenues were at least equal to 110% of the Maximum Annual Debt Service for all existing Parity Obligations plus the Parity Obligations proposed to be executed; or
- (2) An Engineer's Report showing that projected Adjusted Annual Net Revenues during the succeeding 5 complete Fiscal Years beginning with the first Fiscal Year following issuance of such Parity Obligations in which interest is not capitalized in whole or in part from the proceeds of Parity Obligations, is at least equal to 110% of the Maximum Annual Debt Service for all existing Parity Obligations plus the Parity Obligations proposed to be executed.

Notwithstanding the foregoing, the Contract specifies that there shall be no limitations on the ability of the City to execute any Parity Obligation at any time to refund any outstanding Parity Obligations. See APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — MASTER INSTALLMENT PURCHASE CONTRACT — Execution of Parity Obligations and Other Obligations."

CERTIFICATE INSURANCE

Ambac Assurance Corporation has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Certificates effective as of the date of delivery of the Certificates. Under the terms of the Municipal Bond Insurance Policy, the Insurer will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal and interest evidenced by the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). See APPENDIX F - FORM OF CERTIFICATE INSURANCE POLICY. The Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by the Insurer.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory prepayment and

insufficient funds are available for prepayment of all outstanding Certificates, the Insurer will remain obligated to pay principal and interest represented by outstanding Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund prepayment dates. In the event of any acceleration of the principal evidenced by the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal or interest evidenced by a Certificate which has become Due for Payment and which is made to an Owner by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its registered Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Municipal Bond Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for prepayment (other than mandatory sinking fund prepayment) or as a result of any other advancement of maturity.
2. payment of any prepayment or acceleration premium.
3. nonpayment of principal or interest evidenced by the Certificates caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of the Insurer to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of an Owner's entitlement to interest payments and an appropriate assignment of the Owner's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Certificate or of the right to payment of principal or interest evidenced by such Certificate and will be fully subrogated to the surrendering Owner's rights to payment.

In the event that the Insurer were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

AMBAC ASSURANCE CORPORATION

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.

Reference is made to APPENDIX F for a specimen of the Insurer's Municipal Bond Insurance Policy.

General

Ambac Assurance Corporation is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$2,736,000,000 (unaudited) and statutory capital of \$1,548,000,000 (unaudited) as of June 30, 1997. Statutory capital consists of the Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch Investors Service, L.P. have each assigned a triple-A claims-paying ability rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contained in its Municipal Bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the City.

The Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by the Insurer and presented under the headings "CERTIFICATE INSURANCE" AND "AMBAC ASSURANCE CORPORATION."

Available Information

The parent company of Ambac Assurance Corporation, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of the Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Insurer. The address of Ambac Assurance Corporation's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation Of Certain Documents By Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and filed on March 31, 1997;
- 2) The Company's Current Report on Form 8-K dated March 12, 1997 and filed on March 12, 1997;
- 3) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 1997 and filed on May 15, 1997; and
- 4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1997 and filed on August 14, 1997.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

1997 PROJECT

The Authority will apply the proceeds of the Certificates to finance a portion of, and refinance a portion of, the costs of the 1997 Project. The 1997 Project consists of: (a) financing the costs of the acquisition, construction and installation of the Fiddymont Substation and related facilities for the Electric System; and (b) refinancing the costs of acquisition and construction of certain additions, betterments, extensions and components that were refinanced with the proceeds of the Prior Certificates through the refunding of the Prior Certificates.

Fiddymont Substation. The Fiddymont Substation is located adjacent to existing high voltage transmission lines and receives power from the Western Area Power Administration ("Western") at 230kv. Voltage is reduced from 230kv to distribution levels by one transformer located at the substation and related equipment located at the substation and elsewhere in the City. In addition to the substation, this project includes breakers, related protective equipment and four 60kv subtransmission lines.

Refunding of Prior Certificates. A portion of the proceeds of the Certificates will be deposited in an escrow fund (the "Escrow Fund") held by First Trust, National Association, as trustee (the "Prior Trustee") for the \$5,455,000 principal amount of outstanding Refunding Certificates of Participation (the "Prior Certificates"), evidencing and representing the

proportionate interests of the owners thereof in installment payments to be made by the City under an Installment Purchase Contract, dated as of February 1, 1987, between the City and Roseville 1985 Capital Services, Inc. (the "1987 Installment Purchase Contract"). The City's obligations to make payments under the 1987 Installment Purchase Contract is secured by a pledge of Net Revenues of the Electric System. Such deposited proceeds will be applied, together with other available funds held in the Escrow Fund by the Prior Trustee, to the purchase of direct obligations of the United States of America (the "Refunding Securities"), the principal of and interest on which, when due, will provide sufficient moneys, together with other moneys held by the Prior Trustee in the Escrow Fund, to pay at maturity the Prior Certificates maturing on February 1, 1998 and to prepay on February 1, 1998, all of the Prior Certificates maturing after February 1, 1998 at a prepayment price of 101½% of the principal amount thereof, plus, in each case, the interest accrued to February 1, 1998. Upon such purchase of such direct obligations of the United States of America for the account of the Escrow Fund, the Prior Certificates shall be deemed paid for purposes of the 1987 Installment Purchase Contract and the lien and charge on the Net Revenues securing the Prior Certificates shall be released and discharged.

Deloitte & Touche LLP, a firm of independent certified public accountants, will verify that the Refunding Securities, together with the earnings thereon and other moneys held in the Escrow Fund, will be sufficient to pay or prepay, as applicable, all of the principal, prepayment premium and accrued interest with respect to the Prior Certificates on February 1, 1998.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds, excluding accrued interest, in connection with the Certificates.

Sources of Funds ⁽¹⁾	
Principal Amount of Certificates	\$11,880,000
Available Funds Held by Prior Trustee	1,363,441
less: Original Issue Discount	<u>(64,953)</u>
Total Sources of Funds	<u>\$13,178,488</u>
Uses of Funds	
Deposit to Improvement Fund	\$6,200,000
Deposit to Escrow Fund ⁽²⁾	5,627,033
Deposit to Parity Reserve Fund ⁽³⁾	1,055,202
Costs of Issuance Fund ⁽⁴⁾	<u>296,253</u>
Total Uses of Funds	<u>\$13,178,488</u>

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- ⁽¹⁾ Excludes accrued interest which will be deposited in the Debt Service Fund.
 - ⁽²⁾ To refund Prior Certificates.
 - ⁽³⁾ Equal to the Reserve Fund Requirement.
 - ⁽⁴⁾ Includes municipal bond insurance premium, legal, financial advisory, rating agency, printing and other costs of issuance, and underwriter's discount.

THE ELECTRIC SYSTEM

History

The City has owned and operated its electric distribution system since 1912. In 1956, the City signed a contract with the Federal Bureau of Reclamation for electricity from federal hydroelectric projects. Steady growth has created a need to obtain resources beyond Roseville's 69 MW allocation of federal contract power. To help meet this need, the City joined the Northern California Power Agency (the "NCPA") in 1968. The City participates in several resources developed by NCPA such as the geothermal, combustion turbine and the hydroelectric projects. The City also became a member of the Transmission Agency of Northern California ("TANC") in 1984 and participates in the California-Oregon Transmission Project ("COTP"). In addition, NCPA has developed electric dispatch and transmission capabilities that contribute to the City's electric utility services.

Service Area

The Electric System serves an area of approximately 31 square miles, coterminous with the City's borders, and has over 119 miles of overhead lines and over 287 miles of underground lines. During the fiscal year 1996-97, it served 30,679 customers, comprised of approximately

26,900 residential customers and approximately 3,700 commercial and industrial customers, with a peak demand of approximately 182.6 MW.

Organization and Management

The City's Electric System is under the supervision of the City Council. The five-member Roseville Public Utilities Commission serves as an advisory board to the City Council on matters relating to all utilities owned and operated by the City. The City Council appoints all five members of the Commission. The Electric Utility Director manages the Electric System and reports to the Commission and the City Manager.

The Electric System's senior management consists of the following executives:

GEORGE FRASER, Electric Utility Director. Mr. Fraser is a registered Electrical Engineer in California and Nevada and has over 30 years of experience as a utility engineer and manager. Before his appointment in March of 1995 as Roseville's Electric Utility Director, Mr. Fraser served for eight years as a consultant and vice-president for Resource Management International and RMI Utility Services. Prior to that Mr. Fraser worked at the Sacramento Municipal Utility District, his last position being Director of Resource Planning.

DAVID DOCKHAM, Assistant Electric Utility Director, Distribution. Mr. Dockham received his BSEE from California State University, Sacramento in 1982. He is a registered electrical engineer in California and has 15 years experience as a utility engineer and manager. Mr. Dockham joined Roseville Electric in 1986. Prior to that he held a student position with Pacific Gas and Electric Company and staff engineering and supervisory positions with San Diego Gas & Electric Company.

PAUL J. ROEMMELT, Assistant Electric Utility Director, Resources. Mr. Roemmelt received a B.S. in Mechanical Engineering from the University of Arizona in 1961. He is a member of Theta Tau engineering society. He has 36 years of professional experience in the electric utility industry and is a registered professional engineer. Mr. Roemmelt joined Roseville Electric in 1990. From 1960 to 1990, Mr. Roemmelt held staff and management positions at San Diego Gas & Electric Company.

MICHAEL BROZO, Electric Resources Manager. Mr. Brozo received a Bachelors degree from the University of California at Davis in Environmental Studies / Public Administration. He is also completing work on an M. B. A. Mr. Brozo has been employed by Roseville Electric since 1981. During the last nine years he has managed the resources division, responsible for power supply acquisition, contracts, rates, forecasting, energy management, and customer information. Prior to employment with Roseville Electric, Mr. Brozo worked for the Sacramento Area Council of Governments and the State of California Office of Planning and Research. Mr. Brozo is an active member of the Association of Energy Engineers, ASHRAE, and other professional and community associations.

Rates

The City has, by City Charter and State law, the exclusive jurisdiction to set electric rates within its service area by ordinance, which requires a majority vote of the City Council. These rates are not subject to review by any state or federal agency.

The City Council is also authorized by the City Charter to set charges, pay for and supply all electric energy and power to be furnished to customers according to such schedules, tariffs, rules and regulations as are adopted by the City Council. The City Charter provides that the City Council shall have the power to charge equitable rates for the electric services furnished and for building up the electric properties so as to conserve their value and increase their capacity as needed by the City. In addition, the City Charter provides for the maintenance of the Electric Fund for the Electric System into which is deposited receipts from the operations of the Electric System and from which are payable the costs and expenses of the Electric System.

The City's 1996 average rate per kWh for residential service was 8.03 cents. The City's 1996 average rate for commercial and industrial service was 7.03 cents per kWh. Rates set by the City are substantially less than comparative rates charged by Pacific Gas and Electric Company ("PG&E") in areas adjacent to the City. Below are two charts comparing rates of the City, PG&E, and the Sacramento Municipal Utility District ("SMUD"), the electric utilities with operations bordering the service area of the Electric System, for both residential and commercial customers.

**TABLE 1.
CITY OF ROSEVILLE
ELECTRIC DEPARTMENT
MONTHLY RESIDENTIAL POWER BILLS BY SERVICE AREA**

	<u>kWh</u>	<u>Roseville*</u>	<u>SMUD</u>	<u>PG&E</u>
Small House	300	\$29.24	\$24.37	\$34.83
Medium House	820	\$72.67	\$74.20	\$102.80
Large House	1500	\$129.72	\$161.83	\$193.52
Large House (w/pool, spa & large family)	2500	\$213.62	\$290.70	\$326.93

* Effective July 1, 1997

**TABLE 2.
CITY OF ROSEVILLE
ELECTRIC DEPARTMENT
MONTHLY BUSINESS POWER BILLS BY SERVICE AREA**

	<u>kWh</u>	<u>Roseville*</u>	<u>SMUD</u>	<u>PG&E</u>
Office	4,010	\$313	\$349	\$537
Bank	20,000	\$1,600	\$1,660	\$2,050
Restaurant	27,600	\$2,180	\$2,260	\$2,790
Supermarket	166,300	\$11,800	\$12,560	\$15,090
Warehouse	483,000	\$31,510	\$29,960	\$34,840
Industrial	8,850,000	\$539,200	\$525,900	\$581,880

* Effective July 1, 1997

Over the past ten years, the City's retail electric rates have increased an average of 1.5 percent annually, well below the rate of inflation. Following is the City's rate change history:

- March 1990 - 7.5 percent increase
- May 1991 - 5.8 percent increase
- February 1992 - 8 percent increase
- August 1993 - 4 percent decrease for all customers except very large industrial customers whose rates were reduced 4.8 percent

- February 1995 - 5 percent decrease for large commercial and industrial customers implemented in one percent steps through July 1998.
- July 1997 - revenue neutral rate adjustment, increasing residential rates 7 percent and decreasing business rates an average of 3.5 percent

The City Council reviews Electric System rates periodically and makes adjustments as necessary. The City Council has expressed its intent to freeze overall rate levels to 2002. See "CITY'S RESPONSE TO COMPETITION - City Council Action."

AB 1890 requires that the City spend 2.85% of gross revenues or about \$1.6 million per year on public benefit programs. The City currently spends about \$1 million per year. The additional expenditures will be used for low income discounts and assistance programs, new demand-side management programs and/or investment in renewable resources.

The City has commenced a project to establish unbundled rates as part of its response to competition in the electric industry. Such project is expected to be completed in mid-1998. Such unbundled rates would go into effect when the City offers customers open access which is anticipated to be phased in commencing in the year 2000.

In addition, on May 8, 1996, the City adopted Resolution No. 96-148, which provides for, among other policies, rate stabilization, in order to remain competitive under industry-wide restructuring of the electric industry. Such policies also provide for the recovery of capital costs of the City's electric generating assets. See "CITY'S RESPONSE TO COMPETITION - City Council Action."

Revenues and Sales

Demand. Over the past five years electricity use in the City of Roseville has increased by 7.5 percent annually. At the same time, population growth has increased nearly 5 percent each year. This robust growth rate has been a result of expansion in all sectors of the economy. Hewlett-Packard ("HP") and NEC Electronics, Inc. ("NEC"), Roseville's two largest customers, continue to expand their facilities and operations in the community. Two major health care facilities (Kaiser-Permanente and Sutter/Roseville) have been completed along with a variety of retail facilities (Price-Costco, Toys-R-Us) and several large office buildings. In addition to retail commercial development, there also has been a strong residential growth trend adding over 6,000 residential units, including the Del Webb retirement community over the past 5 years.

Over the next five years, this historical trend is expected to continue. Both HP and NEC are forecasting significant expansions to their facilities. In addition, a million square foot regional shopping mall, several new hotels, and over one million square feet of office space are in the planning stage or actually under construction. Strong residential development also is expected to continue throughout the City, with approximately 7,500 new residences anticipated over the next five years.

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 3.
CITY OF ROSEVILLE
ELECTRIC DEPARTMENT
CUSTOMERS, SALES, REVENUES AND DEMAND**

	<u>Fiscal Year Ended June 30</u>				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997⁽¹⁾</u>
Number of Customers:					
Residential	21,511	22,500	23,771	25,448	26,909
Commercial	<u>3,086</u>	<u>3,201</u>	<u>3,348</u>	<u>3,548</u>	<u>3,770</u>
Total Customers	24,597	25,701	27,119	28,996	30,679
Kilowatt-Hour Sales:					
Residential	178,304,849	184,267,132	193,245,878	202,418,521	228,719,800
Commercial	<u>360,064,144</u>	<u>371,838,392</u>	<u>405,132,853</u>	<u>451,439,359</u>	<u>492,393,470</u>
Total kWh sales	538,368,993	556,105,524	598,378,731	653,857,880	721,113,270
Revenues from Sale of Energy:					
Residential	\$14,673,003	\$14,465,192	\$15,247,965	\$16,177,362	\$18,378,273
Commercial	<u>26,977,868</u>	<u>26,715,735</u>	<u>28,673,899</u>	<u>31,975,018</u>	<u>34,609,635</u>
Total Revenues from Sale of Energy	\$41,650,871	\$41,360,927	\$43,921,864	\$48,152,380	\$52,987,908
Peak Demand (kW)	131,938	142,374	159,250	164,663	182,638

⁽¹⁾ Based on unaudited financial figures

Ten Largest Customers. The ten largest customers of the City's Electric System in terms of kWh sales, as of June 30, 1997, are shown in the following table. These customers accounted for 39% of total kWh sales and 34% of revenues. The largest customer, NEC, accounted for 23% of total kWh sales and 20% of total revenues. The smallest of the ten largest customers, Sam's Club, accounted for 0.5% of total kWh sales and 0.5% of revenues. See also "CITY'S RESPONSE TO COMPETITION - Contracts with Two Largest Customers."

TABLE 4.
CITY OF ROSEVILLE
ELECTRIC DEPARTMENT
TEN LARGEST CUSTOMERS
As of June 30, 1997

<u>Customer</u>	<u>Type of Business</u>	<u>Peak Demand (kW)</u>
NEC Corporation	Computers	21,670
Hewlett Packard	Computers	9,530
Kaiser Permanente Hospital	Hospital	2,130
Wells Fargo Bank - Cassie Hill Center	Bank/Data Operations	1,664
Albertson's Distribution Center	Retail Grocery Warehouse	1,510
Union Pacific	Railroad	1,390
City of Roseville Wastewater Treatment Plant	Waste Water Treatment	1,270
Sutter Community Hospital	Hospital	1,256
Roseville Telephone Co.	Communications	664
Sam's Club	Retail	618

Power Supply

Purchased Power. The City does not independently own any generation assets but, in addition to power purchased from the Western Area Power Administration of the federal government, owns a percentage of the capacity and energy of certain NCPA generation projects as described in the following table. In addition to such long-term resources, the City makes economy power purchases through NCPA to supplement and, when cost-effective, replace some of these long-term power resources. In fiscal year 1996-97, approximately 35% of the City's energy requirements were supplied through such economy purchases.

For each of the NCPA projects in which the City participates, the City is obligated to pay, on an unconditional take-or-pay basis, its entitlement share of the debt service on NCPA bonds issued for the project as well as its share of the operation and maintenance expenses of the project.

**TABLE 5.
CITY OF ROSEVILLE
ELECTRIC DEPARTMENT
POWER SUPPLY RESOURCES ⁽¹⁾**

	<u>Capacity Available (MW)⁽²⁾</u>	<u>Actual Energy (GWh)</u>	<u>% of Total Energy</u>
<u>Purchased Power⁽³⁾</u>			
Western	69	185	24.17%
NCPA			
Geothermal Project	7	53	6.86
Hydroelectric Project	43	154	20.04
Combustion Turbine Project	16	2	0.24
Multiple Capital Facilities Project	20	25	3.26
Seattle City Light	21	29	3.75
Other ⁽⁴⁾	<u>n/a</u>	<u>319</u>	<u>41.69⁽⁵⁾</u>
TOTAL	<u>176</u>	<u>766</u>	<u>100%</u>

(1) Information for fiscal year ended June 30, 1997.

(2) Non-coincident capacity available.

(3) Entitlements, firm allocations and contract amounts.

(4) Net firm and non-firm energy purchases.

(5) Includes energy exchange agreements with suppliers in the Pacific Northwest.

In the fiscal year ended June 30, 1997, the City's average cost of power delivered to the Electric System was 3.9 cents per kWh.

Western. The City has an existing agreement with Western to purchase up to 69 MW of electricity. The contract term extends through December 31, 2004, at which time it is subject to renewal based on the Western post-2004 marketing plan. In calendar year 1996, the average cost of power to the City from Western was 2.3 cents per kWh. Western has initiated efforts to solidify its marketing plan for post-2004. On October 1, 1997, Western lowered its rates by approximately 20% as a result of efforts to reduce its costs, particularly in the purchases of supplemental power to firm its hydroelectric resources. Western has begun a program to recommend allocation of CVP power supply after 2004. Initial recommendations indicate that renewals of existing contracts will occur at slightly lower entitlement amounts than current contracts. The City will be evaluating, as needed, additional sources of electricity supply to replace any Western contract amounts not extended beyond 2004. See also "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY - General" herein.

NCPA Hydroelectric Project Number One. NCPA's Hydroelectric Project Number One (the "Hydroelectric Project") consists of (a) three diversion dams, (b) the 243-MW Collierville Powerhouse, (c) the Spicer Meadow Dam with a 5.5-MW powerhouse, and (d) associated tunnels located essentially on the North Fork Stanislaus River and on the Stanislaus River in Alpine, Tuolumne and Calaveras Counties, California, together with required transmission facilities.

The 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 project for 50 years, (ii) managed the construction of the project and (iii) operates the generating and recreational facilities of the project. Under a separate FERC-issued license with an expiration date coterminous with the Project No. 2409 license (Project No. 11197), NCPA holds the license and owns the 230 kV Collierville-Bellota and 21 kV Spicer Meadow-Cabbage Patch transmission lines from Project No. 2409.

NCPA financed the Hydroelectric Project through the issuance of Hydroelectric Project Number One Revenue Bonds, of which \$553.8 million were outstanding as of September 1, 1997. See Table 7. The City's share in the Hydroelectric Project and in such bonds is 12%. See Table 7. The debt service on these bonds continue to the year 2024 and annual debt service ranges from \$43.1 million to \$47.4 million.

In February 1990, the operating portions of the project were declared substantially complete and commercially operable. The project has been supplying peak load requirements of the participants in the Hydroelectric Project and complementing other resources available to them through NCPA.

The load-following characteristics of the Hydroelectric Project, together with the ability to schedule Western energy deliveries, give NCPA a great degree of flexibility in meeting the hourly and daily variations which occur in the Hydroelectric Project participants' loads.

FERC approved the applications of Pacific Gas & Electric Company ("PG&E"), CCWD and NCPA to transfer the Utica and Angles hydroelectric project licenses from PG&E to CCWD, and for CCWD to subsequently transfer the Utica project upper reservoirs and associated water rights to NCPA. The upper reservoirs are licensed to NCPA as Project No. 11563; an amended license application to renew that license has been filed. The title transfers were completed on July 18, 1996. Under the existing Utica license, and pursuant to an agreement with CCWD, NCPA is able to divert up to an additional 20,000 acre-feet of water annually to the Collierville Powerhouse. The energy generated will be supplied to the Hydroelectric Project participants. NCPA's cost for the upper reservoirs and associated water rights will be approximately \$3 million, if FERC issues a license to NCPA for the project as proposed.

NCPA has estimated the average cost per kWh of power generated from the Hydroelectric Project to be approximately 84.1 mills/kWh in 1996-97 and the average cost of power delivered to interconnected project participants, including the City, to be 88.0 mills/kWh in 1996-97.

NCPA Geothermal Project. NCPA has developed a geothermal project (the “Geothermal Project”) located on federal land in certain areas of Sonoma and Lake Counties, California. In addition to the geothermal leasehold, wells, gathering system and related facilities, the Geothermal Project consists of two electric generating stations (Geothermal Plant 1 and Geothermal Plant 2), each with two 55 MW (nameplate rating) turbine generating units utilizing low pressure, low temperature geothermal steam, associated electrical, mechanical and control facilities, a heat dissipation system, a steam gathering system, a transmission tapline and other related facilities. Geothermal steam for the project is derived from the geothermal property, which includes wellpads, access roads, steam wells and reinjection wells. NCPA formed two not-for-profit corporations controlled by its members to own the generating plants of the Geothermal Project. NCPA manages the Geothermal Project for the corporations and is entitled to all the capacity and energy generated by the Geothermal Project.

NCPA financed the Geothermal Project with Geothermal Project Number 3 Revenue Bonds, of which \$594.9 million were outstanding as of September 1, 1997. The debt service on these bonds continue to the year 2010 and annual debt service ranges from \$58.0 million to \$67.9 million, assuming variable rate bonds bear interest at 4.4%.

Since 1988, the Geothermal Projects experienced greater-than-anticipated declines in steam production from existing geothermal wells. Steam for the Geothermal Projects comes from lands in the Geysers Area which are leased by NCPA from the federal government. NCPA operates these steam-supply areas. Initially, both Geothermal Plant 1 and Geothermal Plant 2 were operated as baseload generating projects at full capability (238 MW, which is an approved nameplate rating greater than the initial nameplate rating) comparable to the manner in which other Geysers projects were being operated. However, operation of both plants at high generation levels, together with high steam usage by others in the same area, resulted in a decline in the steam production from the steam wells at a rate greater than expected. As a result, by April 1988, for the purpose of slowing the decline in the steam field capability, NCPA changed its steam field production from baseload to load-following and reduced average annual steam production to 150 MW gross. These changes were effective in reducing the decline in steam production.

Beginning in 1991, NCPA, along with other steam field operators in the area, implemented operating strategies to further reduce the rate of decline in steam production. NCPA’s strategy included continuing average annual production at the 150 MW gross level, lowering steam turbine operating pressures to improve mass flow, and augmenting mass flow by managing the injection of plant condensate and supplemental water. These additional strategies were successful in accomplishing a further reduction in the rate of decline. To provide supplemental water, NCPA built two catch basins to collect plant site runoff. The catch basins have increased the amount of fluid injected by 3.8%. Due to improved steam field conditions during 1994 and 1995, the project operated at a 155 MW average gross and at 160 MW average gross in 1996. For the year ending July 1997 average gross production was 153 MW.

In April 1996, NCPA completed modifications of the Unit 2 steam turbine at Geothermal Plant 1 and associated steam collection system to generate power with lower pressure steam at higher mass-flow rates than previously possible to optimize the utilization of the available steam resource.

In addition, NCPA has entered into agreements with other producers in the Geysers Area to finance and construct the Southeast Geysers Effluent Pipeline Project (the "Effluent Project"). The 26-mile Effluent Project will collect 7.8 million gallons per day from Lake County Sanitation District wastewater treatment plants at Clearlake and Middletown and deliver the wastewater to NCPA and the two other Geysers steam field operators for injection. NCPA will receive one third of the wastewater. NCPA's \$9.5 million share of the Effluent Project costs is expected to be paid out of internally-generated funds. Construction started in September 1995 and initial testing and operations commenced in September 1997.

Based on current operating protocols and forecasted operations, NCPA expects average annual generation to remain in excess of 150 MW through 2000, after which both the average and peak capacity is expected to decrease, reaching approximately 86 MW by the year 2010.

NCPA has estimated the cost per kWh of power generated at the Geothermal Project to be 61.1 mills per kWh for Geothermal Plant 1 and 70.3 mills per kWh for Geothermal Plant 2 in 1996-97 and the average cost of power delivered to the interconnected project participants such as the City from the Geothermal Project (including costs associated with the Geysers Transmission Project) to be 63.0 mills/kWh for Geothermal Plant 1 and 73.5 mills/kWh for Geothermal Plant 2 in 1996-97.

NCPA Combustion Turbine Project Number One. The Combustion Turbine Project Number One (the "Combustion Turbine Project") consists of five combustion turbine units, each nominally rated 25 MW. Two units are located in each of the City and Alameda and one in Lodi.

The 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 the 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 is also sold to others upon request. The combustion turbine units have economically fulfilled their planned function of reliably providing reserve and peaking power

NCPA financed the Combustion Turbine Project through the issuance of Combustion Turbine Project Number One Revenue Bonds, of which \$53.6 million were outstanding as of September 1, 1997. See Table 7. The debt service on these bonds continue to the year 2010 and annual debt service ranges from \$4.7 million to \$5.9 million.

As is typical of reserve and peaking resources, the average cost per kWh of power delivered to the participants in the Combustion Turbine Project is comparatively expensive. NCPA has estimated the average cost per kWh of power to be 6,027 mills/kWh for 1996-97. The

variable operating cost of the Combustion Turbine Project Number One is estimated by NCPA to be 31 mills/kWh for 1996-97.

NCPA Multiple Capital Facilities Project. The Multiple Capital Facilities Project (the “Multiple Capital Facilities Project”) includes three components: (i) one power generating station, Unit One, with a design rating of 49.9 MW located in the City of Lodi, (ii) one power generating station, Unit Two, owned and operated by the Turlock Irrigation District, with a design rating of 49.9 MW located in the City of Ceres, and (iii) certain improvements to the electric system of Lodi.

Unit One is owned and operated by NCPA, and the capacity and energy thereof has been purchased by Alameda, Lodi, Lompoc and the City. Based upon an assumed capacity factor, NCPA has estimated the average cost per kWh of power delivered from Unit One to be 99.7 mills/kWh for 1996-97. NCPA has estimated the variable operating cost of Unit One to be 26 mills/kWh for 1996-97.

NCPA financed the Multiple Capital Facilities Project through the issuance of Multiple Capital Facilities Project Revenue Bonds, of which \$148,820 million were outstanding as of September 1, 1997. The City’s share in the Multiple Capital Facilities bonds is 17.92%. See Table 7 and footnote 5 thereunder. The debt service in these bonds continue to the year 2025 and annual debt service ranges from \$10.9 million to \$12.7 million.

NCPA Northwest Resource Project. In 1991, NCPA, as agent on behalf of eight NCPA members, including the City, entered into a long-term power sale agreement (the “WWP Agreement”) with The Washington Water Power Company (“WWP”) to provide for the purchase by NCPA of 50 MW of firm capacity from WWP. NCPA was permitted to take all or none of the associated energy or to displace that energy with energy purchases from other Pacific Northwest utilities. Since the execution of the WWP Agreement, NCPA determined it was economic to prepay WWP for the capacity rights acquired under the WWP Agreement; to terminate the WWP Agreement; and to purchase replacement capacity and energy from other sources. In consideration of the early termination of the WWP Agreement, NCPA paid WWP a capacity payment of \$17,369,020 on January 14, 1997. To finance the shares of such capacity payment of five NCPA members, including the City, NCPA issued \$18,310,000 aggregate principal amount of its Northwest Resource Revenue Bonds, 1997 Series A in February, 1997, of which \$17,310,000 were outstanding as of September 1, 1997. The City’s share in the Northwest Resource project is 22%. See Table 7. The debt service on these bonds continue to the year 2001 and annual debt service ranges from \$4.3 million to \$6.3 million.

Seattle City Light Power Purchase Contract. NCPA, on behalf of Healdsburg, Palo Alto, Ukiah, Lodi and the City, has negotiated a seasonal exchange agreement with Seattle City Light for 60 MW of summer capacity and energy and a return of 46-MW of capacity and energy in the winter. Deliveries under the agreement began June 1, 1995 and will terminate no earlier than May 31, 2014. The City has a 33% participation in such contract.

Prepaid Purchased Electricity. In prior years, the City completed construction and transferred ownership of certain electrical transmission lines to Western in exchange for a reduction in future power supply costs of approximately 5%. The related construction costs were refinanced with the proceeds of the Prior Certificates and have been capitalized on the City's balance sheet. Such costs are being amortized as the economic benefit of the reduced electricity costs are realized. The amount amortized for fiscal year 1996 was \$1,101,504 and for fiscal year 1997 was \$1,185,074.

Transmission

TANC California-Oregon Transmission Project. TANC, together with the City of Vernon, California, Western and 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 power project between Southern Oregon and Central California. The COTP was placed in service on March 24, 1993, at a cost of approximately \$430 million. Pursuant to Project Agreement No. 3 for the COTP (the "TANC Agreement"), the City is entitled to 2.313% (net of layoffs) of TANC's share of COTP transfer capability (approximately 20 MW). In return, the City has severally agreed to pay, on an unconditional take or pay basis, 2.295% of the construction costs of the COTP, including debt service, and 2.313% of TANC's COTP operating and maintenance expenses. In 1991, Palo Alto agreed to assign 7.68 MW of its entitlement in this project to the City through 2004.

To utilize the full transfer capability on a firm basis between the Pacific Northwest and California, it is necessary to coordinate the operation of the COTP with the existing transmission Intertie, which are owned and operated by certain of California's investor-owned utilities ("IOUs"). Negotiations between TANC and the IOUs concerning a coordination agreement failed before the COTP became operational, and administrative proceedings were held before FERC to settle the outstanding issues. On June 30, 1993, a FERC Administrative Law Judge issued an initial decision and ordered certain changes, generally in TANC's favor, to the unilaterally filed rate schedules by the IOUs for the coordinated operation and connection of the COTP with the existing Intertie. On May 26, 1994, FERC issued an opinion ("Opinion No. 389") which generally affirmed the initial decision. Opinion No. 389, which is not a final decision, required the Pacific Gas and Electric Company ("PG&E") to make a compliance filing to conform the COTP Interconnection Rate Schedule ("CIRS") to the FERC decision. Opinion No. 389 also required the IOUs to make a compliance filing to conform the Coordinated Operations Agreement ("COA") to Opinion No. 389. Such compliance filings were made. TANC subsequently filed objections to portions of the compliance filings on the grounds that they did not properly implement Opinion No. 389. FERC has not taken action on either the compliance filings or TANC's objections thereto and the matter is still pending. In July 1994, TANC, PG&E, Southern California Edison ("Edison") and San Diego Gas and Electric Company ("SDG&E") filed motions for reconsideration of portions of Opinion No. 389. The parties also filed responses to the other parties' motions for reconsideration. FERC has entered a tolling order to preserve its jurisdiction to decide the motions for reconsideration, but has not issued a final decision on those motions. Until FERC takes final action on the motions for reconsideration, no party can lodge an appeal with the United States Court of Appeal. Currently, both the CIRS and the COA are in place and are being administered in accordance with the terms of Opinion No. 389. The companion COTP

Transmission Service (“CTS”) Rate Schedule filed by PG&E was subsequently withdrawn by PG&E on July 18, 1994. The City cannot predict when FERC will take further action on this matter.

In April, 1996, PG&E, together with Edison and SDG&E filed a proposal to turn operational control of their transmission systems over to an Independent System Operator (“ISO”) in compliance with a December 20, 1995 Order of the California Public Utilities Commission (“CPUC”)

In September, 1996, the California Legislature enacted Assembly Bill No. 1890 (“AB 1890”) which confirmed the CPUC’s electric industry restructuring proposal and required the turnover of operational control of the transmission systems of PG&E, Edison and SDG&E to the ISO. The ISO has now been established as a non-profit California corporation and the ISO presently plans to assume operational control of the PG&E/Edison/SDG&E transmission systems on January 1, 1998 and to assume all of the duties and responsibilities of Control Area Operator in the PG&E/Edison/SDG&E service territories.

Neither AB 1890, nor the CPUC’s restructuring order requires municipal systems or public agencies (state or federal) to turn over operational control of their transmission facilities to the ISO, although they do have the option and have been encouraged to do so by the CPUC and the California Legislature. At the present time, there are no plans by the COTP participants to turn over operational control of the COTP to the ISO, although this option is under study and review by the owners of the COTP. As of January 1, 1998, the ISO will be required to administer the COA and CIRS rate schedules and to assume all of the duties and obligations of PG&E, Edison and SDG&E thereunder. Currently, PG&E, in collaboration with TANC and other COTP participants, is developing appropriate instructions to the ISO respecting the use and operation of the COTP. At this point, it is unclear as to how the implementation of the California electric restructuring will impact the costs and operation of the COTP. TANC and its members are actively participating in proceedings now pending at the FERC to ensure that their ownership interest and entitlements on the COTP are not adversely affected by the transfer of Control Area Operator responsibilities to the ISO on January 1, 1998.

The City utilizes its rights in the COTP to make economy power purchases for its Electric System and to deliver its share of the Seattle City Light Contract energy. In fiscal year 1996-1997, the City utilized the COTP to deliver approximately 100,000 MWh of energy to the City.

Western. As part of the project refinanced with the Prior Certificates, the City provided for the construction of Western’s Elverta-Roseville No. 2 Line, a 14 mile, 230kv transmission line together with a 230kv substation adjacent to the City’s Berry Street Receiving Station and related facilities. Such facilities are owned by Western but the City has a first use, bi-directional right to such line until 2004. This line and the related facilities are used by Western to deliver power purchased by the City. Through this line, the City has a direct interconnection with the Western transmission system. See “Power Supply — Prepaid Purchased Electricity.”

Distribution

The City owns and operates the electrical distribution system serving retail customers within the City boundaries. The City's electrical distribution system is one of the most reliable systems in the State. The distribution system is connected to the Western transmission system at the 230kv-Berry Street Receiving Station. The new Fiddymont Station being financed with the proceeds of the Certificates will add a second connection point to Western's 230kv system. The distribution system consists of over 119 miles of overhead lines and over 287 miles of underground lines.

Dispatch and Scheduling

The City participates in the NCPA Power Pool in which NCPA schedules the operation of generation resources in which the City has a participation and dispatches energy to meet the City's load on an economic dispatch basis from NCPA projects, long-term power supply contracts and short-term purchases, including spot market purchases. NCPA provides such dispatch and scheduling services from its dispatch control center located at its headquarters office in Roseville.

Forecast of Capital Expenditures

The City's five-year capital plan for the distribution system contemplates capital expenditures in the following years and amounts:

**TABLE 6.
CITY OF ROSEVILLE
ELECTRIC DEPARTMENT
ESTIMATED CAPITAL EXPENDITURES
DISTRIBUTION SYSTEM**

Fiscal Year Ended June 30,

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
\$9,046,500	\$9,829,000	\$6,577,000	\$5,271,460	\$4,292,000

As most of the capital expenditures are for expansion of the distribution system resulting from growth, the City anticipates funding the majority of costs of such expansion from contributions from the developers of the projects necessitating such expenditures. Capital expenditures for replacement and capital maintenance items are expected to be paid from current year revenues in the years such expenditures are made.

The City does not currently plan to make further investment in new generation or transmission resources.

Employee Relations

As of June 30, 1997, approximately 75 City employees were assigned specifically to the Electric System. Certain functions supporting the Electric System operations, including meter reading, customer billing, collections and accounting, are performed by the Finance Department of the City.

Substantially all of the non-management City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers ("IBEW"). The current Memorandum of Understanding with the IBEW will expire on December 31, 1999. There have been no strikes or other work stoppages at the City, including the Electric System.

Retirement benefits to City employees, including those assigned to the Electric System, are provided through the City's participation in the Public Employees Retirement System (PERS) of California. See Notes 8 and 9 to APPENDIX B (General Purpose Financial Statements as of June 30, 1996) for further discussion.

Insurance

The Electric System's insurance needs are handled by the Risk Management Division of the City's Administrative Services Department. The City, including the Electric System, is self-insured for up to \$500,000 for all insurance needs including casualty and liability and up to \$250,000 for workers' compensation. The City has also joined with a group of other municipalities to participate in a joint powers authority insurance policy that provides excess coverage up to \$10,000,000 for casualty and liability, and up to \$500,000 for workers' compensation. See Note 5 to Notes to General Purpose Financial Statements for the Year Ended June 30, 1996 included in APPENDIX B to this Official Statement.

Investment Policy

The cash attributable to the Electric System must be invested in accordance with the City's 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. Idle cash management and investment transactions are the responsibility of the City Treasurer and permitted investments include the following:

- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or time deposits) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Banker's Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Demand Deposits
- Repurchase Agreements
- Passbook Savings Account Demand Deposits

Criteria for selecting investments and the order of priority are:

- 1) Safety — Preservation of principal and interest
- 2) Liquidity — Ability to convert investment to cash at any moment in time
- 3) Yield — Potential dollar earnings on an investment

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield when selecting an investment, provided the criteria for safety and liquidity are met.

ELECTRIC SYSTEM FINANCIAL INFORMATION

Indebtedness

As of September 1, 1997, the City had outstanding \$5,455,000 million principal amount of the Prior Certificates payable from Net Revenues of its Electric System which are to be refunded as part of the 1997 Project. See "1997 PROJECT - *Refunding of Prior Certificates.*" These obligations are subordinate to the payments required to be made with respect to the City's obligations to NCPA and TANC described below.

As previously discussed, the City participates in certain joint powers agencies, including NCPA and TANC. Obligations of the City under its financing agreements with TANC and NCPA constitute operating expenses of the City payable prior to any of the payments required to be made on the Certificates. The agreements with NCPA and TANC 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. Each 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 7.
CITY OF ROSEVILLE
ELECTRIC DEPARTMENT
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
(Dollar Amounts in Millions)

	Outstanding <u>Debt</u> ⁽¹⁾	Roseville <u>Participation</u>	Roseville Share of <u>Outstanding Debt</u>
NCPA			
Geothermal Project	\$594.9 ⁽²⁾	7.88% ⁽³⁾⁽⁴⁾	\$ 47
Transmission Project	13.1	14.18 ⁽⁴⁾	2
Hydroelectric Project	553.8	12.00 ⁽⁴⁾	66
Combustion Turbine Project	53.6	13.58 ⁽⁴⁾	7
Multiple Capital Facilities Project	148.8	17.92 ⁽⁵⁾	27
Northwest Resource Project	17.3	22.89	4
TANC			
Bonds	400.0	2.30 ⁽⁴⁾	9
Notes	<u>63.0</u>	<u>2.30</u> ⁽⁴⁾	<u>1</u>
TOTAL	<u>\$1,844.5</u>		<u>\$163</u>

(1) As of September 1, 1997

(2) Net of crossover refunding escrowed proceeds from NCPA 1993 Geothermal Project Revenue Bonds.

(3) Roseville has sold varying portions of its 7.88% share of the Geothermal Project to the Turlock Irrigation District through December 31, 2000. Under the third phase agreement for the Geothermal Project, Roseville remains obligated for its full 7.88% participation share.

(4) Participation obligation is subject to increase upon default of another project participant. Such increase shall not exceed, without the written consent of a non-defaulting participant, an accumulated maximum of 25% of such non-defaulting participant's original participation.

(5) Roseville's participation is based on a 36.50% participation in Unit One which represents 49.1009% of the total Multiple Capital Facilities Revenue Bonds. Participation is subject to increase upon default of another Unit One participant. Such increase shall not exceed, without consent of a non-defaulting Unit One participant, an accumulated maximum of 25% of such non-defaulting Unit One participant's original Unit One participation.

Audited Financial Statements

Table 8 presents summaries of financial data relating to the City's Electric Fund for Fiscal Years 1992-93 through 1996-97. This data is extracted from the City's Annual Financial Reports for such fiscal years, except for Fiscal Year 1996-97 which is unaudited.

The City's Annual Financial Report is audited by Deloitte & Touche LLP, Sacramento, California, in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The reports include certain notes to the financial statements which may not be fully

described below. Such notes constitute an integral part of the audited financial statements. Copies of these reports are available on request from the City Clerk. See “APPENDIX B — AUDITED FINANCIAL STATEMENTS OF THE CITY OF ROSEVILLE FOR THE FISCAL YEAR ENDED JUNE 30, 1996.”

Significant Accounting Policies

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 City uses the modified accrual method of accounting. Revenues are recognized when they become measurable and available. Revenues considered susceptible to accrual in those funds wherein revenue is recognized on a modified accrual basis include certain taxes, interest, grants earned, and certain other intergovernmental revenues. Licenses, permits, fines and forfeitures and similar items are, for the most part, not susceptible to accrual and consequently are not recognized until received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred; principal and interest on general long-term debt is recognized when due.

Investments are stated at cost. Inventories are valued at historical cost including interest during construction or at estimated historical cost if actual cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Revenues, Expenses and Net Income of the Electric Fund

Certain financial information concerning the City’s Electric Fund are contained in APPENDIX B under the headings “SUPPLEMENTAL COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS - ENTERPRISE FUNDS - COMBINING BALANCE SHEETS, JUNE 30, 1996” and — “COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS, YEAR ENDED JUNE 30, 1996”. The

following table presents a five-year summary of the revenues, expenses, net income and other matters for the Electric Fund for Fiscal Years 1992-93 through 1996-97.

TABLE 8.
CITY OF ROSEVILLE ELECTRIC FUND
STATEMENT OF REVENUES AND EXPENSES⁽¹⁾
Fiscal Years 1992/93 through 1996/97
(Dollars in Thousands)

	Fiscal Year Ended June 30				
	1993	1994	1995	1996	1997
Summary of Income:					
Operating Revenues	\$46,189	\$49,700	\$47,529	\$51,695	\$56,907
Operating Expenses ⁽²⁾	<u>37,257</u>	<u>40,828</u>	<u>38,970</u>	<u>(40,084)</u>	<u>(41,676)</u>
Operating Income	\$ 8,932	\$ 8,872	\$ 8,559	\$11,611	\$15,231
Net Non-operating Revenues	7	342	602	984	1,715
Net Operating Transfers	<u>(2,257)</u>	<u>(2,654)</u>	<u>(2,834)</u>	<u>(3,973)</u>	<u>(3,955)</u>
Net Income	<u>\$6,682</u>	<u>\$6,560</u>	<u>\$6,327</u>	<u>\$8,622</u>	<u>\$12,991</u>
Selected Balance Sheet Information:					
Net Plant in Service	\$64,452	\$65,939	\$72,182	\$78,293	85,291
Construction Work in Progress	357	606	593	1,638	6,666
Long-Term Debt ⁽³⁾	\$9,795	\$ 8,795	\$ 7,740	\$ 6,630	\$5,455
Debt Service	1,589	1,585	1,587	1,584	1,586
Debt Service Coverage Ratio ⁽⁴⁾	5.02	6.44	5.61	7.70	10.18

⁽¹⁾ Based on audited financial statements except for fiscal year 1996-97, which is unaudited.

⁽²⁾ Includes purchased power costs and payments to NCPA and TANC.

⁽³⁾ Represents Prior Certificates. The outstanding Prior Certificates are to be refunded with Certificate proceeds.

⁽⁴⁾ Represents the sum of Operating Income plus depreciation less contributions-in-aid of construction plus interest income divided by Debt Service.

Management's Discussion of Operating Results

Operating Income. From the fiscal year ended June 30, 1993 to fiscal year end June 30, 1996, operating revenue rose \$5.5 million, or 11.9%, to \$51.695 million. The primary driver behind this revenue growth was increased energy sales stemming from an expanding service area population and expansion of the local commercial and industrial customer base. During this period, total energy sales increased by over 21.6%, from 538,369 MWh to 653,858 MWh. The increase in sales more than offset the rate reductions implemented for all customer classes during this period.

Operating revenue declined from fiscal year 1993-94 to fiscal year 1994-95 by 4.4%, due to the reduced demand associated with a relatively cool summer. However, operating expenses also declined during the same period, since reduced energy demand allowed a comparable reduction in energy purchases. Accordingly, operating income for fiscal year 1994-95 declined by only \$313,000.

For fiscal year 1995-96, operating revenue increased 4.0% over the previous fiscal year, while operating expenses declined by 1.8% relative to the previous fiscal year's levels. Unaudited fiscal year 1996-97 operating revenues are 10.1% higher than the previous fiscal year's audited results, while operating expenses declined by 0.5% over the same period, resulting in a 31.2% increase in operating income, to \$15.2 million. These results reflect continued growth in energy sales, a reduction in the average market cost of power over this period, and operational efficiencies implemented by the City.

Net Non-operating Revenues. These revenues primarily represent net interest earnings, including interest earnings on the City's Rate Stabilization Fund. Net Non-operating Revenues is expected to rise over the next few years as the invested balance of the Rate Stabilization Fund increases.

Operating Transfers. The City's policy currently requires annual in-lieu transfers to its General Fund equal to 4.0% of the Electric System's gross expense budget. For the fiscal year ended June 30, 1997, the unaudited General Fund transfer was \$1.9 million, which is a 1.9% increase over the previous fiscal year's transfer. The Electric System also reimburses the City General Fund for various indirect costs, including the cost of overlapping salaries, operational expenses, and debt service, which are incurred by the City on behalf of the Electric System. The fiscal year 1996-97 unaudited results included \$2.04 million of indirect cost transfers, which is down \$57,919 from the previous fiscal year's amount.

CITY'S RESPONSE TO COMPETITION

General

In response to the deregulation of the electric industry in California and the implementation of wholesale transmission wheeling, the City has developed a plan of action and commenced a number of activities to insure the continued financial stability of the Electric System and to position the Electric System to operate effectively in a competitive environment. The City expects that the successful implementation of its efforts will enable it to charge competitive rates and to provide competitive services in the deregulated California electric power market. However, it is not yet known with certainty what will be required in order for an electric utility to be competitive in such a market. Thus, even if the City's plans are fully implemented, it is possible they will not be sufficient to make the City competitive without additional changes. Additionally, the success of the City's current plan will be subject to circumstances and actions by others beyond the control of the City. No assurance can be given that such circumstances and actions will not prevent, in whole or in part, the successful implementation of the City's plan.

City Council Action

In response to Decision No. 95-12-063, as modified by Decision No. 96-01-009 of the California Public Utilities Commission providing customer choice for the supply of electricity in the service areas of the State's investor-owned utilities, the City Council of the City adopted Resolution No. 96-148 on May 8, 1996. This resolution calls for the formulation and implementation, after Council authorization, of measures, including the establishment of the Rate Stabilization Fund, to keep the City's electric rates competitive and to provide for the financial viability of the City's Electric System. The resolution also specifically called for the recovery of capital costs of generating assets incurred to provide reliable electric service to retail customers that may become uneconomic as a result of the deregulation of the California electric industry. On March 5, 1997, the City Council approved staff recommendations for certain actions in response to the deregulation of the California electric industry. These actions included: phasing in customer choice for energy supply between 2000 and 2004; continue to minimize cost and accumulate savings in the Rate Stabilization Fund to have competitive rates in 2002 with no increase in overall rates; and a move toward customer parity by adjusting rates among customer classes, including a 7% increase in residential rates and compensating decreases in business rates in 1997.

Rate Stabilization Fund

To implement the policies of the City Council, the City has initiated action in a number of areas. The Rate Stabilization Fund had been funded in the amount of \$28 million as of June 30, 1997 and is expected to have at least \$30 million on deposit by June 30, 1998. Amounts in the Rate Stabilization Fund are anticipated to be used to pay down generation debt service payments after 2002 to keep the City's electric rates competitive. The City estimates that under current annual revenue estimates, the savings deposited in the Rate Stabilization Fund will result in a balance in such Fund of between \$60 million and \$70 million in 2002. To have competitive rates, the City currently estimates the Rate Stabilization Fund will require between \$50 million and \$80 million in 2002, depending on the market price of electricity.

The deposits of Net Revenues into the Rate Stabilization Fund must meet the conditions specified in the Master Contract. See "SECURITY FOR THE CERTIFICATES - Rate Stabilization Fund."

Contracts with Two Largest Customers

In anticipation of the deregulation of the electric industry in California, the City has entered into long-term power sale agreements with its two largest customers. Among other matters, the contracts specify the terms of such power purchases and the conditions under which the customer will pay its share of the City's investment in generation facilities and long term power purchase contracts, such as the City's contracts with NCPA, which is not recoverable at market rates (the City's "stranded investment"). The following is a summary of certain provisions relating to power purchases and stranded investment contained in the Agreement for Purchase of Retail Power, dated as of September 3, 1997 (the "NEC Agreement"), between the City and NEC Electronics, Inc. ("NEC"), its largest customer and in the Agreement for Purchase of Retail

Power, dated as of September 4, 1996 (the “HP Agreement”), between the City and Hewlett-Packard Company (“HP”), its second largest customer.

NEC Agreement. In the NEC Agreement, NEC agrees to purchase all the electricity for its Roseville facility in each month through December, 2004, up to the amount consumed in the corresponding month in 1997, at the applicable City rates. NEC is not required to continue operations at its Roseville facility or to purchase a minimum amount of electricity. After 2004 NEC may purchase all of its electricity from either the City, at rates to be negotiated, or from other suppliers. The City agrees to provide retail wheeling through its distribution system for purchases from other suppliers for NEC’s Roseville facility for the term of the NEC Agreement, which is scheduled to expire in 2022, at cost-based rates. These rates are to be competitive with rates charged the largest industrial customers in California for distribution service of similar reliability. NEC agrees to pay its fair share of the City’s stranded investment in existing, but not new, generation assets over the term of the financing of such assets. NEC has the option to pay its obligations for stranded investment at any time based on estimates of market rates provided that the City and NEC obtain, if available, an acceptable contract for the payment of the difference between NEC’s estimated and actual share of stranded investment. The City agrees (to the extent permitted by applicable law) to use amounts in its Rate Stabilization Fund to pay the stranded investment. When amounts in the Rate Stabilization Fund are sufficient for this purpose, NEC’s obligations with respect to stranded investment shall terminate.

HP Agreement. In the HP Agreement HP agrees, subject to the market option described below, to purchase electricity for its Roseville facility in each month through July, 2006, up to the amount consumed in the corresponding month in 1996 (the “base power”) at the applicable City rates. HP agrees to purchase the balance of the electrical requirements for its Roseville facility from the City through July 1, 2001 at a discount from the otherwise applicable tariff. The City agrees that the rates charged HP for electricity shall not be increased relative to the average rate for all customers. HP has the option to make open market purchases from other suppliers for amounts above base power after 2001. HP also may purchase from other suppliers specified portions of base power after July 1, 2001 if the City is mandated to provide open access to its customers or the City allows retail wheeling through its distribution system to any existing customer. The City has approved a policy allowing customer choice of electricity suppliers commencing in January 2000. (See “*City Council Action*” above.) HP is not required to continue operations at its Roseville facility or to purchase a minimum amount of electricity. The City agrees to provide retail wheeling through its distribution system for HP’s Roseville facility for the term of the HP Agreement, which expires by its terms in 2021, at cost-based rates. Such rates shall not include any charges related to generation or transmission or new debt on the existing distribution system. If the City establishes an open access fee for the right to wheel power through the City’s distribution system, then HP’s distribution charge shall equal this open access fee. HP agrees to pay its fair share of the City’s stranded investment in existing, but not new, generation assets over the term of the financing of such assets. Such payments are to be based on HP’s 1996 electrical energy usage compared to the City’s total 1996 energy sales and the then prevailing wholesale price for electricity in Northern California. The HP Agreement provides that the City’s established rates are expected to provide for HP’s share of stranded investment. The City agrees not to add any additional charges to such rates to recover stranded investment. If HP exercises its option to purchase electricity from another supplier during the period July 1, 2001

through July 1, 2006, HP agrees to pay its share of stranded investment applicable to such purchases based on the energy so purchased during such period. The City agrees to use amounts in its Rate Stabilization Fund to pay the stranded investment.

Power Supply

Currently the City provides approximately 65% of its power requirements to serve retail customers from its contract with Western, its participation in NCPA generation projects and long-term contracts. The City provides for the balance of its requirements from economic purchases through NCPA. The City currently intends to continue this policy for all such requirements, including new demand from growth. The City does not currently intend to participate in future generation projects nor to enter into long-term contracts other than to meet the needs of particular customers who will bear the financial risk that the cost of these assets may be above market.

Other Areas

Other areas in which the City is preparing for deregulation include marketing and distribution. The City has increased its customer communication program, established a key accounts program, is exploring new services, and is developing an unbundled rate structure expected to be implemented by mid-1998. A 1997 customer survey by the City indicated that ninety-seven percent of the customers responding rated Roseville Electric as either good or very good. In the development agreement for a planned regional shopping mall, the City has provided for the purchase of power from the City for commercial purposes for a five year period at market rates. The new services include an expanded public benefits program, greater energy efficiency consulting, green power and premium service such as load shedding protection. The City is actively involved in NCPA's efforts to restructure and refinance its debt obligations to reduce stranded investment, is supporting various NCPA and TANC initiatives to reduce operating costs, and is developing and implementing programs to reduce its own operating costs while further increasing system reliability. Additionally, the City is working with market participants in developing a hedge or other instruments to protect the City from additional stranded investment as a result of lower than anticipated market prices for electricity in the future.

CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA

Background

The electric utility industry is facing unprecedented changes. Self-generation, independent power producers, alternative energy sources, and federal and state statutory and regulatory changes, enacted, adopted and proposed, are creating an increasingly competitive atmosphere, particularly in California. Many electric utilities will no longer have monopolistic control over generation for their service areas, and will no longer be the sole power supply option for at least some of their customers. Additionally, those electric utilities with retail distribution, including the City, may find it necessary to grant rate concessions to commercial and industrial customers, with possible adverse effects on residential rates. Moreover, utilities with comparatively high cost

power supply resources, including the City, may find it difficult to recover the full cost of such resources through their rates.

The CPUC opened a rulemaking proceeding on April 20, 1994 to consider fundamentally reforming the regulatory system applicable to the five investor-owned electric utilities under its jurisdiction (the "Regulated Utilities"). The City is not subject to the jurisdiction of the CPUC and hence may not be directly affected (but will be indirectly affected) by ongoing changes in the legislative and regulatory system. See "Potential Effects on the City" below for a discussion of certain of the potential negative effects of such change in the legislative and regulatory system on the City.

Final Policy Decision

On December 20, 1995, three of the five CPUC Commissioners voted to adopt a final policy which proposes to (i) create a power exchange (the "Power Exchange"), no later than January 1, 1998, that will perform the functions of a short-term spot market, (ii) initiate direct access for retail customers (initially expected to be phased-in over a five-year period commencing with the operation of the Power Exchange) with a non-bypassable competition transition charge ("CTC") designed to recover a utility's transition costs of uneconomic generating assets or resources, (iii) create an independent system operator ("ISO") for the transmission grid, (iv) continue the development of performance-based ratemaking (where utility performance is measured against established benchmarks with incentives for superior performance and penalties for poor performance) for utility distribution services and certain utility-owned generation resources, and (v) require real-time rate and time-of-use rate options to be offered to a representative group of customers from all customer classes or to all customers of the Regulated Utilities by January 1, 1998, (vi) require the Regulated Utilities to permit customers to install "real-time" meters, and (vii) provide economic incentives to California's two largest Regulated Utilities to divest themselves of at least 50 percent of their fossil-fuel fired generation facilities. Regulated Utilities will continue to have the obligation to provide distribution services to all customers. Under the CPUC policy, during the five-year transition period beginning January 1, 1998, the California Regulated Utilities would be required to offer all of their generation into the Power Exchange and to satisfy their need for electricity on behalf of their full-service customers with purchases from the Power Exchange.

On May 6, 1997, the CPUC issued its decision on direct access which provides for the implementation of direct access for all customer classes beginning January 1, 1998. Customers, however, may choose to continue receiving service from their current utility, or return to their utility after choosing direct access. The utility will be required to provide service to these customers.

On May 6, 1997, the CPUC issued a separate decision unbundling revenue cycle retail electric services, primarily metering and billing, beginning January 1, 1998. The decision allows retail electricity providers to provide metering and billing services to their direct access customers.

Power Exchange

The Power Exchange would create a competitive market for electric energy in California through the creation of a wholesale power pool where all suppliers, including the Regulated Utilities, municipal utilities, power marketing agencies, independent power producers, and out-of-state generators, would have the opportunity to sell electricity through the pool according to established competitive bidding procedures with winning bids awarded to those suppliers that bid to supply electricity at the lowest price. The Regulated Utilities are required to sell all of their generation to, and purchase all of their energy requirements from, the Power Exchange during the statutory transition period.

Independent System Operator

PG&E, SDG&E and Edison would be required, and other transmission owners would be permitted, to place certain of their transmission facilities under the operational control of the ISO. Ownership and maintenance of the transmission lines would remain with the transmission line owners. All power suppliers would receive nondiscriminatory access to the transmission grid under the control of the ISO and would be subject to the same protocols and pricing procedures.

Implementation of Decision

On April 29, 1996, PG&E, Edison and SDG&E jointly filed with FERC an application to establish the ISO and Power Exchange in accordance with the CPUC decision (the "Phase I Filing"). On October 7, 1996, PG&E, Edison and SDG&E filed a joint statement amending their Phase I Filing to reflect the enactment of AB 1890 (as described below) by the California Legislature. In its Order issued November 26, 1996, FERC conditionally approved the joint filing to establish the ISO and Power Exchange and to transfer operating control over their transmission facilities to the ISO, and stated that the joint filing constituted an acceptable framework within which the CPUC could give its conditional approval and directed the companies to file more specific information on their plans by March 31, 1997.

On March 31, 1997, PG&E, Edison, and SDG&E, along with the ISO and Power Exchange, made their Phase II Filing with FERC. The filing contained additional information on the proposed structure of the ISO and Power Exchange. Comments on the filing were provided by many parties on June 6, 1997, which contained proposed modifications from all parties, including PG&E, Edison and SDG&E. FERC issued its order on the ISO/Power Exchange Phase II filing on July 30, 1997. The order required the ISO/Power Exchange to file the following information by August 15, 1997, with comments due on September 2, 1997: (1) a revised set of tariffs reflecting the ISO/Power Exchange structure that will be in place as of January 1, 1998; (2) responses to all of FERC staff's information requests; (3) a list of resolved and unresolved issues; and (4) a plan for the implementation of the delayed elements of the ISO/Power Exchange structure beyond January 1, 1998. Certain modifications have been accepted and the structure of the ISO/Power Exchange continues to evolve. FERC has issued an order which establishes January 1, 1998 as the date for initial operation of the ISO and Power Exchange; however, many permanent features of the ISO/Power Exchange structure have been delayed to mid-1998 and beyond, due to the magnitude and complexities of the changes

associated with the new structure. The City is not able to determine what action FERC will take regarding the August 15, 1997 filings or motions to intervene and protest or what effect, if any, the action will have on the City.

AB 1890

On August 31, 1996, the California Legislature passed Assembly Bill 1890 ("AB 1890") relating to the restructuring of the electric utility industry in California. On September 23, 1996, the Governor of the State of California signed AB 1890 into law. AB 1890 contains a number of ambiguities and uncertainties as to its application. It is anticipated by the City that the California Legislature will address some of these uncertainties in future legislation. However, other issues may ultimately be determined by regulatory or judicial actions. It is not possible at this time to predict with certainty the outcome of any such legislation, judicial or regulatory action.

AB 1890 states that the intent of the California Legislature is as follows: (i) to allow utilities to recover uneconomic generation-related costs through a non-bypassable CTC; (ii) to require the Regulated Utilities to grant an immediate rate reduction of not less than 10% for all residential and small commercial (those with a maximum peak demand of less than 20 kW) electric customers between January 1, 1998 and March 31, 2002, with an anticipated cumulative rate reduction for such customers of not less than 20% by April 1, 2002; (iii) to permit the Regulated Utilities to finance such rate reductions through the issuance of "rate reduction bonds" in an amount not to exceed \$10 billion (a significant portion of which is expected to be issued later in 1997); (iv) to authorize the creation of the ISO and the Power Exchange as state-chartered, nonprofit institutions by January 1, 1998; (v) to separate monopoly utility transmission functions from competitive generation functions; (vi) to permit all customers to choose from among competing suppliers of electric power; and (vii) to provide customers and suppliers with open, nondiscriminatory and comparable access to transmission and distribution services.

It is also the stated intent of the California Legislature that California's municipally-owned electric utilities (such as the City) and the Regulated Utilities agree to commit control of their transmission facilities to the ISO. The CTC authorized under AB 1890 may not be collected by a municipally-owned electric utility or a Regulated Utility unless it agrees to transfer control of its transmission facilities to the ISO. In addition, the CTC authorized under AB 1890 may not be collected by a municipally-owned electric utility unless the utility authorizes direct access as contemplated by AB 1890. AB 1890 also provides that a California electric utility may not sell electric power to a retail customer of another California electric utility unless the first electric utility has agreed to let the second electric utility sell power to the retail customers of the first electric utility. Further, under AB 1890, the Regulated Utilities will be required to "unbundle" their retail rates.

AB 1890 provides that municipally-owned electric utilities have the right to phase-in direct access service. The phase-in must be commenced by the later of January 1, 2000 or two years after the start of the phase-in of direct access by the Regulated Utilities (which is scheduled for January 1, 1998), and the phase-in must be completed by the later of December 31, 2010 or two years after the completion of the phase-in by the Regulated Utilities (which was scheduled for January 1, 2002). All Regulated Utility customers, however, will be eligible for direct access

beginning on January 1, 1998 because the CPUC determined, on May 6, 1997, that the Regulated Utilities will not be allowed to phase-in direct access. The regulatory body of the municipally-owned utility is required to develop a phase-in schedule for direct access and any such phase-in of customer eligibility for direct access must be equitable to all customer classes. At the end of the phase-in periods, all customers would have the right to engage in direct purchases of power. Subject to certain exceptions, including the recovery of "stranded costs" from residential and small commercial customers which are financed with "rate reduction bonds," transition costs for the Regulated Utilities would be amortized by December 31, 2001, provided that rates would not be allowed to rise above levels in effect on June 10, 1996. Rate reduction bonds (which will be secured by a pledge of the regulated utilities' CTC), together with any remaining transition costs of the Regulated Utilities, are expected to be amortized by 2006. AB 1890 contains no limitations on the period of time over which a municipally-owned electric utility may recover its transition costs through the imposition of the CTC.

Under AB 1890, the CTC would not apply to certain co-generation facilities operated within the service area of a municipally-owned electric utility.

AB 1890 authorizes the aggregation of customer electrical load for all customer classes of the Regulated Utilities, including residential and small commercial customers. In addition to the CTC, AB 1890 directs the CPUC to order the Regulated Utilities to identify a separate rate component (a non-bypassable element of the local distribution service collected on the basis of usage) to fund demand-side management services; renewable energy resource and technology services; research, development and demonstration programs; and low-income customer assistance programs at specified levels through December 31, 2001. AB 1890 also provides that each municipally-owned electric utility would be required to collect a non-bypassable charge (estimated to be approximately 2.85% of annual revenue requirements) for such public good purposes. See "THE ELECTRIC SYSTEM - Rates." However, AB 1890 does not appear to limit the time frame during which municipally-owned utilities are required to collect certain of such charges (i.e. to December 31, 2002) as it does for the Regulated Utilities.

The ISO and the Power Exchange have been incorporated as California non-profit public benefit corporations. A Chief Executive Officer of the ISO and a Chief Executive Officer of the Power Exchange have been hired. Certain computer hardware and software programs are being developed and implemented to ensure that the ISO and the Power Exchange begin partial operation no later than January 1, 1998. In accordance with FERC's November 26, 1996 Order and in response to AB 1890, additional filings with FERC were made on March 31, 1997 providing additional details and structure to the ISO and the Power Exchange. The filings have generally been endorsed by the ISO and the Power Exchange. Various parties have filed comments and protests with respect to the March 31, 1997 filings. Pursuant to FERC's July 31, 1997 Order, the ISO and the Power Exchange amended and updated their filings on August 15, 1997 to enable FERC to make the necessary analyses and rulings to permit the ISO and the Power Exchange to begin operations on January 1, 1998. Intervenors may file protests and comments. The City is unable to determine what action FERC will take regarding to August 15, 1997 filings or motions to intervene and protest or what effect, if any, the action will have on the Electric System.

Potential Effects on the City

Deregulation and the enactment of AB 1890 will create numerous risks and uncertainties for electric utilities in California. The City is likely to face risks either as a result of electing to participate in the ISO and allowing direct access within its service area or as a result of market and political pressures to provide the potential benefits of direct access to customers. Some of these risks are generally described below.

AB 1890 authorizes a CTC to be imposed by a municipally-owned utility to recover its “stranded costs” as represented by the reasonable uneconomic portion of costs associated with “generation-related” assets and obligations.

AB 1890 (as it relates to the Regulated Utilities and possibly municipally-owned utilities) provides that in determining the “stranded costs” to be recovered through the CTC, the negative value of below market assets is to be netted against the positive value of above market assets. The value of market assets will vary at any particular point in time due to fluctuations in the market price of energy, as well as such other factors as change in gas prices, sale levels, inflation rates, trends of new technology costs and available supplies of energy within the market. Thus, there can be no assurance that a fixed CTC established over a predetermined period of time will be sufficient to amortize all “stranded costs.”

Pursuant to AB 1890, the CPUC is granted authority for determination of the costs eligible for recovery by a Regulated Utility through a CTC and for the valuation of generation-related assets and obligations of a Regulated Utility for purposes of making such determinations. AB 1890 provides that the CPUC’s determination is final and may not be rescinded, altered or amended. Thus, any CTC imposed by a Regulated Utility as approved by the CPUC is not subject to judicial challenge. It is unclear whether a CTC imposed by a municipally-owned utility would be similarly protected from challenge.

While AB 1890 authorizes a municipally-owned utility to impose a CTC without any time limitation, the City may experience political and customer pressure to reduce or eliminate a CTC if such CTC causes the cost of delivered energy to substantially exceed that available in the surrounding PG&E service area. Thus, a potential impact of AB 1890 could be to place pressure on the City to amortize its “stranded costs” within roughly the same time frame in which PG&E is required to recover its “stranded costs.” As stated above, under AB 1890 “stranded costs” are required to be amortized by PG&E by December 31, 2001, subject to limited exceptions, such as the recovery of the costs of rate reduction bonds associated with residential/small commercial customers, which are expected to be amortized by 2006.

The City has not taken final official action to authorize direct access within its service territory. As described in “CITY’S RESPONSE TO COMPETITION” herein, the Roseville City Council adopted a plan on May 8, 1996, which affirmed the City’s intention to begin phasing in open access to other suppliers by 2000. The final decision for granting open access within its service territory has not been made by the City.

The effects of direct access on the City cannot be specifically ascertained at this time. However, one significant effect could be the loss of customers, particularly large industrial and commercial customers. As described herein under "THE ELECTRIC SYSTEM- Revenues and Sales- Customers, Sales, Revenues and Demand" and- "Ten Largest Customers" in fiscal year 1996-97, industrial and commercial customers accounted for approximately 65% of the Electric System's revenues and 68% of the Electric System's total kWh sales. In fiscal year 1996-97, its ten largest industrial customers accounted for approximately 34% of revenues and 39% of kWh sales. The loss of any large industrial customer, in the absence of a CTC or other cost recovery mechanism sized adequately to recover the full "stranded costs" allocable to such customer, could have a materially adverse effect on the financial condition of the City's Electric System. As more fully described under the heading "CITY'S RESPONSE TO COMPETITION- Contracts With Two Largest Customers," the City has taken the initiative to establish long-term power sale arrangements with its largest customers. Any loss of customers could result in increased costs to remaining customers, as well as decreased revenues, including the need to recover stranded investment in facilities from the remaining customers.

A broader issue raised by AB 1890 is the ability of municipally-owned utilities to effectively compete in an openly competitive environment. Municipally-owned utilities may be impeded in their ability to compete by numerous legal limitations and requirements, such as competitive bidding, public meeting and information requirements, labor policies, restrictions on the use of facilities financed with tax-exempt financing, and governing structures which may not permit the flexibility required to compete in the marketplace.

Further, in the competitive market for the generation of electricity, as is currently planned under AB 1890, there may be significant volatility in energy prices due to a wide variety of factors which affect both the supply and demand for electric energy in the western United States, including fuel costs, weather, and levels of hydroelectric generation within the region. This price volatility may contribute to greater volatility in the City's revenues from the sale of electric energy, which could have favorable financial impacts in some years, and unfavorable impacts in others. If the City's Electric System is unable to maintain sufficient cash reserves to sustain such fluctuations in average energy prices, it may experience difficulties in meeting its financial obligations, including its obligations to make payments to NCPA and TANC as well as the City's obligations under the Contract.

The ultimate adverse impact of AB 1890 may be the possibility that one or more other municipally-owned utilities with which the City participates in other projects could have difficulty meeting its existing debt or other contractual obligations. If this were to happen, the City might be obligated to implement the "step-up" provisions under the agreements with joint powers agencies in which the City participates, thereby further exacerbating the financial impact on the City. See "ELECTRIC SYSTEM FINANCIAL INFORMATION - Indebtedness" herein for additional information regarding the City's existing agreements with joint power agencies.

AB 1890 requires that a municipally-owned utility must turn over operating control of its transmission facilities to the ISO in order to be authorized to collect a CTC pursuant to AB 1890. It is unclear whether control of any transmission facilities in which a municipally-owned utility has an interest through a joint powers agency (such as the City) would be required to be turned over

to the ISO before the municipally-owned utility would have authority to impose a CTC pursuant to AB 1890. In addition, many of the transmission facilities of municipally-owned utilities were financed with tax-exempt bonds that are still outstanding. AB 1890 explicitly provides that nothing in AB 1890 shall compel any party to violate restrictions applicable to facilities financed with tax-exempt bonds or contractual restrictions and covenants regarding use of transmission facilities existing as of December 20, 1995. Nevertheless, there is currently concern among many California municipally-owned electric utilities that their transfer of control to the ISO could adversely affect the exclusion from gross income of interest on the applicable tax-exempt bonds for federal income tax purposes. Although some California municipally-owned electric utilities are seeking relief from the federal government on this matter, no assurance can be given that relief will be granted. If satisfactory relief is not granted and, as a result, the affected California municipally-owned electric utilities do not transfer control of their transmission facilities to the ISO (and are not able to collect a CTC pursuant to AB 1890), the competitiveness of some of those municipally-owned electric utilities may be adversely affected. If relief is granted, over the next few years the City may implement direct access by transferring control of its transmission facilities to the ISO and authorizing direct access service. AB 1890 also provides that municipally-owned utilities which commit their "transmission facilities" to the ISO will be entitled to an "equitable return" on their capital investment, although it is unclear at this time how municipally-owned utilities will be recompensed for use of their transmission facilities by others.

The City is studying various actions that may be implemented in an effort to enhance its ability to compete as a result of increased competition. See "CITY'S RESPONSE TO COMPETITION."

RATE REGULATION

As described above, 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 currently subject to the regulatory jurisdiction of the California Public Utilities Commission, and presently neither any other regulatory authority of the State of California nor FERC limits or restricts such rates and charges. It is possible that future legislative and/or regulatory changes could subject the rates and or service areas of the City to the jurisdiction of the CPUC or to other limitations or requirements. In addition, the enactment of AB 1890 by the California Legislature may affect the level of any competition transition charge imposed by the City in the future. See "CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA - AB 1890" herein.

FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the Federal Power Act, although it has not as a practical matter exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. If it did assert such jurisdiction, the result might have some significance for the City through NCPA's Hydroelectric Project. 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. Certain municipally-owned utilities are already and have for some time been licensees of hydroelectric projects under Part I and others are customers of licensees, 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 NCPA's Hydroelectric Project, it is unlikely that any reasonable rates and charges would be found to be contrary to applicable federal regulatory standards.

Under the 1992 revisions to the Federal Power Act, enacted as the Energy Policy Act of 1992 (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 cost-based rates. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Changes in Federal Regulation of Electric Utilities." FERC also has jurisdiction to regulate those rates, and has asserted that the 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 the Commission pursuant to Section 211 of the Federal Power Act, as amended by the Energy Policy Act.

Due to the nature and location of the transmission facilities in which the City has an interest, the City does not anticipate receiving any requests for access to such transmission, and thus it does not expect to provide any service at regulated rates. The City is a member of TANC, a separate joint powers agency that built and manages the COTP, a 500 kV transmission project between California and the Pacific Northwest. Through TANC, the City has an interest in the COTP. While requests for transmission access to the COTP are more likely, it is not expected that the City is the entity to which such requests would be addressed.

If at some point in the future the City elects to make use of any open access transmission tariff filed by a FERC-jurisdictional utility pursuant to Order 888 (see "CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA"), the City will trigger certain reciprocal obligations under the tariff, including the obligation to provide open access transmission service to certain other utilities. The City would also be required to make information about its facilities available on a computer bulletin board and to separate its transmission personnel from its marketing personnel. The City already expects to participate in a regional bulletin board and has stated its readiness to provide open access service under appropriate terms and conditions. To the extent that any requirements may be unduly burdensome, the City intends to seek appropriate waivers from the FERC.

As is described in "CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA," transmission facilities of the City may be included in a California statewide network to be administered by an Independent System Operator. It is unclear at this stage how the City will be recompensed for the use of those transmission facilities by others.

The California Energy Commission is authorized to evaluate rate policies for electric energy as related to goals of the Energy Resources Conservation and Development Act and make recommendations to the Governor, the Legislature and publicly owned electric utilities.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact upon the financial condition and competitiveness of an electric utility and the level of utilization of generating facilities. In addition to the factors discussed below, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes that might result 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 gas) utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of producing low-cost electricity, (e) the proposed repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) “self-generation” by certain industrial and commercial customers, (h) issues relating to the ability to issue tax-exempt obligations, (i) severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (j) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (k) changes from projected future load requirements, (l) increases in costs and uncertain availability of capital, and (m) shifts in the availability and relative costs of different fuels (including the current low cost of natural gas). Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways. In addition, see “CHANGES IN THE ELECTRIC UTILITY INDUSTRY BUSINESS IN CALIFORNIA.”

The City cannot predict what effects such factors will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain.

Status of Federal Power Marketing Administrations

The Western Area Power Administration markets power from the Central Valley Project in California (the “CVP”) to the City. That power represents a substantial portion of the City’s resource base. For several years, attempts have been made in the Congress, the most recent in

1996, to pass legislation to sell the Federal Power Marketing Administrations ("PMAs"), including Western. These efforts have been defeated in the Senate. However, introduction of additional federal legislation to sell the PMAs or to sell their power at auction is expected in the future. The City and certain joint action agencies of which the City is a member have been actively involved in the debates over these sales and are attempting to assure that the City continues to benefit from this comparatively low cost power resource. The City's current contract with Western expires on December 31, 2004. Western has initiated efforts to solidify its marketing plan for post-2004. On October 1, 1997, Western lowered its rates by approximately 20% as a result of efforts to reduce its costs, particularly in the purchases of supplemental power to firm its hydroelectric resources.

The City cannot predict whether or not Western entitlements will continue to be available to the City and, if not, what effect loss of those entitlements would have on the City.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that any City project, or any project in which the City has an interest, will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual electric generating units not in compliance.

There is concern by the public, the scientific community and Congress regarding environmental damage resulting from the use of fossil fuels. Congressional support for the increased regulation of air, water and soil contaminants is building, and there are a number of pending or recently enacted legislative proposals which may affect the electric utility industry. Over the next few years the Environmental Protection Agency, the states and local air quality districts are poised to issue new regulations governing emissions from many types of power plants. By the year 2000 or shortly thereafter, Clean Air Act regulation of utility emissions is likely to change dramatically. The changes will have the greatest effect on coal plants. However, they could also affect combustion turbines and other types of plants, as well as the costs of purchased power from affected resources. If enacted, the new regulations may well upset existing cost assumptions for utilities. Proposed or pending changes to the Clean Air Act program include proposed tightening of the national ambient air quality standard for ozone, proposed tightening of the national ambient air quality standard for particulate matter, the final utility boiler rule requiring low-NOx burners, final OTAG ozone recommendations, the Integrated Coordinated Combustion Rulemaking to regulate hazardous air pollutants from combustion sources (new and existing), climate challenge initiatives that may mandate cuts in CO₂ emissions, environmental challenges to elements of the federal and state utility restructuring programs, the Clean Air Power Initiative for overall restructuring of air regulation for electric utilities and the proposal of a NOx cap and trade scheme. While it is too early to say which, if any, of these provisions will be enacted, in what form, or what their effect will be, changes in the program are an issue of concern.

The City cannot predict at this time whether any additional legislation or rules will be enacted which will affect City's operations, and if such laws or rules are enacted, what the costs to the City might be in the future because of such action.

A number of studies have been conducted regarding the potential long-term health effects resulting from exposure to electric and magnetic fields ("EMF") created by high voltage transmission and distribution equipment as well as by electrical appliances, computers, and other electrical devices. Studies are being conducted to determine the relationship between EMF and certain adverse health effects, if any. At this time, it is not possible to predict the extent of the costs and other impacts, if any, which the EMF concern may have on electric utilities, including the City.

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. These changes are expected to increase competition in the electric utility industry. The City cannot predict what effect such increased competition will have on the business and affairs of the City's Electric System, the need for some or all of the City's power supply or the utilization of the City's long-term transmission resources.

Transmission Access. The Energy Policy Act amended, among other sections, sections 211 and 212 of the Federal Power Act. Under amended section 211, any electric utility, federal power marketing agency or any other person or entity generating electric energy for sale or resale may apply to FERC for an order under section 211 requiring a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant. FERC may issue an order requiring such transmission service to be provided if it finds such order meets the requirements of section 212 and would otherwise be in the public interest. Under the Energy Policy Act, municipally-owned electric utilities are "transmitting utilities" subject to the requirements of sections 211 and 212.

Retail Wheeling. The authority for regulation of retail wheeling, which allows a retail customer located in one utility's service area to obtain power from another utility or from non-utility sources, is specifically excluded from the enhanced authority granted to FERC under the Energy Policy Act. Many believe that this leaves authority for regulation of retail wheeling with state legislative and regulatory bodies which, in several states, are now receiving and acting on requests for this service. See "CHANGES IN THE ELECTRIC UTILITY BUSINESS IN CALIFORNIA" herein. One potential effect of this is that utilities with low-cost power will be better able to compete for new and existing loads.

Changes in Federal Regulation of Electric Utilities

On April 24, 1996, FERC issued a Final Rule ("Order No. 888") significantly changing the regulation of transmission service performed by electric utilities subject to FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, FERC ordered pro forma, open-access, mandatory transmission tariffs be placed into effect for all jurisdictional

utilities on or before July 9, 1996. The goal of Order No. 888, according to FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner's control of its transmission system.

Although consumer-owned utilities, including the City's Electric System, are not subject to FERC's jurisdiction under sections 205 and 206 of the Federal Power Act, Order No. 888 will likely have a significant effect on those utilities. The overall objective of Order No. 888 is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. FERC also intends to apply the principles set forth in Order No. 888 to the maximum extent to municipal and other nonjurisdictional utilities, both in deciding cases brought under sections 211 and 212 of the Federal Power Act (see "Energy Policy Act of 1992 - *Transmission Access*" above) and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs. In such event, FERC Order No. 889 would also require such utilities to provide certain commercial information about their facilities on a computer bulletin board and to separate their operating personnel from their marketing personnel.

An open access transmission tariff must provide for functional unbundling of utility service, so that the filing utility will be obliged to purchase transmission service to meet its native load under the same transmission tariff it offers to others. A conforming tariff must be available to any entity eligible to request a section 211 order, must provide for expansion of the transmission system when necessary to provide service, must offer firm point-to-point and network service as well as non-firm transmission service, and must offer to provide such ancillary service (e.g. reactive power, scheduling and dispatch, load following, system protection and energy imbalance services) as the transmission provider provides to itself. Transmission capacity is subject to reassignment and sale on a secondary market.

The new regulations became effective on July 9, 1996; however, petitions for rehearing have been filed with FERC. On March 4, 1997, the FERC issued Order No. 888-A and Order 889-A largely denying rehearing and reaffirming its Order No. 888 and Order No. 889. Petitions for judicial review were filed with several U.S. Courts of Appeal and were consolidated for review by, and are currently pending before, the United States Eighth Circuit Court of Appeals.

Proposed Federal Deregulation Legislation

Many bills have been introduced into the United States House of Representatives and the United States Senate to deregulate the electric utility industry on the federal and state levels. In general, the bills provide for open competition in the furnishing of electricity to all retail customers (*i.e.*, retail wheeling). No prediction can be made as to whether these bills, or any future proposed bills to deregulate the electric industry, will become law or, if they become law, what their final form or effect would be.

RECENT 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 adds Articles XIIC and XIID to the State Constitution. Article XIID 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 XIID explicitly exempts fees for the provision of electric service from the provisions of such article. Article XIIC expressly extends the people's initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. Since the terms "fees and charges" are not defined in Article XIIC, the initiative powers may affect more than "property-related" fees and charges as defined in Article XIID. Additionally, in the case of Bock v. City Council of Lompoc, 109 Cal. App. 3d 52 (1980), the Court of Appeal for the Second District has determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIID) might be subject to the initiative provision of Article XIIC, thereby subjecting such fees and charges imposed by the City to reduction by the electorate. The City Attorney is of the opinion that even if the City's electric rates were subject to the initiative power, under Article XIIC or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of 1997 Payments by virtue of the "impairments clause" of the United States Constitution.

THE AUTHORITY

The Authority was established pursuant to the provisions of Sections 6500 *et seq.* of the California Government Code and a Joint Exercise of Powers Agreement, first dated as of July 1, 1989 and amended and restated as of July 1, 1997, by and between the City and the Redevelopment Agency of the City of Roseville. The Authority was established for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements. The governing board of the Authority consists of the City Council of the City.

TAX MATTERS

In the opinion of Brown & Wood LLP, San Francisco, California, Special Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Trust Agreement and the Contract and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Certificates and the timely payment of certain investment earnings to the United States, the portion of each 1997 Payment due under the Contract designated as and comprising interest with respect to the Certificates is not includable in the gross income of the holders of the Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each 1997 Payment due under the Contract designated as and comprising interest with respect to the Certificates to be included in gross income retroactively to the date of execution and delivery of the Certificates.

In the further opinion of Special Counsel, the portion of each 1997 Payment due under the Contract designated as and comprising interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of each 1997 Payment, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on or with respect to, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Special Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Trust Agreement and the Contract may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Special Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of the portion of each 1997 Payment due under the Contract designated as and comprising interest with respect to the Certificates on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Brown & Wood LLP.

The initial public offering price of certain of the Certificates (collectively, the "Discount Certificates") is less than the principal amount of the Discount Certificates. The difference between the principal amount of the Discount Certificates and the initial public offering price of the Discount Certificates is original issue discount. Original issue discount on a Discount Certificate will accrue over the term of such Discount Certificate at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Certificate will be treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount Certificate in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but will be included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax and environmental tax liabilities. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount Certificates should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, environmental tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Certificate will increase the owner's adjusted basis in such Discount Certificate. This will affect the amount of taxable gain or loss realized by the owner of the Discount Certificate upon the redemption, sale or other disposition of such Discount Certificate. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, sale or other disposition of a Discount Certificate that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Certificates should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Certificates, other federal income tax consequences of owning and disposing of the Discount Certificates and any state and local tax consequences of owning and disposing of the Discount Certificates.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of execution and delivery of the Certificates will not have an adverse effect on the tax-exempt status of the Certificates. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Certificates.

In the further opinion of Special Counsel, the portion of each 1997 Payment due under the Contract designated as and comprising interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California.

A copy of the proposed form of opinion of Special Counsel is attached hereto as APPENDIX E.

APPROVAL OF LEGALITY

Legal matters incident to the execution and delivery of the Certificates are subject to the final approving opinion of Brown & Wood LLP, San Francisco, California, Special Counsel. Certain matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California. Payment of the fees and expenses of Special Counsel and Underwriter's counsel is contingent upon the sale and delivery of the Certificates. Certain matters will be passed upon for the Authority and the City by the City Attorney of the City of Roseville.

VERIFICATION

Deloitte & Touche LLP, a firm of independent certified public accountants, will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Certificates of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Prior Certificates, and (2) the computations of yield on both the securities and the Certificates contained in the provided schedules used by Special Counsel in concluding that interest evidenced by the Certificates is excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and judicial decisions.

Deloitte & Touche LLP will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest evidenced by the Certificates.

LITIGATION

No litigation is pending or threatened concerning the validity of the Certificates, the Trust Agreement or the Contract, and an opinion of the City Attorney to that effect will be furnished to the Underwriter at the time of the original delivery of the Certificates. The Authority is not aware of any litigation pending or threatened questioning the political existence of the Authority, contesting the Authority's ability to collect 1997 Payments or to pay principal and interest evidenced by the Certificates when due, or which would have a material adverse effect on the Authority's ability to pay principal and interest evidenced by the Certificates when due. The City is not aware of any litigation pending or threatened questioning the political existence of the City, contesting the City's ability to collect Revenues or to pay the 1997 Payments when due, or which would have a material adverse effect on the City's ability to pay the 1997 Payments when due.

VALIDATION ACTION

On July 18, 1997, the City filed a validation action under Section 860 of the California Civil Code with the Superior Court for the County of Placer (Case No. SCV-6117), seeking judgment on certain legal issues relating to the Contract and the 1997 Project. No defendant challenged the City's action, and the Superior Court entered a default judgment in favor of the City on September 3, 1997.

FINANCIAL STATEMENTS

The audited general purpose financial statements of the City as of June 30, 1996 and for the year then ended and the supplemental combining and individual fund financial statements and schedules, included in APPENDIX B to this Official Statement, have been audited by Deloitte & Touche LLP, independent accountants (the "Auditor") as stated in their report appearing in APPENDIX B. The City has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in APPENDIX B of its report on such financial statements. The Auditor's review in connection with the audited financial statements included in APPENDIX B included events only as of December 4, 1996 and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Services have assigned the Certificates the ratings of "Aaa" and "AAA", respectively, with the understanding that, upon delivery of the Certificates, the municipal bond insurance policy will be delivered by AMBAC Assurance Corporation. An explanation of the significance of such ratings may be obtained from each of the rating agencies. There is no assurance that such ratings will continue for any given

period of time or that such ratings will not be revised downward or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased for reoffering by PaineWebber Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Certificates at a discount of \$121,884 from the initial public offering prices shown on the cover page hereof. The Underwriter will purchase all of the Certificates if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the purchase contract relating to the Certificates.

FINANCIAL ADVISOR

Public Financial Management, Inc., San Francisco, California has assisted the City and the Authority with various matters relating to the planning, structuring and delivery of the Certificates. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affair of the City to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the Certificates.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Certificates or to any decision to purchase, hold or sell the Certificates and the Authority will not provide any such information. The City has undertaken all responsibilities for any continuing disclosure to Owners and Beneficial Owners of the Certificates as described below, and the Authority shall have no liability to the Owners and Beneficial Owners of the Certificates or any other person with respect to S.E.C. Rule 15c2-12.

The City has covenanted for the benefit of Owners and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City (the "Annual Report") by not later than January 31 of each year, following the end of the City's fiscal year (which fiscal year currently ends June 30), commencing with the Annual Report for the 1996-97 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. 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. The notices of material events will be filed by the City with the repositories (and with the appropriate State Repository, if any). The specific nature of the information to be contained in the Annual Report and the notices of material events is summarized in "APPENDIX D— FORM OF CONTINUING

DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

AVAILABILITY OF DOCUMENTS

Copies of this Official Statement, the Trust Agreement, the Contract, the Continuing Disclosure Certificate and audited financial statements of the City will be available, upon written request and payment for photocopying, handling and postage, from the City Clerk Department, City of Roseville, 311 Vernon Street, Roseville, California 95678. Additional copies of this Official Statement will be available upon request from the Financial Advisor, c/o Public Financial Management, Inc., 505 Montgomery Street, Suite 800, San Francisco, California 94111, telephone number (415) 982-5544.

MISCELLANEOUS

The purpose of this Official Statement is to provide information to prospective purchasers of the Certificates. References are made herein to the Trust Agreement, the Contract and other agreements, documents and reports that are brief summaries thereof which do not purport to be complete or definitive, and reference is hereby made to all such agreements, documents and reports for a full and complete statement of the contents thereof.

Any statements made in this Official Statement involving matters of opinion, estimates or projections, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such estimates or projections will be realized. This Official Statement is not to be construed as a contract or agreement between the purchasers of any of the Certificates and the Authority or the City.

This Official Statement contains forward-looking statements, including (a) statements containing projections of capital expenditures and other financial items, (b) statements of the plans and objectives of the City for future operations of the Electric System, (c) statements of future economic performance of the Electric System, and (d) statements of the assumptions underlying or relating to statements described in (a), (b) and (c) above (collectively, “Forward-Looking Statements”). All statements other than statements of historical facts included in this Official Statement, including, without limitation, statements under “THE ELECTRIC SYSTEM” regarding the Electric System’s financial position, business strategy, capital resources and plans and objectives of the City for future operations of the Electric System are Forward-Looking Statements. Although the City believes that the expectations reflected in such Forward-Looking Statements are reasonable, they can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from expectations of the City or the Authority (collectively, the “Cautionary Statements”) are disclosed in this Official Statement. All subsequent written and oral Forward-Looking Statements

attributable to the City or persons acting on behalf of the City are expressly qualified in their entirety by the Cautionary Statements.

The preparation and distribution of this Official Statement have been duly authorized by the City.

CITY OF ROSEVILLE

By /s/ Allen E. Johnson

City Manager

APPENDIX A

THE CITY OF ROSEVILLE

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THE CITY OF ROSEVILLE

The City of Roseville is located in Placer County, in California's Sacramento Valley, near the foothills of the Sierra Nevada mountain range, about 16 miles northeast of Sacramento and 110 miles east of San Francisco. The City, with a population estimated to be approximately 62,600 in 1997, is the largest city in Placer County as well as the residential and industrial center of the County.

The City has warm summers typical of central California, with an average July temperature of 77 degrees. Winter temperatures are moderate; the average January temperature is 46 degrees. The temperature drops below freezing an average of eight days per year. Rainfall averages 20 inches annually and falls mostly during the winter.

There is a wide variety of land uses within the City. Most of the City's residential neighborhoods are located west of Interstate Highway 80; industrial facilities, including Hewlett-Packard, NEC Electronics, Inc. and Formica are concentrated in the north Roseville area.

Municipal Government

The City was incorporated on April 10, 1909 and is a charter city. The City operates under the council-manager form of government, with a five-member City Council elected at large for staggered four-year terms. At each election, the council member receiving the most votes is appointed mayor for two years.

City services include, among others, police and fire protection, library services, street maintenance, and parks and recreation. The City also owns a golf course and provides its own electricity, water, sewer and refuse services to its citizens.

Population

Between 1992 and 1997, the City's population increased 26.6%, compared to a 13.9% increase for the County and 5.7% for the State for the same period. The City's growth in population is shown below.

CITY OF ROSEVILLE POPULATION 1992 through 1997

<u>Year</u> <u>(as of January 1)</u>	<u>City of Roseville</u>
1992	49,500
1993	52,500
1994	54,400
1995	56,479
1996	59,804
1997	62,671

Source: City of Roseville.

Effective Buying Income

Data on effective buying income with respect to the City alone are not available. The following table summarizes the total effective buying income and the median household effective buying income for Placer County, the State and the nation over the years 1992 to 1996. ⁽¹⁾

EFFECTIVE BUYING INCOME COUNTY OF PLACER, CALIFORNIA AND UNITED STATES 1992 through 1996 (In thousands)

<u>Year and Area</u>	<u>Median Household Effective Buying Income</u>	<u>Total Effective Buying Income</u>
1992		
County of Placer	\$39,628	\$ 3,218,754
State of California	37,686	509,152,677
United States	33,178	3,916,947,023
1993		
County of Placer	\$40,521	\$ 3,407,920
State of California	36,943	490,749,649
United States	35,056	4,169,724,052
1994		
County of Placer	\$42,429	\$ 3,633,053
State of California	39,330	528,958,745
United States	37,070	4,436,178,724
1995		
County of Placer	\$44,061	\$ 3,888,109
State of California	40,969	552,074,838
United States	40,598	3,964,285,118
1996		
County of Placer	\$40,107	\$ 3,806,820
State of California	35,216	492,516,991
United States	33,482	4,161,512,384

Source: Sales and Marketing Management Survey of Buying Power.

⁽¹⁾ Data for 1995-1996 not strictly comparable to other years due to changes in method of calculation.

Employment and Industry

Although employment figures are not available for the City, the unemployment rate in Placer County as of December 1996 was 5.4%. Comparably the unemployment rate for the State as of December 1996 was 7.2%. The following table summarizes the labor force, employment and unemployment figures over the past five years for Placer County, the State and the nation.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Annual Average for Calendar Years 1992 through 1996 and First Half of 1997

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Rate</u>
1992				
Placer County	95,600	87,700	7,900	8.3%
State of California	15,404,300	13,973,300	1,431,000	9.3
United States	128,105,000	118,492,000	9,613,000	7.5
1993				
Placer County	95,200	87,700	7,500	7.9%
State of California	15,359,500	13,918,300	1,441,200	9.4
United States	129,200,000	120,259,000	8,941,000	6.9
1994				
Placer County	99,700	93,200	6,500	6.6%
State of California	15,450,000	14,122,100	1,327,900	8.6
United States	131,056,000	123,060,000	7,996,000	6.1
1995				
Placer County	102,700	96,300	6,400	6.2%
State of California	15,427,200	14,216,700	1,210,500	7.8
United States	132,304,000	124,900,000	7,404,000	5.6
1996				
Placer County	104,100	98,400	5,700	5.4%
State of California	15,596,100	14,469,900	1,126,200	7.2
United States	133,943,000	126,708,000	7,235,000	5.4
1997 ⁽¹⁾				
Placer County	105,700	100,600	5,100	4.8%
State of California	15,848,800	14,862,800	986,000	6.2
United States	137,557,000	130,463,000	7,094,000	5.2

Source: California Employment Development Department.

⁽¹⁾ As of June 1997.

The following table shows the distribution of employment by industry in the Placer County labor market.

**PLACER COUNTY
EMPLOYMENT BY INDUSTRY
Calendar Years 1991 through 1995**

<u>Industry</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Mining	200	200	200	200	200
Construction	5,500	5,200	4,800	4,900	5,200
Manufacturing	7,800	8,100	7,900	8,100	9,200
Trans. & Pub. Utilities	4,400	4,300	3,300	3,800	3,700
Wholesale & Retail Sales	16,400	16,300	16,100	18,900	20,000
Finance, Insurance & Real Estate	3,400	3,700	4,000	4,300	3,900
Services	15,600	16,200	17,100	18,300	19,400
Government	<u>11,300</u>	<u>12,000</u>	<u>12,400</u>	<u>12,500</u>	<u>12,800</u>
Total Non-Agricultural	64,600	66,000	65,800	71,000	74,400
Total Agriculture	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>300</u>	<u>500</u>
Total All Industries	64,600	66,000	65,800	71,300	74,900

Source: California Employment Development Department.

The following table shows the largest employers in the City.

LARGEST EMPLOYERS (1997)

BUSINESS	EMPLOYEES
Hewlett-Packard	4000
NEC Electronics Inc.	2000
All Public Schools	1614
Roseville Hospital	1330
Pride Industries	1100
Union Pacific	1038
City of Roseville	706
Kaiser-Permanente	661
Roseville Telephone Co.	540

Source: City of Roseville.

Taxable Sales

Taxable transactions in the City now exceed \$1.1 billion annually. A summary of taxable transactions in the City is shown below.

**CITY OF ROSEVILLE
TAXABLE TRANSACTIONS
Calendar Years 1991 through 1995 and Third Quarter of 1996
(In thousands)**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996⁽¹⁾</u>
Apparel	\$25,839	\$24,643	\$25,176	\$24,663	\$24,733	\$18,150
General Merchandise	66,088	74,204	93,148	93,940	104,342	88,056
Drug Stores	10,274	10,538	11,451	12,732	13,215	10,406
Food Stores	41,873	43,468	36,419	37,977	37,339	29,012
Liquor Stores	4,093	3,340	1,776	1,237	1,388	341 ⁽²⁾
Eating and Drinking Places	43,909	43,330	44,951	51,393	57,742	51,586
Home Furnishing and Appliances	12,950	12,849	13,066	20,406	17,011	11,814
Building Materials and Farm Implements	39,166	25,187	61,478	69,123	78,022	65,196
Service Stations	33,653	34,394	32,793	34,690	36,690	35,299
Auto Dealers and Auto Supplies	259,409	322,775	379,779	446,784	492,629	381,768
Miscellaneous	<u>47,403</u>	<u>46,692</u>	<u>57,237</u>	<u>76,283</u>	<u>88,630</u>	<u>75,770</u>
TOTAL RETAIL OUTLETS	\$584,657	\$641,420	\$757,274	\$869,228	\$951,741	\$767,398
ALL OTHER OUTLETS	<u>\$117,478</u>	<u>\$100,103</u>	<u>\$113,635</u>	<u>\$169,233</u>	<u>\$205,168</u>	<u>\$154,198</u>
TOTAL ALL OUTLETS	<u>\$702,135</u>	<u>\$741,523</u>	<u>\$870,909</u>	<u>\$1,038,461</u>	<u>\$1,156,909</u>	<u>\$921,587</u>
TOTAL NUMBER OF PERMITS⁽³⁾	1,803	1,879	2,022	2,099	2,184	2,315

⁽¹⁾ Figures represent transactions through the third quarter only.

⁽²⁾ Sales totals are mid-year and are not completely broken down; the balance of the sales are reflected in All Other Outlets.

⁽³⁾ Not in thousands.

Source: California State Board of Equalization.

The City issued building permits valued in excess of \$313,984,000 in 1996. Of this total dollar volume, approximately 81% consisted of new residential construction.

CITY OF ROSEVILLE
BUILDING PERMIT VALUATIONS
Calendar Years 1992 through 1996 and First Half of 1997
(In thousands)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997⁽¹⁾</u>
<u>Residential</u>						
Single Family	\$77,064	\$102,775	\$184,134	\$205,231	\$248,357	\$123,665
Multi Family	0	0	3,128	0	0	3,367
Alterations/Additions	<u>2,550</u>	<u>2,992</u>	<u>2,827</u>	<u>4,225</u>	<u>4,243</u>	<u>1,825</u>
Total	\$79,614	\$105,767	\$190,089	\$209,457	\$252,952	\$128,857
<u>Non-Residential</u>						
New Commercial	\$23,785	\$47,922	\$16,677	\$40,619	\$22,164	\$12,252
New Industrial	5,170	0	12,986	1,478	2,948	0
Other ⁽²⁾	3,597	2,447	2,542	6,380	8,966	3,628
Alterations/Additions	<u>4,941</u>	<u>5,383</u>	<u>20,825</u>	<u>20,678</u>	<u>26,954</u>	<u>6,334</u>
Total	\$37,493	\$55,751	\$53,030	\$69,156	\$61,032	\$22,214
Single Family Units ⁽³⁾	584	758	1,309	1,416	1,607	770
Multifamily Units ⁽³⁾	<u>0</u>	<u>0</u>	<u>56</u>	<u>0</u>	<u>0</u>	<u>100</u>
Total ⁽³⁾	584	758	1,365	1,416	1,607	870

⁽¹⁾ Through June 1997 only.

⁽²⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

⁽³⁾ Not in thousands.

Source: Construction Industry Research Board.

The following table summarizes assessed valuations in the City for Fiscal Years 1992-1993 through 1996-97.

**CITY OF ROSEVILLE
SUMMARY OF ASSESSED VALUATIONS
Fiscal Years 1992-93 through 1996-97
(In thousands)**

<u>Fiscal Year</u>	<u>Secured Valuation</u>	<u>Public Utility</u>	<u>Unsecured Valuation</u>	<u>Total Assessed Valuation</u>
1992-93	\$3,555,161	\$11,230	\$131,700	\$3,771,142
1993-94	3,740,136	12,547	122,007	3,949,595
1994-95	3,936,917	12,156	153,379	4,181,516
1995-96	4,440,430	12,536	156,872	4,695,131
1996-97	4,821,480	11,123	172,403	5,098,009

Source: County of Placer Auditor-Controller.

The following is a history of property tax levies and collections in the City for Fiscal Years 1992-93 through 1996-97.

**CITY OF ROSEVILLE
PROPERTY TAX LEVIES AND COLLECTIONS
Fiscal Years 1992-93 through 1996-97
(In thousands)**

<u>Fiscal Year</u>	<u>Total Levies</u>	<u>Total Collections</u>	<u>Percent Delinquent</u>
1992-93	\$6,054	\$5,670	6.3
1993-94	5,512	5,052	8.3
1994-95	5,908	6,049	(-2.4) ⁽¹⁾
1995-96	6,591	6,580	0.17
1996-97	6,956	6,166	2.63

⁽¹⁾ Reflects one-time Teeter payment from County of Placer.
Source: County of Placer Auditor-Controller.

Set forth below is a list of the ten largest taxpayers in Placer County, by 1996-97 property tax levy.

**COUNTY OF PLACER
TEN LARGEST TAXPAYERS
Fiscal Year 1996-97**

<u>Taxpayer</u>	<u>1996-97 Tax Levy</u>
NEC Electronics USA Inc. ⁽¹⁾	\$7,164,215.04
Roseville Prop Inv Part Ltd. ⁽¹⁾	4,638,811.56
Pacific Gas and Electric Company	4,410,474.76
Hewlett Packard Co. ⁽¹⁾	2,605,851.54
Stanford Ranch I LLC	2,485,184.38
Kaiser Foundation Hospitals ⁽¹⁾	2,050,448.08
Roseville Telephone Company ⁽¹⁾	1,356,108.40
Pacific Bell	1,255,907.96
Allegheny Properties Inc. ⁽¹⁾	892,936.48
Squaw Creek Associates	815,465.22

⁽¹⁾ Located primarily or exclusively within the City of Roseville.
Source: County of Placer Treasurer-Tax Collector.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF ROSEVILLE
FOR THE FISCAL YEAR ENDED JUNE 30, 1996**

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CITY OF ROSEVILLE

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CITY OF ROSEVILLE

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
of the City of Roseville
Roseville, California

We have audited the accompanying general purpose financial statements of the City of Roseville, California, as of June 30, 1996 and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the City of Roseville, California. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of the City of Roseville, California, at June 30, 1996, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental combining and individual fund financial statements and schedules listed in the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Roseville, California. These supplemental combining and individual fund financial statements and schedules are also the responsibility of the management of the City. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 1996 on our consideration of City of Roseville's internal control structure and a report dated December 4, 1996 on its compliance with laws and regulations.

December 4, 1996

CITY OF ROSEVILLE

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS, JUNE 30, 1996 (Continued on following page)

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE		ACCOUNT GROUPS		TOTALS (MEMORAN- DUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT		
									GENERAL	
ASSETS AND OTHER DEBITS										
ASSETS										
Cash and Investments										
In City Treasury										
Restricted (with fiscal agents)										
Deferred compensation plan										
Receivables:										
Taxes	1,163,409			18,720						1,182,129
Accounts	566,707	11,464		11,166,321	20,446					11,764,940
Accrued interest	159,325	614,059	38,583	839,075	383,421	294,744				2,329,207
Due from other funds				1,220,545	322,500					1,543,045
Due from other government agencies	1,579,059	959,194		1,962,391		231,693				4,732,337
Claims					2,573					2,573
Prepaid expenses	17,381	259,183		2,430,000	6,383,862					17,381
Advances to other funds		888,418		57,350						9,073,045
Deferred receivables		243,142		25,655		258				946,026
Notes receivable	340,465			3,975,540	461,727					609,262
Inventories	397,269			3,924,582						4,834,536
Prepaid purchased electricity				311,260						3,924,582
Unamortized bond origination costs										311,260
Unamortized certificates of participation origination costs				144,783						144,783
Fixed assets - net of accumulated depreciation for proprietary funds				249,179,629	5,205,808					330,160,838
Other				40,867						40,867
OTHER DEBITS										
Amount to be provided for retirement of general long-term debt										
TOTAL ASSETS AND OTHER DEBITS	\$ 9,468,423	\$ 50,803,171	\$ 5,100,293	\$ 331,893,827	\$ 19,843,447	\$ 53,564,997	\$ 75,775,401	\$ 30,392,112	\$ 30,392,112	\$ 578,841,671

See notes to general purpose financial statements.

CITY OF ROSEVILLE

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS, JUNE 30, 1986 (Concluded)

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE		AGENCY	GENERAL	
						FIXED ASSETS			
LIABILITIES, FUND EQUITY AND OTHER CREDITS									
LIABILITIES:									
Accounts payable	\$ 1,549,763	\$ 1,500,105	\$ 705,357	\$ 1,483,814	\$ 323,390	\$ 569,351			\$ 6,131,780
Accrued liabilities	526,699	472,811		751,537	16,219	454,633			2,221,699
Due to other funds	12,500	740,853	84,087	618,475	86,692	438			1,543,045
Due to other government agencies	(3,073)	964,911				59,934			1,021,772
Advances from other funds	1,669,418	1,288,393		6,115,244					9,073,045
Current portion of long-term debt	1,608,000			1,986,637	52,600				1,986,637
Current portion of compensated absences	633,959			711,100					2,371,700
Deposits	36,537	233,282		330,735					964,694
Deferred revenue				3,085,365		17,197,762			3,355,184
Deferred compensation payable									17,197,762
Self-insurance claims payable						691,307			3,805,931
Other		300							691,607
Long-term debt:									
Notes				248,893					248,893
Special assessments							\$ 179,919		179,919
Revenue bonds				5,085,000					5,085,000
Certificates of participation				14,705,000					37,510,000
Capital leases									5,109,755
Landfill closure and post closure liability				1,333,352					1,333,352
Debt service reserve				984,636	62,750	34,591,572			34,591,572
Compensated absences				37,439,788	4,347,562				3,344,824
Total liabilities	<u>6,033,803</u>	<u>5,200,445</u>	<u>789,444</u>	<u>37,439,788</u>	<u>4,347,562</u>	<u>53,564,997</u>	<u>2,297,438</u>	<u>30,392,112</u>	<u>137,768,171</u>
FUND EQUITY AND OTHER CREDITS:									
Contributed capital:									
From submitters									72,776,573
From other government agencies				72,776,573	6,899				14,194,600
Investment in general fixed assets				14,187,701					75,775,401
Retained earnings:									
Reserved for debt service				2,599,813					2,599,813
Unreserved				204,889,952	15,488,966				220,378,918
Fund balances:									
Reserved for advances		259,183							259,183
Reserved for inventories	397,269								397,269
Reserved for encumbrances	360,255	25,750							641,302
Reserved for debt service		1,467,187							1,467,187
Reserved for low and moderate income housing		201,999							201,999
Unreserved	2,677,096	43,419,060	4,285,099	294,454,039	15,495,865				50,381,255
Total fund equity	<u>3,434,620</u>	<u>45,602,726</u>	<u>4,310,849</u>	<u>294,454,039</u>	<u>15,495,865</u>	<u>75,775,401</u>	<u>75,775,401</u>	<u>30,392,112</u>	<u>439,073,500</u>
EQUITY AND OTHER CREDITS	<u>\$ 9,468,423</u>	<u>\$ 50,803,171</u>	<u>\$ 5,100,293</u>	<u>\$ 331,893,827</u>	<u>\$ 19,843,447</u>	<u>\$ 53,564,997</u>	<u>\$ 75,775,401</u>	<u>\$ 30,392,112</u>	<u>\$ 576,841,671</u>

See notes to general purpose financial statements

CITY OF ROSEVILLE

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES, YEAR ENDED JUNE 30, 1996

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	TOTALS (MEMORAN- DUM ONLY)
REVENUES:				
Taxes	\$ 26,262,309	\$ 1,960,184		\$ 28,222,493
Licenses and permits	1,764,683			1,764,683
Charges for services	3,400,613	9,845,130		13,245,743
Subventions and grants	2,592,516	5,620,781	\$ 282,152	8,495,449
Use of money and property	682,112	2,616,837	180,478	3,479,427
Fines, forfeitures and penalties	60,342	204,458		264,800
Sale of property		128,707		128,707
Miscellaneous revenues	909,211	152,065	2,475	1,063,751
Total revenues	<u>35,671,786</u>	<u>20,528,162</u>	<u>465,105</u>	<u>56,665,053</u>
EXPENDITURES:				
Current:				
General government	12,337,197	1,890,085		14,227,282
Public works	5,598,338			5,598,338
Public safety	14,756,331			14,756,331
Library	1,706,490			1,706,490
Parks and recreation	5,035,472			5,035,472
Housing assistance payments		1,314,969		1,314,969
Capital outlay		8,261,218	3,231,265	11,492,483
Debt service:				
Principal	1,546,201			1,546,201
Interest	1,857,283	80,054		1,937,337
Total expenditures	<u>42,837,312</u>	<u>11,546,326</u>	<u>3,231,265</u>	<u>57,614,903</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,165,526)</u>	<u>8,981,836</u>	<u>(2,766,160)</u>	<u>(949,850)</u>
OTHER FINANCING SOURCES (USES):				
Contributions from developers	792,826		182,906	975,732
Operating transfers in	9,380,778	820,846	5,391,365	15,592,989
Operating transfers out	(2,056,627)	(2,790,297)	(272,345)	(5,119,269)
Total other financing sources (uses)	<u>8,116,977</u>	<u>(1,969,451)</u>	<u>5,301,926</u>	<u>11,449,452</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	951,451	7,012,385	2,535,766	10,499,602
FUND BALANCE, July 1, 1995	<u>2,483,169</u>	<u>38,590,341</u>	<u>1,775,083</u>	<u>42,848,593</u>
FUND BALANCE, June 30, 1996	<u>\$ 3,434,620</u>	<u>\$ 45,602,726</u>	<u>\$ 4,310,849</u>	<u>\$ 53,348,195</u>

See notes to general purpose financial statements.

CITY OF ROSEVILLE

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES, YEAR ENDED JUNE 30, 1996

	<u>ENTERPRISE</u>	<u>INTERNAL SERVICE</u>	<u>(MEMORAN- DUM ONLY)</u>
OPERATING REVENUES:			
Charges for services			
Other	\$ 92,228,217	\$ 6,510,211	\$ 98,738,428
	1,393,262	2,741	1,396,003
Total operating revenues	<u>93,621,479</u>	<u>6,512,952</u>	<u>100,134,431</u>
OPERATING EXPENSES:			
Operations			
Administration	54,612,099	3,336,901	57,949,000
Depreciation and amortization	2,263,566		2,263,566
Claims expense	7,258,864	1,442,674	8,701,538
Total operating expenses	<u>64,134,529</u>	<u>1,672,477</u>	<u>1,672,477</u>
		<u>6,452,052</u>	<u>70,586,581</u>
OPERATING INCOME	<u>29,486,950</u>	<u>60,900</u>	<u>29,547,850</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest revenue	3,179,248		
Interest expense	(1,283,231)	333,542	3,512,790
Gain on sale of assets			(1,283,231)
Total non-operating revenues (expenses)	<u>1,896,017</u>	<u>34,446</u>	<u>34,446</u>
		<u>367,988</u>	<u>2,264,005</u>
INCOME BEFORE OPERATING TRANSFERS	31,382,967	428,888	31,811,855
Operating transfers in	738,953		
Operating transfers out	(8,978,495)	836,549	1,575,502
		<u>(1,003,536)</u>	<u>(9,982,031)</u>
NET INCOME	23,143,425	261,901	23,405,326
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS	<u>2,096,344</u>		<u>2,096,344</u>
INCREASE IN RETAINED EARNINGS	25,239,769	261,901	25,501,670
RETAINED EARNINGS, July 1, 1995	<u>182,249,996</u>	<u>15,227,065</u>	<u>197,477,061</u>
RETAINED EARNINGS, June 30, 1996	<u>\$ 207,489,765</u>	<u>\$ 15,488,966</u>	<u>\$ 222,978,731</u>

See notes to general purpose financial statements.

CITY OF ROSEVILLE

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES - YEAR ENDED JUNE 30, 1996

	ENTERPRISE	INTERNAL SERVICE	TOTALS (MEMORAN- DUM ONLY)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	\$ 29,488,950	\$ 60,900	\$ 29,547,850
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	7,258,864	1,442,674	8,701,538
Gain on sale of assets		34,446	34,446
Effect of changes in assets and liabilities:			
Accounts receivable	257,963	188,308	446,271
Accrued interest	(352,190)	(66,824)	(419,014)
Due from other government agencies	(1,304,161)	13,318	(1,290,843)
Deferred receivables	20,358		20,358
Claims receivable		1,122	1,122
Inventories	(880,614)	(101,471)	(982,085)
Prepaid purchased electricity	3,031,407		3,031,407
Other assets	6,288		6,288
Accounts payable	(1,131,614)	108,590	(1,023,024)
Accrued liabilities	(41,400)	(244)	(41,644)
Deposits	47,775		47,775
Deferred revenue	16,499		16,499
Self insurance claims payable		(96,500)	(96,500)
Landfill closure and postclosure liability	(3,716,648)		(3,716,648)
Compensated absences	123,739	9,638	133,377
Net cash provided by operating activities	32,823,214	1,593,957	34,417,171
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Net repayments of amounts due from/ to other funds	(869,232)	(63,308)	(932,540)
Net borrowings (repayments) of advances from/ to other funds	1,208,244	(1,145,744)	62,500
Operating transfers in	738,953	836,549	1,575,502
Operating transfers out	(8,978,495)	(1,003,538)	(9,982,031)
Net cash used in noncapital financing activities	(7,900,530)	(1,396,039)	(9,296,569)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of fixed assets	(19,256,076)	(2,335,184)	(21,591,260)
Principal paid on debt, bond maturities, special assessments, and equipment contracts	(1,811,323)	(51,185)	(1,862,508)
Interest paid	(1,283,231)		(1,283,231)
Contributed Capital	7,555,198		7,555,198
Net cash used in capital and related financing activities	(14,795,432)	(2,386,369)	(17,181,801)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	3,179,248	333,542	3,512,790
Disbursements on note receivable	(25,655)		(25,655)
Purchases of investments	(13,302,463)		(13,302,463)
Proceeds from sales and maturities of investments	3,580,868		3,580,868
Net cash provided by (used in) investing activities	(6,588,002)	333,542	(6,254,460)
Net increase (decrease) in cash and cash equivalents	3,539,250	(1,854,909)	1,684,341
CASH AND CASH EQUIVALENTS, July 1, 1995	38,701,710	8,918,017	45,619,727
CASH AND CASH EQUIVALENTS, June 30, 1996	\$ 40,240,960	\$ 7,063,108	\$ 47,304,068

See notes to general purpose financial statements.

CITY OF ROSEVILLE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity - The general purpose financial statements of the City of Roseville, California (the City) includes the financial activities of the City, the City of Roseville Redevelopment Agency, the Roseville Finance Authority, and the City of Roseville Housing Authority, whose financial operations are closely related and the City Council has financial accountability for these entities. Such financial accountability is determined on the basis of budget adoption, taxing authority, imposition of will, funding and appointment of governing boards. Separate financial statements for the Redevelopment Agency of the City of Roseville may be obtained by contacting the City of Roseville. Separate financial statements for the Roseville Finance Authority and Roseville Housing Authority are not issued.

The California Joint Powers Risk Management Authority and the Local Agency Workers' Compensation Excess Joint Powers Authority and the Roseville-Placer County Civic Center Improvement Authority are not included in the accompanying general purpose financial statements because they do not meet the above financial accountability criteria as these entities are administered by a governing board separate from the City.

Description of Funds and Account Groups - The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each entity are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, equity, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The City's funds and account groups are organized as follows:

. Governmental Fund Types:

- .. General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- .. Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, major capital projects or Mello-Roos districts) that are legally restricted to expenditures for specified purposes.
- .. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Fund types).

Proprietary Fund Types:

- .. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the expense (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.
- .. Internal service funds are used to account for the financing of goods or services provided by the automotive services, central stores and self-insurance programs the City administers.

Fiduciary Fund Type:

- .. Agency funds are used to account for collection of special assessments and payments of related bond principal and interest and for assets held for individuals, private organizations and other governmental units. Agency funds are custodial in nature, do not involve measurement of the results of operations and are accounted for in essentially the same manner as governmental fund types.

Account Groups:

- .. General Long-Term Debt Account Group - are long-term liabilities, including vested obligations for compensated absences that are expected to be financed by governmental funds.
- .. General Fixed Assets Account Group - are fixed assets used in governmental fund type operations (general fixed assets). Fixed asset purchases by Government fund types are recorded as expenditures at the time of acquisition.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

- .. Governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. Revenues considered susceptible to accrual include certain taxes, interest, grants earned and certain other intergovernmental revenues. Expenditures are generally recognized when the related fund liability is incurred, except for interest and principal on general long-term debt which is recognized when due.
- .. Proprietary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when earned, and their expenses are recognized when incurred.

Budgets, Budgetary Accounting, and Encumbrances - The City of Roseville was incorporated April 10, 1909, under provisions of Act 279, P.A. 1909, as amended (Home Rule City). The City operates under a Council-Manager form of government and annually adopts a budget to be effective July 1 for the ensuing fiscal year. The City adopts an annual budget on a basis consistent with generally accepted accounting principles before June 30, for all funds other than Agency funds and Mello-Roos districts. Budgets are subject to public hearing before they are adopted by the City Council.

Budgets submitted to the Council include both proposed appropriations and the means of financing them. The Council approves appropriations on a fund by fund basis.

The City Manager is authorized to transfer budget appropriations between object codes within the same department in conformance with the adopted policies set by the City Council. Additional appropriations or interfund transfers not included in the original budget resolutions require approval by the City Council.

The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual presents comparisons of the legally adopted budget with actual data. Reported budget amounts are as amended by the City Council.

The City uses an encumbrance system as an extension of normal budgetary accounting for the General Fund, Special Revenue Funds, and Capital Projects Funds. Under this system, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as reservations of fund balance since they do not constitute expenditures or liabilities.

Outstanding encumbrances at year-end are automatically reappropriated the following year. Unencumbered and unexpended appropriations lapse at year-end.

Property Tax Levy, Collection and Maximum Rates - State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value unless an additional amount has been approved by voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be increased by no more than two percent per year unless there is new construction on the property or the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from the tax levy among the counties, cities, school districts and other districts. Counties, cities and school districts may levy such additional tax rate as is necessary to provide for voter approved debt services.

The County of Placer assesses properties, bills, collects, and distributes property taxes as follows:

	Secured	Unsecured
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 April 10	August 31

The term "Unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

Property tax revenues are recognized in the fiscal year for which the taxes have been levied, provided they become available. The term "available" in this context means due and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Cash and cash equivalents are considered to be cash and investments in the City Treasury. Monies in the City Treasury pooled cash account can be spent at any time without prior notice or penalty. Therefore, for purposes of the statement of cash flows, all proprietary fund cash and investments in the City Treasury are considered cash and cash equivalents. Restricted cash (with fiscal agents) is not considered to be a cash equivalent for purposes of the statement of cash flows.

Inventories are valued at the lower of cost (weighted-average method) or market. The cost of inventory is recorded as an expense when the items are used.

Fixed assets are valued at historical cost including interest during construction or at estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Governmental fund type fixed assets are recorded as expenditures at the time of acquisition. Such amounts, except for public domain (infrastructure) assets (including roads, bridges, curbs and gutters, streets, sidewalks, and lighting systems), are included in the general fixed assets account group. No depreciation has been provided on general fixed assets.

Proprietary fund type fixed assets are capitalized in the appropriate proprietary fund. Depreciation is charged as an expense against their operations and accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the assets' estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	15-20 years
Equipment	2-20 years
Water and sewer lines	40-50 years

Bond and Certificate of Participation origination costs related to long-term debt issuances of the Enterprise Funds are amortized on a straight-line basis over the lives of the related debt. Debt issuance costs on governmental fund debt issuances are expensed when incurred.

Reservations and Designations of Fund Balance - The term "reserved" is used to indicate that a portion of reported fund equity is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The Management of the City of Roseville, California will sometimes designate portions of fund equity based on tentative future spending plans. Designated portions of fund equity represent financial resources legally available for uses other than those tentatively planned.

The City has "reserved" fund balance as follows:

- Reserved for advances to reflect that balances due from other funds are long-term in nature and do not represent available spendable resources.
- Reserved for inventories to reflect that balances of inventory accounts reflect resources already expended, but not consumed.
- Reserved for encumbrances to reflect outstanding contractual obligations for which goods and services have not been received.

- Reserved for debt service to reflect the portion of fund balance reserved for the retirement of bonds.
- Reserved for low and moderate income housing to reflect the portion of fund balance reserved for low and moderate income housing expenditures.

The City has "reserved" retained earnings as follows:

- Reserved for debt service to reflect the portion of Enterprise Fund retained earnings reserved for the retirement of revenue bonds and certificates of participation.

Compensated Absences - Unused vacation leave and vested sick pay may be accumulated and amounts are paid at the time of termination from City employment. The accrued liability for compensated absences is recorded in the General Fund (current portion), the General Long Term Debt Account or Proprietary-type funds as appropriate.

Post-employment Health Care Benefits - In addition to providing pension benefits, the City provides certain health care benefits for retired employees and spouses. This coverage is maintained for the lifetime of each participant. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age and have a minimum five years of service with the City. At June 30, 1996, there were 174 retirees receiving health care benefits. The cost of retiree health care benefits is recognized as an expenditure as claims are paid. For the year ending June 30, 1996, those costs totaled \$479,761.

"Totals (Memorandum Only)" Information - Columns on the accompanying combined financial statements captioned "Totals (Memorandum Only)" do not present consolidated financial information and are not necessary for a fair presentation of the financial statements, but are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data.

Use of Estimates in the preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at June 30, 1996 and the reported amount of revenues and expenses during the year then ended. Actual results could differ from those estimates.

Accounting Pronouncements - Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, is effective for periods beginning after June 15, 1997. The requirements of this Statement apply to the financial statements of all state and local governmental employers that provide or participate in pension plans. The City will be required to measure and disclose an amount for annual pension cost on the accrual basis of accounting, regardless of the amount recognized as pension expense. The City intends to adopt Statement No. 27 by the effective date and does not anticipate any material impact to the financial statements.

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds, except the Deferred Compensation fund. Cash and investments of the Deferred Compensation fund are held separately from those of other City funds. The City also has cash and investments held by fiscal agents pledged to the payment or security of certain long-term obligations.

Deposits - At June 30, 1996, the carrying amount of the City's time and demand deposits was \$6,352,681 and the bank balance was \$8,106,892. Of the bank balance, \$319,106 was insured by federal depository insurance, \$5,563,547 was collateralized 110% pursuant to Section 53652 of the California Government Code by the pledging financial institution but is not held in the City's name, and \$2,224,239 was uninsured and uncollateralized.

Investments - Statutes authorize the City to invest in City of Roseville Special Assessment Bonds, obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, corporate notes, repurchase agreements, and the State Treasurer's Local Agency Investment fund. At June 30, 1996, cash and investments in the City Treasury mature approximately as follows: \$77,609,000 in 1997, \$9,630,000 in 1998, \$17,865,000 in 1999, \$13,125,000 in 2000, \$2,000,000 in 2001, and \$322,000 thereafter.

The City's investments are categorized below to give an indication of the level of credit risk assumed by the City at June 30, 1996. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the brokers/dealers' trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

	<u>Category</u>			<u>Carrying Value</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Government securities	\$ 109,418,251	\$12,618,565		\$122,036,816	\$122,172,810
Banker's acceptances					
Commercial paper					
Repurchase agreements			\$1,453,114	1,453,114	1,453,114
City special assessment district bonds	61,000			61,000	61,000
	<u>\$109,479,251</u>	<u>\$12,618,565</u>	<u>\$1,453,114</u>	123,550,930	123,686,924
State Treasurer's Local Agency Investment Fund				14,617,802	14,617,802
Mutual funds				29,243,686	29,243,686
California arbitrage management program investment pools				<u>1,067,649</u>	<u>1,067,649</u>
Total investments				<u>\$168,480,067</u>	<u>\$168,616,061</u>

In January 1996, the City's investment in repurchase agreements was \$2,767,676 which represents the highest level of investment in repurchase agreements during fiscal year 1996. The City did not invest in any reverse repurchase agreements during fiscal year 1996.

3. ROSEVILLE COMMUNITY HOSPITAL

During fiscal year 1994, the Roseville Community Hospital Corporation (Corporation) purchased the Roseville Community Hospital Facility from the City. The City maintains an agency fund to act as a pass-through for the debt service payments relating to 1989 RFA Hospital Lease Revenue Bonds from the Corporation to the fiscal agent. The debt is not included in the City's General Purpose Financial Statements and the City is not liable for the repayment of these bonds in the event of default.

4. FIXED ASSETS

A summary of changes in the general fixed asset account group is as follows:

	Balance July 1, 1995	Additions	Retirements	Balance June 30, 1996
Land	\$12,436,472	\$ 484,598		\$ 12,291,070
Buildings and improvements	48,880,977	3,747,240		52,628,217
Machinery and equipment	6,019,248	401,185	\$ 8,629	6,411,804
Capital leases:				
Buildings and improvements	3,023,291			3,023,291
Equipment	<u>791,019</u>	<u> </u>	<u> </u>	<u>791,019</u>
Total	<u>\$71,151,007</u>	<u>\$4,633,023</u>	<u>\$ 8,629</u>	<u>\$ 75,775,401</u>

A summary of fixed assets in proprietary fund types at June 30, 1996 follows:

	Enterprise	Internal Service
Land	\$ 7,484,142	
Buildings and improvements	283,738,401	
Machinery and equipment	7,035,841	\$ 16,461,208
Construction-in-progress	<u>2,093,902</u>	
Total	300,352,286	<u>16,461,208</u>
Accumulated depreciation	<u>(51,172,657)</u>	<u>(11,255,400)</u>
Property-net	<u>\$249,179,629</u>	<u>\$ 5,205,808</u>

5. INSURANCE

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains insurance coverage from a commercial carrier for its long-term disability and dental benefit plan.

The City is self-insured for its general liability (including property damage and automobile insurance), worker's compensation, vision and unemployment benefits for its employees. The worker's compensation and vision plan are administered by outside agencies, and the unemployment plan is administered by the City. The City has established risk financing in separate self-insurance internal service funds, where assets are set aside for claim settlements associated with the above-mentioned risks of loss up to certain limits. Excess coverage for general liability is provided through California Joint Powers Risk Management Authority (CJPRMA) and excess coverage for workers' compensation is provided through the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX). The purpose of these entities is to develop and fund programs of excess insurance for its member entities and are governed by a Board of Directors consisting of representatives from their respective members. The self-insurance and excess coverage limits are as follows:

Type of Coverage	Self-Insurance	Excess Coverage
General Liability	Up to \$500,000	\$500,000-\$10,000,000
Workers' compensation	Up to \$250,000	\$250,000-\$500,000

Estimates for the general liability and workers' compensation liability are based on actuarial studies performed by an outside actuary and include amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. Estimates for vision benefits and unemployment are based on reports from administrators and the City's historical data. Charges to the General Fund and other funds are determined from an analysis of self-insured claims costs and recorded as operating expenditures from such funds to the Self-Insurance Internal Service Funds. The reserves for self-insurance claims payable for workers' compensation and general liability are reported at net present value using a discount factor of 6% at June 30, 1996 and 1995.

Changes in the balances of claims liabilities during the past two fiscal years for all self-insurance funds combined are as follows:

	<u>Year Ended June 30</u>	
	<u>1996</u>	<u>1995</u>
Claims liability, beginning of fiscal year	\$ 3,902,431	\$ 3,150,278
Current year claims and changes in estimates	1,672,477	2,870,256
Claim payments	(1,206,390)	(1,584,010)
Legal administrative and other expenses	<u>(562,587)</u>	<u>(534,093)</u>
Claims liability, end of fiscal year	<u>\$ 3,805,931</u>	<u>\$ 3,902,431</u>

Summary financial information for the CJPRMA and LAWCX as of and for the year ended June 30, 1996 is as follows (not covered by independent auditors' report):

	CJPRMA	LAWCX
Cash and investments	\$ 42,111,038	\$ 2,336,538
Other assets	<u>903,261</u>	<u>28,855</u>
Total assets	<u>\$ 43,014,299</u>	<u>\$ 2,365,393</u>
Loss reserves	\$ 24,761,977	\$ 834,336
Other liabilities	107,695	250,108
Fund equity	<u>18,144,627</u>	<u>1,280,949</u>
Total liabilities and fund equity	<u>\$ 43,014,299</u>	<u>\$ 2,365,393</u>
Total revenues	\$ 11,227,485	\$ 1,190,615
Total expenses	<u>5,460,574</u>	<u>399,319</u>
Revenue in excess of expenses	<u>\$ 5,766,911</u>	<u>\$ 791,296</u>

The City's annual premiums paid to the CJPRMA and the LAWCX for the year ended June 30, 1996 were \$59,990 and \$314,334, respectively.

6. LONG-TERM DEBT

The City's debt, excluding compensated absences, by fund type as of June 30, 1996 is as follows:

	Interest Rates	Maturity Dates	Outstanding June 30, 1996
General Long-Term Debt Account Group:			
Certificates of participation:			
1993 Public Facilities Bond	3.6%-4.75%	8/96-2020	<u>\$ 22,805,000</u>
Capital Leases:			
Public Safety Building	6.2%-6.3%	7/96-2001	731,344
Equipment	7.0%-9.0%	3/97-1998	180,300
Roseville Automall	6.5%	8/96-2003	<u>4,198,111</u>
Total capital leases			<u>5,109,755</u>
Other long-term obligations:			
Hilltop debt	7.0%-7.5%	4/97-2007	<u>179,919</u>
Total General Long-Term Debt Account Group			<u>28,094,674</u>

Continued on following page

Proprietary Fund Types:

Enterprise funds:

Certificates of Participation:

1985 Electric System Project	5.9%-6.4%	2/97-2001	6,630,000
1993 Golf Course Project	4.6%-6.0%	8/96-2023	<u>9,325,000</u>
Total certificates of participation			<u>15,955,000</u>

Revenue bonds:

1978 Sewer Serial Bond	5.4%-5.6%	12/96-1999	420,000
1987 Sewer Serial Bond	6.5%-7.4%	12/96-2002	<u>5,395,000</u>
Total revenue bonds			<u>5,815,000</u>

Other long-term obligations:

Notes	5.0%	10/96-2017	<u>255,530</u>
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Total enterprise funds 22,025,530

Total long-term debt \$ 50,120,204

Included in the schedule above is \$9,325,000 from the 1993 Golf Course Certificates of Participation issued by the Roseville Financing Authority (RFA) on behalf of the Golf Course Enterprise Fund to acquire and construct certain golf course improvements. Under the terms of the debt agreement and a lease between the RFA and the City, the Golf Course Enterprise Fund is obligated to pay an amount equal to the debt service requirements of the 1993 Golf Course Certificates of Participation to the RFA to service the debt. For financial statement presentation, this debt is included as debt of the Proprietary fund and is not included in the General Long-Term Debt Account Group.

The following is a summary of changes in the City's long-term debt and compensated absences for the year ended June 30, 1996:

	<u>Certificates of Participation</u>	<u>Revenue Bonds</u>	<u>Capital Leases</u>	<u>Hilltop Debt Payable</u>
Balance, July 1, 1995	\$ 40,370,000	\$ 6,510,000	\$ 6,666,964	\$ 240,365
Increase - compensated absences, net				
Debt repayments	(1,610,000)	(695,000)		(60,446)
Lease repayments			<u>(1,557,209)</u>	
Balance, June 30, 1996	<u>\$ 38,760,000</u>	<u>\$ 5,815,000</u>	<u>\$ 5,109,755</u>	<u>\$ 179,919</u>

Continued on following page

	<u>Notes</u>	<u>Compensated Absences</u>	<u>Total Obligations</u>
Balance, July 1, 1995	\$ 261,853	\$ 5,197,305	\$ 59,246,487
Increase - compensated absences, net		519,219	519,219
Debt repayments	(6,323)		(2,371,769)
Lease repayments			<u>(1,557,209)</u>
Balance, June 30, 1996	<u>\$ 255,530</u>	<u>\$ 5,716,524</u>	<u>\$ 55,836,728</u>

As of June 30, 1996, debt service requirements to maturity, excluding compensated absences, for the City are as follows:

Fiscal Year Ending June 30	<u>Certificates of Participation</u>		<u>Revenue Bonds</u>	
	Principal	Interest	Principal	Interest
1997	\$ 1,765,000	\$ 1,978,705	\$ 730,000	\$ 377,732
1998	1,935,000	1,880,203	770,000	328,889
1999	2,040,000	1,773,165	820,000	275,215
2000	2,150,000	1,657,922	865,000	217,048
2001	2,270,000	1,533,644	815,000	157,885
Thereafter	<u>28,600,000</u>	<u>18,079,362</u>	<u>1,815,000</u>	<u>125,157</u>
Total	<u>\$38,760,000</u>	<u>\$26,903,001</u>	<u>\$5,815,000</u>	<u>\$1,481,926</u>

Fiscal Year Ending June 30	<u>Capital Leases</u>		<u>Other Long-Term Notes</u>		Total Debt Service Requirements
	Principal	Interest	Principal	Interest	
1997	\$ 828,824	\$ 318,409	\$ 72,133	\$ 25,445	\$ 6,096,248
1998	775,870	266,611	14,940	20,249	5,991,762
1999	783,073	216,683	15,758	19,347	5,943,241
2000	838,006	165,399	17,061	18,384	5,928,820
2001	891,473	110,524	17,920	17,329	5,813,775
Thereafter	<u>992,509</u>	<u>59,258</u>	<u>297,637</u>	<u>123,709</u>	<u>50,092,632</u>
Total	<u>\$5,109,755</u>	<u>\$1,136,884</u>	<u>\$ 435,449</u>	<u>\$ 224,463</u>	<u>\$ 79,866,478</u>

The amounts included in the capital leases related to the Roseville Automall Lease represent an estimate by the City's management of the total obligation to the Automall and the expected timing of the repayments. Actual payments are calculated based on the "Sales Tax Increment" as defined in the Amended Lease Agreement between the City of Roseville and the Roseville Automall Association and are subject to the provisions of that agreement. Actual amounts paid under the lease may be significantly greater or less than the estimated amounts.

The City has Special Assessment and other bonds outstanding which are not reflected in the general purpose financial statements as the City is not liable for the repayment of these bonds in the event of default. Special assessment and other bonded debt excluded as of June 30, 1996 is as follows:

	Outstanding June 30, 1996
Foothills Boulevard Assessment District	\$ 1,915,000
Taylor Road Sewer Assessment District	61,000
Foothills Boulevard Extension Assessment District	5,020,000
Northeast Roseville Community Facilities District #1	22,320,000
North Roseville-Rocklin Sewer Refunding District	2,255,000
Hilltop Industrial Park Refunding District	165,000
Rocky Ridge/Harding Refunding District	2,585,000
Northwest Roseville Community Facilities District #1	31,780,000
Northeast Roseville Community Facilities District #2	13,450,000
North Central Roseville Community Facilities District #1	62,030,000
Roseville Financing Authority Hospital Lease Revenue Bonds, Series 1989A	<u>27,200,000</u>
	<u>\$ 168,781,000</u>

The City has defeased certain Revenue bonds by placing the securities in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 1996, approximately \$16,010,000 bonds outstanding are considered defeased.

7. **SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City has seven enterprise funds which are financed by user charges - electric, water, sewer, refuse, golf course, local transportation, and school-age child care. Segment information for the year ended June 30, 1996 is as follows:

	Electric	Water	Sewer	Refuse	Golf Course	Local Transportation	School-Age Child Care	Total
Operating revenues	\$51,694,508	\$9,878,966	\$18,414,328	\$7,385,669	\$2,588,666	\$1,805,706	\$1,853,636	\$93,621,479
Depreciation and amortization	2,629,418	1,129,051	3,066,044	148,511	283,374		2,466	7,258,864
Operating income	11,610,745	4,624,941	9,850,155	2,206,447	728,128	170,870	295,664	29,486,950
Operating transfers in		456,000	25,578	9,346	248,029			738,953
Operating transfers out	3,973,391	1,425,888	1,685,620	1,291,347	279,549	158,580	164,120	8,978,495
Net income	8,621,794	4,190,939	8,861,929	929,369	364,007	40,117	135,270	23,143,425
Current additions to contributed capital	3,894,684	1,544,090	1,726,311			390,113		7,555,198
Additions (deductions) to property, plant and equipment - net	7,156,440	1,813,759	141,115	(7,467)	2,545,540	410,113	(2,466)	12,057,034
Net working capital	32,328,355	11,054,714	22,206,132	333,150	805,674	53,741	30,272	66,812,038
Total assets	122,082,885	50,679,278	134,732,829	1,867,049	19,971,000	2,442,866	117,920	331,893,827
Bonds and Certificates of Participation outstanding	6,630,000		5,815,000		9,325,000			21,770,000
Total fund equity (deficit)	110,414,800	49,828,167	128,210,922	(2,628,360)	6,435,666	2,179,449	13,395	294,454,039

8. DEFINED BENEFIT PENSION PLAN

Description - The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The City's payroll for employees covered by CalPERS for the year ended June 30, 1996 was \$26,230,422. The City's 1996 payroll for all employees was \$30,963,426.

All permanent employees are eligible to participate in CalPERS. Benefits vest after five years of service and employees are eligible to receive retirement benefits at or after age 50. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Funding Status and Progress - The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of CalPERS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to CalPERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1995. Significant actuarial assumptions used in the valuation include a rate of return on investment of present and future assets of 8.50% a year compounded annually and projected salary increases attributable to inflation of 4.5% a year compounded annually.

The total net assets available in excess of the total pension benefit obligation applicable to City employees was \$7,163,332 at June 30, 1995, as follows:

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits, and terminated employees not yet receiving benefits	\$ 27,672,300
Current employees:	
Accumulated employee contributions including allocated investment earnings	18,597,387
Employer-financed vested	14,947,270
Employer-financed nonvested	<u>1,197,968</u>
Total pension benefit obligation	<u>62,414,925</u>
 Net assets available for benefits at smoothed market value (market value = \$73,961,688)	 <u>69,578,257</u>
 Net assets available in excess of the total pension benefit obligation	 <u><u>\$ 7,163,332</u></u>

Actuarially Determined Contribution Requirements and Contribution Made - CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. CalPERS uses a modification of the Entry Age Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends on June 30, 2011, for current and prior services.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

The total pension expenditure and funded contribution for the year was \$2,009,023, which consisted of (a) \$2,025,932 normal cost (7.72% of current covered payroll), and (b) (\$16,909) amortization of the unfunded actuarial liability (.06% of current covered payroll).

The City, due to a collective bargaining agreement, also has a legal obligation to contribute an additional 9% of payroll on behalf of public safety employees and 7% of payroll on behalf of all other employees.

Trend Information - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. System-wide 10-year trend information may be found in the California Public Employees' Retirement System Annual Report.

For the three years ended 1994, 1995, and 1996, the City's contributions to the system were 16.079%, 12.424% and 12.424% for safety employees and 6.258%, 6.230% and 6.230% for miscellaneous employees. Information relating to the City on net assets available for benefits as valued for CalPERS actuarial balance sheet purposes, pension benefit obligation, net assets available for benefits as a percentage of pension benefit obligation, unfunded pension benefit obligation, and unfunded pension benefit obligation as a percentage of annual covered payroll is presented in the following table. Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation. Until 10 years of data are available, as many years as are available will be presented.

Required Supplementary Information Analysis of Funding Progress (in thousands)

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1)/(2)	(4)	(5)	(6)
				Unfunded Pension Benefit Obligation (Excess) (2)-(1)	Estimated Annual Covered Payroll	Unfunded Pension Obligation (Excess) as a Percentage of Covered Payroll (4)/(5)
1987	\$21,544	\$23,147	93.1%	\$1,593	\$10,273	15.5%
1988	24,944	27,429	90.9	2,485	12,318	20.2
1989	29,427	30,597	96.2	1,170	14,988	7.8
1990	34,179	35,287	96.9	1,108	17,883	6.2
1991	38,354	39,274	97.7	920	21,495	4.3
1992	43,463	45,475	95.6	2,012	23,342	8.6
1993	49,514	49,104	100.8	(410)	24,628	(1.7)
1994	62,300	53,920	115.5	(8,380)	26,104	(32.1)
1995	69,578	62,415	111.5	(7,163)	28,879	(24.8)

9. DEFERRED COMPENSATION PLAN

All permanent employees of the City are eligible to participate in a City sponsored deferred compensation plan (the Plan). The Plan provides for the deferral of a portion of the employees' compensation until retirement, termination, or certain other covered events. The funds are invested by the City on behalf of the employees through an administrator in various instruments including mutual funds, money market funds, and others. The assets of the Plan, under Internal Revenue Service regulations, are the property of the City and available to satisfy the City's general creditors. Management of the City does not believe it will be required to use these funds to satisfy the City's general creditors.

10. INTERFUND TRANSACTIONS

At June 30, 1996 interfund receivables and payables consist of:

	Interfund	
	Receivables	Payables
General Fund		\$ 12,500
Special Revenue Funds:		
Traffic Safety		25,049
Community Development Block Grant		132,335
Redevelopment Agency		50,000
Hospital Sale Proceeds		<u>533,469</u>
Total		740,853
Capital Projects Funds:		
Foothills Boulevard		3,599
Foothills Boulevard Extension		<u>80,488</u>
Total		84,087

Continued on following page

	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Enterprise Funds:		
Sewer	\$ 1,220,545	
Refuse		385,475
Golf course		<u>260,000</u>
Total	<u>1,220,545</u>	<u>618,475</u>
Internal Service Funds:		
Automotive Services		86,692
Automotive Replacement	<u>322,500</u>	
Total	<u>322,500</u>	<u>86,692</u>
Trust and Agency Funds:		
Atlantic Street East		<u>438</u>
Total	<u>\$ 1,543,045</u>	<u>\$ 1,543,045</u>

At June 30, 1996, interfund advances consist of:

	Advances to Other Funds	Advances from Other Funds
General Fund		\$ 1,669,418
Special Revenue Funds:		
Home Improvement	\$ 259,183	
Redevelopment Agency		1,288,383
Enterprise Funds:		
Golf Course		3,685,244
Refuse		2,430,000
Sewer	2,430,000	
Internal Service Fund:		
Automotive Replacement	<u>6,383,862</u>	
Total	<u>\$ 9,073,045</u>	<u>\$ 9,073,045</u>

The advances are considered long-term in nature.

11. PREPAID PURCHASED ELECTRICITY

In prior years, the City completed construction and transferred ownership of certain electrical transmission lines to the Western Area Power Administration in exchange for a reduction in future power supply costs of approximately 5%. The related construction costs have been capitalized on the City's balance sheet and are being amortized as the economic benefit of the reduced electricity costs are realized. The amount amortized for fiscal year 1996 was \$1,101,504.

12. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions at the Roseville sanitary landfill site, which is closed through the year 2024. Accordingly, the City has recorded a liability and expenditure in the Enterprise Refuse Fund for the estimated postclosure care costs. The recorded amount is based on applicable state and local laws and regulations concerning closure and postclosure care. If additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users or the usage of future tax revenues.

13. CONTINGENT LIABILITIES

The City is a defendant in a number of lawsuits and has other claims pending, some of which seek substantial money damages. Some claims may not be covered under the City's excess liability insurance policy; however, management is of the opinion that the potential liability would not have a material adverse effect on the financial statements.

The City participates in a number of state and federally assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including fiscal 1996 have not yet been conducted. Accordingly, the City's compliance with applicable program requirements is yet to be established. The amount, if any, of expenditures which may be disallowed by the program agencies cannot be determined, although the City does not expect such amounts, if any, to be material.

14. DEFICIT FUND BALANCES/EQUITY

Deficit fund balances/equity at June 30, 1996 are as follows:

Fund	Deficit
Special Revenue Funds:	
City of Roseville Redevelopment Agency	\$564,983
Capital Project Funds:	
Foothills Boulevard	3,599
Foothills Boulevard Extension	80,488
Enterprise Funds:	
Refuse	2,628,360
Internal Service Funds:	
Workers' Compensation	173,488

The City plans to eliminate the deficits in the City of Roseville Redevelopment Agency Fund through future tax inflows, eliminate deficits in capital project funds through contributions from developers and eliminate deficits in the enterprise and internal services funds through additional charges to users of the services.

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SUPPLEMENTAL COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

CITY OF ROSEVILLE

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET, JUNE 30, 1996 (Continued on following page)

	STATE GASOLINE TAX	PARK DEVELOP. MENT	HOME IMPROVE- MENT	TRAFFIC MITIGATION	CONSTRUC- TION SURCHARGE	FEDERAL REVENUE SHARING	CALIFORNIA LIBRARY SERVICES	TRAFFIC SAFETY	FIRE FACILITIES	HOUSING AUTHORITY SECTION 8
ASSETS:										
Cash and Investments:										
In City Treasury	\$ 3,187,949	\$ 2,390,637	\$ 185,613	\$ 7,444,290	\$ 314,850	\$	\$ 393,741	\$	\$ 4,234,622	\$ 228,563
Restricted (with fiscal agents)		5,824					3,799			25,685
Receivables:										
Accounts										
Accrued interest	42,100	32,374	2,640	98,674	2,256		5,735	6,989		4,475
Due from other government agencies	119,971			6,136				18,060		45,092
Advances to other funds			259,183							
Deferred receivables			158,833	76,255						
Notes receivable									9,860	
TOTAL ASSETS	\$ 3,350,020	\$ 2,428,835	\$ 604,269	\$ 7,626,355	\$ 317,106	\$	\$ 403,275	\$ 25,049	\$ 4,244,482	\$ 303,825
LIABILITIES AND FUND BALANCES										
LIABILITIES:										
Accounts payable		\$ 223,506		\$ 1,042,765	\$ 178,581	\$	241		\$	\$ 32,641
Accrued liabilities										42,974
Due to other funds										
Due to other government agencies		124,188						25,049		186,871
Advances from other funds										
Deferred revenue				300						
Other										
Total liabilities		347,694		1,043,065	178,581		241	25,049		262,486
FUND BALANCES (DEFICIT):										
Reserved for advances		1,930	\$ 259,183	78,048					\$ 175,319	
Reserved for encumbrances										
Reserved for debt service			345,086	6,505,242	138,525		403,034		4,069,163	41,339
Reserved for low and moderate income housing		2,079,211								
Unreserved	\$ 3,350,020	2,081,141	604,269	6,583,290	138,525		403,034		4,244,482	41,339
Total fund balances (deficit)										
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 3,350,020	\$ 2,428,835	\$ 604,269	\$ 7,626,355	\$ 317,106	\$	\$ 403,275	\$ 25,049	\$ 4,244,482	\$ 303,825

CITY OF ROSEVILLE

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET - JUNE 30, 1986 (Concluded)

	ROSEVILLE FINANCING AUTHORITY	COMMUNITY DEVELOP. MENT BLOCK GRANT	CITY OF ROSEVILLE REDEVELOP. MENT AGENCY	PUBLIC FACILITIES	NATIVE OAK TREE PROPAGA- TION	NON-NATIVE OAK TREE PROPAGA- TION	PLEASANT GROVE DRAIN BASIN	HOME INVESTMENT PARTNERSHIP PROGRAM	HOSPITAL SALE PROCEEDS	TOTALS
ASSETS:										
Cash and Investments:										
In City Treasury	\$ 1,828,041	\$	\$ 1,056,155	\$ 6,276,807	\$ 356,410	\$ 61,470	\$ 3,360,475	\$	\$ 16,361,625	\$ 45,853,207
Restricted (with fiscal agents)			111,145							1,974,504
Receivables:										
Accounts	46,369		15,877	89,683	5,069	874	46,864		224,524	11,464
Accrued interest		\$ 141,253	33,313					\$ 595,369		614,059
Due from other government agencies										959,184
Advances to other funds		435,052		1,473				218,800		259,183
Deferred receivables			233,282							888,418
Notes receivable										243,142
TOTAL ASSETS	\$ 1,874,430	\$ 576,305	\$ 1,449,772	\$ 6,367,968	\$ 361,479	\$ 62,344	\$ 3,407,339	\$ 814,169	\$ 16,586,149	\$ 50,803,171
LIABILITIES AND FUND BALANCES										
LIABILITIES:										
Accounts payable	\$ 8,446	\$ 13,925								\$ 1,500,105
Accrued liabilities	472	428,165								472,611
Due to other funds	132,335	50,000						\$ 533,469		740,853
Due to other government agencies	435,052							218,800		964,911
Advances from other funds		1,288,383								1,288,383
Deferred revenue		233,282								233,282
Other										300
Total liabilities		576,305	2,014,755					752,269		5,200,445
FUND BALANCES (DEFICIT)										
Reserved for advances	\$ 1,467,187		201,999							259,183
Reserved for encumbrances	407,243		(786,982)							255,287
Reserved for debt service				6,367,968	361,479	62,344	3,407,339	61,900	16,586,149	1,467,187
Reserved for low and moderate income housing				6,367,968	361,479	62,344	3,407,339	61,900	16,586,149	201,999
Unreserved	1,874,430		(564,983)							43,419,060
Total fund balances (deficit)	\$ 1,874,430	\$ 576,305	\$ 1,449,772	\$ 6,367,968	\$ 361,479	\$ 62,344	\$ 3,407,339	\$ 814,169	\$ 16,586,149	\$ 50,803,171
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)										

CITY OF ROSEVILLE

SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, YEAR ENDED JUNE 30, 1996 (Continued on following page)

	STATE GASOLINE TAX	PARK DEVELOP- MENT	HOME IMPROVE- MENT	TRAFFIC MITIGATION	CONSTRUC- TION SURCHARGE	FEDERAL REVENUE SHARING	CALIFORNIA LIBRARY SERVICES	TRAFFIC SAFETY	FIRE FACILITIES	HOUSING AUTHORITY SECTION 8
REVENUES:										
Taxes										
Charges for services	\$ 2,963,618	\$ 1,688,471	\$ 5,390,414	\$ 83,169	\$ 1,484,505					
Subventions and grants	158,308	117,728	26,673	144,109						
Use of money and property				392,263	2,763					
Fines, forfeitures and penalties									170,254	1,557,615
Sale of property										1,366
Miscellaneous revenues		5,768		77,495						
Total revenues	<u>3,121,926</u>	<u>1,811,987</u>	<u>26,673</u>	<u>6,004,281</u>	<u>2,763</u>		<u>100</u>	<u>204,458</u>	<u>1,654,759</u>	<u>10,327</u>
							<u>127,811</u>			<u>1,569,308</u>
EXPENDITURES:										
Current:										
General government										
Housing assistance payments					75,394		155,245			267,377
Capital outlay	2,053,002	923,308		4,818,902					54,972	1,314,969
Debt service:										
Interest										
Total expenditures	<u>2,053,002</u>	<u>923,308</u>		<u>4,818,902</u>	<u>75,394</u>		<u>155,245</u>		<u>54,972</u>	<u>1,582,346</u>
	<u>1,068,924</u>	<u>888,659</u>	<u>26,673</u>	<u>1,185,379</u>	<u>(72,631)</u>		<u>(27,434)</u>	<u>204,458</u>	<u>1,599,787</u>	<u>(13,038)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES										
	643	249,157		442,485	53,062					
Operating transfers in	(531,441)	(41,379)	(190)	(55,897)	(3,810)	(6,891)	(4,110)	(204,458)	(274,879)	
Operating transfers out	<u>(530,798)</u>	<u>207,778</u>	<u>(190)</u>	<u>386,588</u>	<u>49,252</u>	<u>(6,891)</u>	<u>(4,110)</u>	<u>(204,458)</u>	<u>(274,879)</u>	
Total other financing sources (uses)										
	538,126	1,096,437	26,483	1,571,967	(23,379)	(6,891)	(31,544)		1,324,908	(13,038)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES										
	<u>2,811,894</u>	<u>984,704</u>	<u>577,786</u>	<u>5,011,323</u>	<u>161,904</u>	<u>6,891</u>	<u>434,578</u>		<u>2,919,574</u>	<u>54,377</u>
FUND BALANCES (DEFICIT), July 1, 1995										
	<u>3,350,020</u>	<u>2,081,141</u>	<u>604,269</u>	<u>6,583,290</u>	<u>138,525</u>		<u>403,034</u>		<u>4,244,482</u>	<u>41,339</u>
FUND BALANCES (DEFICIT), June 30, 1996										

CITY OF ROSEVILLE

SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, YEAR ENDED JUNE 30, 1996 (Concluded)

	ROSEVILLE FINANCING AUTHORITY	COMMUNITY DEVELOP. MENT BLOCK GRANT	CITY OF ROSEVILLE REDEVELOP. MENT AGENCY	PUBLIC FACILITIES	NATIVE OAK TREE PROPAGA- TION	NON-NATIVE OAK TREE PROPAGA- TION	PLEASANT GROVE DRAIN BASIN	HOME INVESTMENT PARTNERSHIP PROGRAM	HOSPITAL SALE PROCEEDS	TOTALS
REVENUES:										
Taxes			\$ 475,679	\$ 1,420,315	\$ 237,763	\$ 50,625	\$ 974,373			\$ 1,960,184
Charges for services			7,941							9,845,130
Subventions and grants	\$ 84,060	\$ 333,414	75,144	395,743	15,687	1,733	181,281	\$ 594,423	\$ 968,973	5,620,781
Use of money and property										2,616,837
Fines, forfeitures and penalties			128,707							204,458
Sale of property		30,796	27,579							128,707
Miscellaneous revenues	84,060	364,210	715,050	1,816,058	253,430	52,358	1,155,654	594,423	968,973	152,065
Total revenues										20,528,182
EXPENDITURES:										
Current:										
General government		263,489	313,302					594,423	296,249	1,890,065
Housing assistance payments										1,314,969
Capital outlay		27,526	308,114							8,261,218
Debt service:										
Interest		291,015	80,054					594,423	296,249	80,054
Total expenditures										11,546,326
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	84,060	73,195	13,580	1,816,058	253,430	52,358	1,155,654		672,724	8,981,836
OTHER FINANCING SOURCES (USES)										
Operating transfers in		13,599						61,900		820,846
Operating transfers out		(86,794)	(180,127)	(1,390,321)			(10,000)			(2,790,297)
Total other financing sources (uses)		(73,195)	(180,127)	(1,390,321)			(10,000)	61,900		(1,969,451)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	84,060		(166,547)	425,737	253,430	52,358	1,145,654	61,900	672,724	7,012,385
FUND BALANCES (DEFICIT), July 1, 1995	1,790,370		(398,436)	5,942,231	108,049	9,986	2,261,685		15,913,425	38,590,341
FUND BALANCES (DEFICIT), June 30, 1996	\$ 1,874,430		(564,963)	\$ 6,367,968	\$ 361,479	\$ 62,344	\$ 3,407,339	\$ 61,900	\$ 16,586,149	\$ 45,602,726

CITY OF ROSEVILLE

CAPITAL PROJECTS FUND
COMBINING BALANCE SHEET, JUNE 30, 1996

	BUILDING	FOOTHILLS BOULEVARD	ROSEVILLE FINANCE AUTHORITY	NORTH CENTRAL ROSEVILLE COMMUNITY FACILITIES DISTRICT NO. 1	FOOTHILLS BOULEVARD EXTENSION	NORTHWEST ROSEVILLE COMMUNITY FACILITIES DISTRICT NO. 1	NORTHEAST ROSEVILLE COMMUNITY FACILITIES DISTRICT NO. 2	TOTALS
ASSETS:								
Cash and Investments:								
In City Treasury	\$ 2,336,732		\$ 284,928	\$ 1,614,627		\$ 189,153		\$ 4,425,440
Restricted (with fiscal agents)						636,270		636,270
Receivables:								
Accrued interest	15,593			22,990				38,583
TOTAL ASSETS	\$ 2,352,325		\$ 284,928	\$ 1,637,617		\$ 825,423		\$ 5,100,293
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts payable	\$ 240,351			\$ 465,006				\$ 705,357
Due to other funds		\$ 3,599			\$ 80,488			84,087
Total liabilities	240,351	3,599		465,006	80,488			789,444
FUND BALANCES (DEFICITS):								
Reserved for encumbrances	25,750							25,750
Unreserved	2,086,224	(3,599)	\$ 284,928	1,172,611	(80,488)	\$ 825,423		4,285,099
Total fund balances (deficits)	2,111,974	(3,599)	284,928	1,172,611	(80,488)	825,423		4,310,849
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 2,352,325		\$ 284,928	\$ 1,637,617		\$ 825,423		\$ 5,100,293

CITY OF ROSEVILLE

CAPITAL PROJECT FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, YEAR ENDED JUNE 30, 1996

	BUILDING	FOOTHILLS BOULEVARD	ROSEVILLE FINANCE AUTHORITY	NORTH CENTRAL ROSEVILLE COMMUNITY FACILITIES DISTRICT NO. 1	FOOTHILLS BOULEVARD EXTENSION	NORTHWEST ROSEVILLE COMMUNITY FACILITIES DISTRICT NO. 1	NORTHEAST ROSEVILLE COMMUNITY FACILITIES DISTRICT NO. 2	TOTALS
REVENUES:								
Subventions and grants	\$ 282,152						\$	282,152
Use of money and property	41,179		\$	105,374		33,925		180,478
Miscellaneous revenues	2,475							2,475
Total revenues	<u>325,806</u>			<u>105,374</u>		<u>33,925</u>		<u>465,105</u>
EXPENDITURES:								
Capital outlay	1,979,786	\$ 70,975	3,503	1,178,818				3,231,265
Total expenditures	<u>1,979,786</u>	<u>70,975</u>	<u>3,503</u>	<u>1,178,818</u>			<u>(1,817)</u>	<u>3,231,265</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,653,980)</u>	<u>(70,975)</u>	<u>(3,503)</u>	<u>(1,073,444)</u>		<u>33,925</u>	<u>1,817</u>	<u>(2,766,160)</u>
OTHER FINANCING SOURCES (USES):								
Contributions from developers	3,638,883	70,975		1,673,390		182,906		5,391,365
Operating transfers in				(272,345)		8,117		(272,345)
Operating transfers out								
Total other financing sources	<u>3,638,883</u>	<u>70,975</u>		<u>1,401,045</u>		<u>191,023</u>		<u>5,301,926</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>1,984,903</u>		<u>(3,503)</u>	<u>327,601</u>		<u>224,948</u>	<u>1,817</u>	<u>2,535,766</u>
FUND BALANCES (DEFICITS), July 1, 1995	<u>127,071</u>	<u>(3,599)</u>	<u>288,431</u>	<u>845,010</u>	<u>(80,488)</u>	<u>600,475</u>	<u>(1,817)</u>	<u>1,775,083</u>
FUND BALANCES (DEFICITS), June 30, 1996	<u>\$ 2,111,974</u>	<u>\$ (3,599)</u>	<u>\$ 284,928</u>	<u>\$ 1,172,611</u>	<u>\$ (80,488)</u>	<u>\$ 825,423</u>	<u>\$</u>	<u>\$ 4,310,849</u>

CITY OF ROSEVILLE

ENTERPRISE FUNDS
COMBINING BALANCE SHEET, JUNE 30, 1996 (Continued on following page)

	ELECTRIC	WATER	SEWER	REFUSE	GOLF COURSE	LOCAL TRANS-PORTATION	SCHOOL-AGE CHILD CARE	TOTALS
ASSETS:								
CURRENT ASSETS:								
Cash and Investments:								
In City Treasury	\$ 18,884,434	\$ 7,580,123	\$ 13,202,496	\$	\$ 399,490	\$ 67,830	\$ 106,587	\$ 40,240,960
Restricted (with fiscal agents)	7,700,114	2,470,000	5,268,921		917,114			16,356,149
Receivables:								
Taxes	18,720							18,720
Accounts	7,518,505	993,468	1,576,563	\$ 1,007,228	68,653	34	1,870	11,166,321
Accrued interest	359,682	143,620	302,541		20,507	11,330	1,395	839,075
Due from other funds			1,220,545					1,220,545
Due from other government agencies	3,591,863	597	1,732,276			229,518		1,962,391
Inventories		285,059	98,618					3,975,540
Total current assets	38,073,318	11,472,867	23,401,960	1,007,228	1,405,764	308,712	109,852	75,779,701
OTHER ASSETS:								
Advances to other funds			2,430,000					2,430,000
Deferred receivables	8,868		48,482					57,350
Notes receivable					25,655			25,655
Prepaid purchased electricity	3,924,582							3,924,582
Unamortized bond origination costs			108,952		202,308			311,260
Unamortized certificates of participation origination costs	144,783							144,783
Fixed assets - net of accumulated depreciation	79,931,334	39,206,411	108,702,568	859,821	18,337,273	2,134,154	8,068	249,179,629
Other			40,867					40,867
TOTAL ASSETS	\$ 122,082,885	\$ 50,679,278	\$ 134,732,829	\$ 1,867,049	\$ 19,971,000	\$ 2,442,866	\$ 117,920	\$ 331,893,827

CITY OF ROSEVILLE

ENTERPRISE FUNDS
COMBINING BALANCE SHEET, JUNE 30, 1996 (Concluded)

	ELECTRIC	WATER	SEWER	REFUSE	GOLF COURSE	LOCAL TRANS-PORTATION	SCHOOL-AGE CHILD CARE	TOTALS
LIABILITIES AND FUND EQUITY								
CURRENT LIABILITIES:								
Accounts payable	\$ 726,817	\$ 243,933	\$ 145,419	\$ 242,070	\$ 33,532	\$ 83,948	\$ 8,095	\$ 1,483,814
Accrued liabilities	339,496	47,138	86,459	19,533	231,558	2,168	25,185	751,537
Due to other funds				358,475	260,000			618,475
Current portion of long-term debt	1,175,000	6,637	730,000		75,000			1,986,637
Current portion of compensated absences	321,300	94,000	184,300	54,000		11,200	46,300	711,100
Deposits	254,390	26,445	49,650			250		330,735
Deferred revenue	2,927,960					157,405		3,085,365
Total current liabilities	5,744,963	418,153	1,195,828	674,078	600,090	254,971	79,580	8,967,663
LONG-TERM LIABILITIES:								
Advances from other funds				2,430,000	3,685,244			6,115,244
Notes		248,893						248,893
Revenue bonds			5,085,000					5,085,000
Certificates of participation	5,455,000				9,250,000			14,705,000
Landfill closure and post closure liability				1,333,352				1,333,352
Compensated absences	468,122	184,065	241,079	57,979		8,446	24,945	984,636
Total liabilities	11,668,085	851,111	6,521,907	4,495,409	13,535,334	263,417	104,525	37,439,788
FUND EQUITY (DEFICIT):								
Contributed capital:								
From subdividers	30,470,876	18,088,208	18,905,062		5,306,950		5,477	72,776,573
From other government agencies	11,545	1,292,553	10,769,449			2,114,154		14,187,701
Retained earnings (deficit):								
Reserved for debt service	1,335,000	30,447,406	569,613	(2,628,360)		65,295	7,918	2,599,813
Unreserved	78,597,379		97,966,798		433,116			204,889,952
Total fund equity (deficit)	110,414,800	49,828,167	128,210,922	(2,628,360)	6,435,666	2,179,449	13,395	294,454,039
TOTAL LIABILITIES AND FUND EQUITY (DEFICIT)	\$ 122,082,885	\$ 50,679,278	\$ 134,732,829	\$ 1,867,049	\$ 19,971,000	\$ 2,442,866	\$ 117,920	\$ 371,893,827

CITY OF ROSEVILLE

ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS, YEAR ENDED JUNE 30, 1996

	ELECTRIC	WATER	SEWER	REFUSE	GOLF COURSE	LOCAL TRANS-PORTATION	SCHOOL-AGE CHILD CARE	TOTALS
OPERATING REVENUES:								
Charges for services	\$ 51,582,265	\$ 9,828,622	\$ 18,386,469	\$ 6,347,760	\$ 2,432,327	\$ 1,799,840	\$ 1,850,934	\$ 92,228,217
Other	112,243	50,344	27,859	1,037,909	156,339	5,866	2,702	1,393,262
Total operating revenues	<u>51,694,508</u>	<u>9,878,966</u>	<u>18,414,328</u>	<u>7,385,669</u>	<u>2,588,666</u>	<u>1,805,706</u>	<u>1,853,636</u>	<u>93,621,479</u>
OPERATING EXPENSES:								
Operations	36,586,810	3,177,899	5,276,380	4,758,269	1,624,149	1,634,995	1,553,597	54,612,099
Administration	867,535	947,075	221,749	272,442	(46,985)	(159)	1,909	2,263,566
Depreciation and amortization	2,629,418	1,129,051	3,066,044	148,511	283,374		2,466	7,258,864
Total operating expenses	<u>40,083,763</u>	<u>5,254,025</u>	<u>8,564,173</u>	<u>5,179,222</u>	<u>1,860,538</u>	<u>1,634,836</u>	<u>1,557,972</u>	<u>64,134,529</u>
OPERATING INCOME	<u>11,610,745</u>	<u>4,624,941</u>	<u>9,850,155</u>	<u>2,206,447</u>	<u>728,128</u>	<u>170,870</u>	<u>295,664</u>	<u>29,486,950</u>
NON-OPERATING REVENUES (EXPENSES):								
Interest revenue	1,392,340	545,096	1,091,797	4,923	113,539	27,827	3,726	3,179,248
Interest expense	(407,900)	(9,210)	(419,981)		(446,140)			(1,283,231)
Total non-operating revenues (expenses)	<u>984,440</u>	<u>535,886</u>	<u>671,816</u>	<u>4,923</u>	<u>(332,601)</u>	<u>27,827</u>	<u>3,726</u>	<u>1,896,017</u>
INCOME BEFORE OPERATING TRANSFERS	<u>12,595,185</u>	<u>5,160,827</u>	<u>10,521,971</u>	<u>2,211,370</u>	<u>395,527</u>	<u>198,697</u>	<u>299,390</u>	<u>31,382,967</u>
Operating transfers in		456,000	25,578	9,346	248,029			738,953
Operating transfers out	(3,973,391)	(1,425,888)	(1,685,620)	(1,291,347)	(279,549)	(158,580)	(164,120)	(8,978,495)
NET INCOME	<u>8,621,794</u>	<u>4,190,939</u>	<u>8,861,929</u>	<u>929,369</u>	<u>364,007</u>	<u>40,117</u>	<u>135,270</u>	<u>23,143,425</u>
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS	<u>808,640</u>	<u>601,114</u>	<u>686,590</u>					<u>2,096,344</u>
INCREASE IN RETAINED EARNINGS	<u>9,430,434</u>	<u>4,792,053</u>	<u>9,548,519</u>	<u>929,369</u>	<u>364,007</u>	<u>40,117</u>	<u>135,270</u>	<u>25,239,769</u>
RETAINED EARNINGS (DEFICIT), July 1, 1995	<u>70,501,945</u>	<u>25,655,353</u>	<u>88,987,892</u>	<u>(3,557,729)</u>	<u>764,709</u>	<u>25,178</u>	<u>(127,352)</u>	<u>182,249,996</u>
RETAINED EARNINGS (DEFICIT), June 30, 1996	<u>\$ 79,932,379</u>	<u>\$ 30,447,406</u>	<u>\$ 98,536,411</u>	<u>\$ (2,628,360)</u>	<u>\$ 1,128,716</u>	<u>\$ 65,295</u>	<u>\$ 7,918</u>	<u>\$ 207,489,765</u>

CITY OF ROSEVILLE

ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS, YEAR ENDED JUNE 30, 1996 (Continued on following page)

	ELECTRIC	WATER	SEWER	REFUSE	GOLF COURSE	LOCAL TRANS-PORTATION	SCHOOL-AGE CHILD CARE	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:								
Operating income	\$ 11,610,745	\$ 4,624,941	\$ 9,850,155	\$ 2,206,447	\$ 728,128	\$ 170,870	\$ 295,664	\$ 29,486,950
Adjustments to reconcile operating income to net cash from operating activities:								
Depreciation and amortization	2,629,418	1,129,051	3,066,044	148,511	283,374		2,466	7,258,864
Effect of changes in assets and liabilities:								
Accounts receivable	381,061	(207,375)	338,008	(218,150)	(62,412)	28,701	(1,870)	257,963
Accrued interest	(145,143)	(70,980)	(149,738)	4,323	17,700	(6,957)	(1,395)	(352,190)
Due from other government agencies	3,563	7,663	(1,246,667)		22,672	(94,272)	2,500	(1,304,161)
Deferred receivables	4,434		15,922					20,356
Inventories	(711,641)	(170,469)	1,496					(880,614)
Prepaid purchased electricity	3,031,407							3,031,407
Other assets			6,288					6,288
Accounts payable	(266,261)	(5,754)	(1,992)	(200,124)	(592,632)	(43,198)	(21,653)	(1,131,614)
Accrued liabilities	(50,531)	5,694	2,469	1,167	(746)	58	489	(41,400)
Deposits	29,655	(3,035)	21,450			(295)		47,775
Deferred revenue	204,307			(3,716,648)		(187,808)		16,499
Landfill closure and postclosure liability				16,844	(74,025)		(2,405)	(3,716,648)
Compensated absences	65,478	52,264	63,620			1,963		123,739
Net cash provided by (used in) operating activities	16,786,492	5,362,200	11,967,035	(1,757,630)	322,259	(130,938)	273,796	32,823,214
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Net borrowings (repayments) of amounts due from/ to other funds	475,354	284,890	(496,045)	358,475	(1,485,091)		(6,815)	(869,232)
Net borrowings (repayments) of advances from/ to other funds			(2,430,000)	2,430,000	1,208,244			1,208,244
Operating transfers in		456,000	25,578	9,346	248,029			738,953
Operating transfers out	(3,973,391)	(1,425,888)	(1,685,620)	(1,291,347)	(279,549)	(158,580)	(164,120)	(8,978,495)
Net cash provided by (used in) noncapital financing activities	(3,498,037)	(684,998)	(4,586,087)	1,506,474	(308,367)	(158,580)	(170,935)	(7,900,530)

CITY OF ROSEVILLE

ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS, YEAR ENDED JUNE 30, 1996 (Concluded)

	ELECTRIC	WATER	SEWER	REFUSE	GOLF COURSE	LOCAL TRANS-PORTATION	SCHOOL-AGE CHILD CARE	TOTALS
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Acquisition and construction of fixed assets	(9,754,697)	(2,942,810)	(3,190,398)	(141,044)	(2,817,014)	(410,113)		(19,256,076)
Principal paid on debt, bond maturities, special assessments, and equipment contracts	(1,110,000)	(6,323)	(695,000)					(1,811,323)
Interest paid	(407,900)	(9,210)	(419,981)		(446,140)			(1,283,231)
Contributed Capital	3,894,684	1,544,090	1,726,311			390,113		7,555,198
Net cash used in capital and related financing activities	<u>(7,377,913)</u>	<u>(1,414,253)</u>	<u>(2,579,068)</u>	<u>(141,044)</u>	<u>(3,263,154)</u>	<u>(20,000)</u>		<u>(14,795,432)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:								
Interest received	1,392,340	545,096	1,091,797	4,923	113,539	27,827	3,726	3,179,248
Disbursements on note receivable					(25,655)			(25,655)
Purchases of investments	(6,217,573)	(2,470,000)	(4,614,890)					(13,302,463)
Proceeds from sales and maturities of investments					3,560,868			3,560,868
Net cash provided by (used in) investing activities	<u>(4,825,233)</u>	<u>(1,924,904)</u>	<u>(3,523,093)</u>	<u>4,923</u>	<u>3,648,752</u>	<u>27,827</u>	<u>3,726</u>	<u>(6,588,002)</u>
Net increase (decrease) in cash and cash equivalents	1,085,309	1,338,045	1,278,787	(387,277)	399,490	(281,691)	106,587	3,539,250
CASH AND CASH EQUIVALENTS, July 1, 1995	<u>17,799,125</u>	<u>6,242,078</u>	<u>11,923,709</u>	<u>387,277</u>		<u>349,521</u>		<u>36,701,710</u>
CASH AND CASH EQUIVALENTS, June 30, 1996	<u>\$ 18,884,434</u>	<u>\$ 7,580,123</u>	<u>\$ 13,202,496</u>	<u>\$</u>	<u>\$ 399,490</u>	<u>\$ 67,830</u>	<u>\$ 106,587</u>	<u>\$ 40,240,960</u>

CITY OF ROSEVILLE

INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET, JUNE 30, 1996

	AUTOMOTIVE SERVICES	AUTOMOTIVE REPLACEMENT	WORKERS' COMPENSATION	SELF INSURANCE FUNDS GENERAL LIABILITY	UNEMPLOYMENT RESERVE	VISION	CENTRAL STORES	TOTALS
ASSETS:								
CURRENT ASSETS:								
Cash and Investments:								
In City Treasury	\$	2,860,274	1,933,906	1,897,774	48,701	184,476	137,977	7,063,108
Receivables:								
Accounts	\$	448	20,000					20,448
Accrued interest		324,711	27,988	27,543	1,162	2,117		383,421
Due from other funds		322,500		2,573				322,500
Claims		461,727						2,573
Inventories		462,175	1,981,794	1,927,890	49,863	186,593	137,977	461,727
Total current assets								8,253,777
OTHER ASSETS:								
Advances to other funds		6,383,862						6,383,862
Fixed assets - net of accumulated depreciation		45,839	1,478					5,205,808
TOTAL ASSETS	\$	508,014	15,049,838	1,983,272	49,863	186,593	137,977	19,843,447
LIABILITIES AND FUND EQUITY								
CURRENT LIABILITIES:								
Accounts payable	\$	56,769	118,469	2,175		1,240	137,977	323,390
Accrued liabilities		16,219	6,760					16,219
Due to other funds		86,692						86,692
Current portion of compensated absences		52,600	2,150,000	1,650,000	1,469	4,462		52,600
Self-insurance claims payable			2,156,760	1,652,175	1,469	5,702		3,805,931
Total current liabilities		212,280	118,469					4,284,832
LONG-TERM LIABILITIES:								
Compensated absences		62,750						62,750
Total liabilities		275,030	2,156,760	1,652,175	1,469	5,702	137,977	4,347,582
FUND EQUITY (DEFICIT)								
Contributed capital:								
From other government agencies		6,899						6,899
Retained earnings:								
Unreserved		226,085	(173,488)	275,715	48,394	180,891		15,488,966
Total fund equity (deficit)		232,984	(173,488)	275,715	48,394	180,891		15,495,865
TOTAL LIABILITIES AND FUND EQUITY (DEFICIT)	\$	508,014	15,049,838	1,983,272	49,863	186,593	137,977	19,843,447

CITY OF ROSEVILLE

INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS, YEAR ENDED JUNE 30, 1996

	AUTOMOTIVE SERVICES	AUTOMOTIVE REPLACEMENT	SELF INSURANCE FUNDS				CENTRAL STORES	TOTALS
			WORKERS' COMPENSATION	GENERAL LIABILITY	UNEMPLOYMENT RESERVE	VISION		
OPERATING REVENUES:								
Charges for services	\$ 2,319,088	\$ 2,157,078	\$ 1,301,354	\$ 607,131	\$ 30,741	\$ 94,819	\$ 6,510,211	
Other	2,741						2,741	
Total operating revenues	2,321,829	2,157,078	1,301,354	607,131	30,741	94,819	6,512,952	
OPERATING EXPENSES:								
Operations	2,000,534	119,405	424,085	783,218		9,659	3,336,901	
Depreciation and amortization	11,723	1,430,198	753				1,442,674	
Claims expense			594,571	962,313	63,943	51,650	1,672,477	
Total operating expenses	2,012,257	1,549,603	1,019,409	1,745,531	63,943	61,309	6,452,052	
OPERATING INCOME (LOSS)	309,572	607,475	281,945	(1,138,400)	(33,202)	33,510	60,900	
NON-OPERATING REVENUES:								
Interest revenue	2,279	64,881	113,729	137,513	5,027	10,113	333,542	
Gain on sale of assets		34,446					34,446	
Total non-operating revenues	2,279	99,327	113,729	137,513	5,027	10,113	367,988	
INCOME (LOSS) BEFORE OPERATING TRANSFERS	311,851	706,802	395,674	(1,000,887)	(28,175)	43,623	428,888	
Operating transfers in		586,549	250,000				836,549	
Operating transfers out	(481,310)	(243,666)	(4,640)	(264,640)	(4,640)	(4,640)	(1,003,536)	
NET INCOME (LOSS)	(169,459)	1,049,685	641,034	(1,265,527)	(32,815)	38,983	261,901	
RETAINED EARNINGS (DEFICIT), July 1, 1995	395,544	13,881,684	(814,522)	1,541,242	81,209	141,908	15,227,065	
RETAINED EARNINGS (DEFICIT), June 30, 1996	\$ 226,085	\$ 14,931,369	\$ (173,488)	\$ 275,715	\$ 48,394	\$ 180,891	\$ 15,488,966	

CITY OF ROSEVILLE

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS, YEAR ENDED JUNE 30, 1996

	AUTOMOTIVE SERVICES	AUTOMOTIVE REPLACE- MENT	SELF INSURANCE	CENTRAL STORES	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ 309,572	\$ 607,475	\$ (856,147)		\$ 60,900
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization	11,723	1,430,198	753		1,442,674
Gain on sale of assets		34,446			34,446
Effect of changes in assets and liabilities:					
Accounts receivable	(448)		188,756		188,308
Accrued interest	3,087	(64,881)	(5,030)		(66,824)
Due from other government agencies	3,747		9,571		13,318
Claims receivable			1,122		1,122
Inventories	(101,471)				(101,471)
Accounts payable	22,456	105,022	(3,951)	\$ (14,937)	108,590
Accrued liabilities	(244)				(244)
Self insurance claims payable			(96,500)		(96,500)
Compensated absences	9,638				9,638
Net cash provided by (used in) operating activities	<u>258,060</u>	<u>2,112,260</u>	<u>(761,426)</u>	<u>(14,937)</u>	<u>1,593,957</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Net borrowings (repayments) of amounts due from/ to other funds	86,692	(170,000)			(83,308)
Net borrowings (repayments) of advances from/ to other funds		(1,145,744)			(1,145,744)
Operating transfers in		586,549	250,000		836,549
Operating transfers out	<u>(481,310)</u>	<u>(243,666)</u>	<u>(278,560)</u>		<u>(1,003,536)</u>
Net cash used in noncapital financing activities	<u>(394,618)</u>	<u>(972,861)</u>	<u>(28,560)</u>		<u>(1,396,039)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of fixed assets	(17,498)	(2,316,655)	(1,031)		(2,335,184)
Principal paid on equipment contracts		(51,185)			(51,185)
Net cash used in capital and related financing activities	<u>(17,498)</u>	<u>(2,367,840)</u>	<u>(1,031)</u>		<u>(2,386,369)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	<u>2,279</u>	<u>64,881</u>	<u>266,382</u>		<u>333,542</u>
Net cash provided by investing activities	<u>2,279</u>	<u>64,881</u>	<u>266,382</u>		<u>333,542</u>
Net decrease in cash and cash equivalents	(151,777)	(1,163,560)	(524,635)	(14,937)	(1,854,909)
CASH AND CASH EQUIVALENTS, July 1, 1995	<u>151,777</u>	<u>4,023,834</u>	<u>4,589,492</u>	<u>152,914</u>	<u>8,918,017</u>
CASH AND CASH EQUIVALENTS, June 30, 1996		<u>\$ 2,860,274</u>	<u>\$ 4,064,857</u>	<u>\$ 137,977</u>	<u>\$ 7,063,108</u>

CITY OF ROSEVILLE

AGENCY FUNDS
COMBINING BALANCE SHEET, JUNE 30, 1996 (Continued on following page)

	CIRBY WAY WEST	FOOTHILLS BOULEVARD	HILLTOP	NORTH ROSEVILLE/ROCKLIN SEWER	ROCKY/RIDGE HARDING	CHAMPION OAKS	FOOTHILLS BOULEVARD EXTENSION	OLYMPUS POINT CHILDRENS ART	NORTHEAST ROSEVILLE COMMUNITY FACILITIES DISTRICT #1	NORTHWEST ROSEVILLE COMMUNITY FACILITIES DISTRICT #1
Cash and Investments:										
In City Treasury	\$ 46,124	\$ 1,753,224	\$ 113,653	\$ 396,229	\$ 476,323	\$ 21,138	\$ 1,000,477	\$ 73,596	\$ 1,308,340	\$ 1,580,682
Restricted (with fiscal agents)									2,739,693	2,929,629
Deferred compensation plan										
Accrued interest receivable			260	2,943	2,253		6,756	1,079	29,234	90,921
Due from other government agencies										
Deferred receivable										
TOTAL ASSETS	\$ 46,124	\$ 1,753,224	\$ 113,913	\$ 399,172	\$ 478,576	\$ 21,138	\$ 1,007,233	\$ 74,675	\$ 4,077,267	\$ 4,601,232

LIABILITIES:

Accounts payable										
Accrued liabilities										
Due to other funds										
Due to other government agencies										
Deferred compensation payable								74,567		
Other liabilities	\$ 46,124	\$ 1,753,224	\$ 113,913	\$ 399,172	\$ 478,576	\$ 21,138	\$ 1,007,233		\$ 4,077,267	\$ 4,601,232
Debt service reserve	\$ 46,124	\$ 1,753,224	\$ 113,913	\$ 399,172	\$ 478,576	\$ 21,138	\$ 1,007,233	\$ 74,675	\$ 4,077,267	\$ 4,601,232
TOTAL LIABILITIES	\$ 46,124	\$ 1,753,224	\$ 113,913	\$ 399,172	\$ 478,576	\$ 21,138	\$ 1,007,233	\$ 74,675	\$ 4,077,267	\$ 4,601,232

CITY OF ROSEVILLE

AGENCY FUNDS
COMBINING BALANCE SHEET, JUNE 30, 1996 (Concluded)

	SERSP LIGHTING AND LAND- SCAPING	OLYMPUS POINT LIGHTING LAND- SCAPING	PAYROLL REVOLVING	DEFERRED COMPEN- SATION	ROSEVILLE COMMUNITY HOSPITAL TRUST	HIGHWAY 65 JPA	NORTHEAST ROSEVILLE COMMUNITY FACILITY DISTRICT #2	NORTH CENTRAL ROSEVILLE COMMUNITY FACILITY DISTRICT #1	DRY CREEK DRAINAGE BASIN	OTHER	TOTALS
Cash and Investments:	\$ 35,469	\$ 213,583	\$ 521,030	\$	\$	\$ 2,506,189	\$ 1,069,738	\$ 5,058,067	\$ 185,833	\$ 1,363,616	\$ 17,723,311
In City Treasury				\$ 17,197,762	\$ 3,355,081		1,382,772	7,710,064			18,117,229
Restricted (with fiscal agents)											17,197,762
Deferred compensation plan						34,762	56,083	64,072	2,550	3,831	294,744
Accrued interest receivable											
Due from other government agencies						231,693					231,693
Deferred receivable									258		258
TOTAL ASSETS	\$ 35,469	\$ 213,583	\$ 521,030	\$ 17,197,762	\$ 3,355,081	\$ 2,772,644	\$ 2,508,593	\$ 12,832,193	\$ 188,641	\$ 1,367,447	\$ 53,564,997
LIABILITIES:											
Accounts payable	\$ 2,333	\$ 8,905	\$ 521,030			\$ 1,218		\$ 4,758	\$	\$ 30,999	\$ 569,351
Accrued liabilities									\$ 161,051	\$ 293,582	\$ 454,633
Due to other funds										\$ 438	\$ 438
Due to other government agencies				\$ 17,197,762						\$ 59,934	\$ 59,934
Deferred compensation payable										\$ 616,740	\$ 17,197,762
Other liabilities	33,136	204,678			\$ 3,355,081	2,771,426	2,508,593	12,827,435	27,590	365,754	691,307
Debt service reserve											34,591,572
TOTAL LIABILITIES	\$ 35,469	\$ 213,583	\$ 521,030	\$ 17,197,762	\$ 3,355,081	\$ 2,772,644	\$ 2,508,593	\$ 12,832,193	\$ 188,641	\$ 1,367,447	\$ 53,564,997

CITY OF ROSEVILLE

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 1996 (Continued on following page)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
CIRBY WAY WEST				
ASSETS				
Cash and investments	\$ 46,124			\$ 46,124
LIABILITIES				
Debt service reserve	\$ 46,124			\$ 46,124
FOOTHILLS BOULEVARD				
ASSETS				
Cash and investments	\$ 1,567,941	\$ 585,400	\$ 400,117	\$ 1,753,224
LIABILITIES				
Debt service reserve	\$ 1,567,941	\$ 585,400	\$ 400,117	\$ 1,753,224
HILLTOP				
ASSETS				
Cash and investments	\$ 111,437	\$ 92,197	\$ 89,981	\$ 113,653
Accrued interest receivable	202	260	202	260
Total	\$ 111,639	\$ 92,457	\$ 90,183	\$ 113,913
LIABILITIES				
Debt service reserve	\$ 111,639	\$ 92,457	\$ 90,183	\$ 113,913
NORTH ROSEVILLE/ROCKLIN				
SEWER				
ASSETS				
Cash and investments	\$ 421,912	\$ 250,473	\$ 276,156	\$ 396,229
Accrued interest receivable	2,292	2,943	2,292	2,943
Total	\$ 424,204	\$ 253,416	\$ 278,448	\$ 399,172
LIABILITIES				
Debt service reserve	\$ 424,204	\$ 253,416	\$ 278,448	\$ 399,172
ROCKY/RIDGE HARDING				
ASSETS				
Cash and investments	\$ 465,673	\$ 393,492	\$ 382,842	\$ 476,323
Accrued interest receivable	1,754	2,253	1,754	2,253
Total	\$ 467,427	\$ 395,745	\$ 384,596	\$ 478,576
LIABILITIES				
Debt service reserve	\$ 467,427	\$ 395,745	\$ 384,596	\$ 478,576
CHAMPION OAKS				
ASSETS				
Cash and investments	\$ 21,138			\$ 21,138
LIABILITIES				
Debt service reserve	\$ 21,138			\$ 21,138

CITY OF ROSEVILLE

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 1996 (Continued on following page)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
FOOTHILLS BOULEVARD EXTENSION				
ASSETS				
Cash and investments	\$ 892,420	\$ 736,650	\$ 628,593	\$ 1,000,477
Accrued interest receivable	4,656	6,756	4,656	6,756
Total	<u>\$ 897,076</u>	<u>\$ 743,406</u>	<u>\$ 633,249</u>	<u>\$ 1,007,233</u>
LIABILITIES				
Debt service reserve	<u>\$ 897,076</u>	<u>\$ 743,406</u>	<u>\$ 633,249</u>	<u>\$ 1,007,233</u>
OLYMPUS POINT CHILDRENS ART				
ASSETS				
Cash and investments	\$ 76,719	\$ 4,787	\$ 7,910	\$ 73,596
Accrued interest receivable	903	1,079	903	1,079
Total	<u>\$ 77,622</u>	<u>\$ 5,866</u>	<u>\$ 8,813</u>	<u>\$ 74,675</u>
LIABILITIES				
Accounts payable	\$ 14	\$ 108	\$ 14	\$ 108
Other liabilities	77,608	5,758	8,799	74,567
Total	<u>\$ 77,622</u>	<u>\$ 5,866</u>	<u>\$ 8,813</u>	<u>\$ 74,675</u>
NORTHEAST ROSEVILLE COMMUNITY FACILITIES DISTRICT #1				
ASSETS				
Cash and investments	\$ 747,014	\$ 3,313,660	\$ 2,752,334	\$ 1,308,340
Restricted cash	2,776,140	758,170	794,617	2,739,693
Accrued interest receivable	20,478	29,234	20,478	29,234
Total	<u>\$ 3,543,632</u>	<u>\$ 4,101,064</u>	<u>\$ 3,567,429</u>	<u>\$ 4,077,267</u>
LIABILITIES				
Accrued liabilities	\$ 40,091		\$ 40,091	
Debt service reserve	3,503,541	\$ 4,101,064	3,527,338	\$ 4,077,267
Total	<u>\$ 3,543,632</u>	<u>\$ 4,101,064</u>	<u>\$ 3,567,429</u>	<u>\$ 4,077,267</u>
NORTHWEST ROSEVILLE COMMUNITY FACILITIES DISTRICT #1				
ASSETS				
Cash and investments	\$ 1,601,955	\$ 2,940,702	\$ 2,961,975	\$ 1,580,682
Restricted cash	2,967,823	263,988	302,182	2,929,629
Accrued interest receivable	66,796	90,921	66,796	90,921
Total	<u>\$ 4,636,574</u>	<u>\$ 3,295,611</u>	<u>\$ 3,330,953</u>	<u>\$ 4,601,232</u>
LIABILITIES				
Debt service reserve	<u>\$ 4,636,574</u>	<u>\$ 3,295,611</u>	<u>\$ 3,330,953</u>	<u>\$ 4,601,232</u>
SERSP LIGHTING AND LANDSCAPING				
ASSETS				
Cash and investments	\$ 51,915	\$ 25,708	\$ 42,154	\$ 35,469
LIABILITIES				
Accounts payable	\$ 1,083	\$ 2,333	\$ 1,083	\$ 2,333
Debt service reserve	50,832	23,375	41,071	33,136
Total	<u>\$ 51,915</u>	<u>\$ 25,708</u>	<u>\$ 42,154</u>	<u>\$ 35,469</u>

CITY OF ROSEVILLE

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 1996 (Continued on following page)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
OLYMPUS POINT LIGHTING AND LANDSCAPING				
ASSETS				
Cash and investments	\$ 186,738	\$ 128,801	\$ 101,956	\$ 213,583
Total	<u>\$ 186,738</u>	<u>\$ 128,801</u>	<u>\$ 101,956</u>	<u>\$ 213,583</u>
LIABILITIES				
Accounts payable	\$ 4,096	\$ 8,905	\$ 4,096	\$ 8,905
Debt service reserve	182,642	119,896	97,860	204,678
Total	<u>\$ 186,738</u>	<u>\$ 128,801</u>	<u>\$ 101,956</u>	<u>\$ 213,583</u>
PAYROLL REVOLVING				
ASSETS				
Cash and investments	\$ 854,724	\$ 33,075,092	\$ 33,408,786	\$ 521,030
LIABILITIES				
Accounts payable	\$ 854,724	\$ 33,075,092	\$ 33,408,786	\$ 521,030
DEFERRED COMPENSATION				
ASSETS				
Deferred compensation plan	\$ 13,945,482	\$ 3,252,280		\$ 17,197,762
LIABILITIES				
Deferred compensation payable	\$ 13,945,482	\$ 3,252,280		\$ 17,197,762
ROSEVILLE COMMUNITY HOSPITAL TRUST				
ASSETS				
Restricted cash	\$ 3,541,034	\$ 965,598	\$ 1,151,551	\$ 3,355,081
LIABILITIES				
Accrued liabilities				
Other liabilities	\$ 118,077		\$ 118,077	
Debt service reserve	3,422,957	\$ 965,598	1,033,474	\$ 3,355,081
Total	<u>\$ 3,541,034</u>	<u>\$ 965,598</u>	<u>\$ 1,151,551</u>	<u>\$ 3,355,081</u>
HIGHWAY 65-JPA				
ASSETS				
Cash and investments	\$ 1,792,467	\$ 828,350	\$ 114,628	\$ 2,506,189
Accrued interest receivable	21,093	34,762	21,093	34,762
Due from other funds	36,987		36,987	
Due from other government agencies	170,634	231,693	170,634	231,693
Total	<u>\$ 2,021,181</u>	<u>\$ 1,094,805</u>	<u>\$ 343,342</u>	<u>\$ 2,772,644</u>
LIABILITIES				
Accounts payable		\$ 1,218		\$ 1,218
Accrued liabilities	\$ 119,446		\$ 119,446	
Debt service reserve	1,901,735	1,093,587	223,896	2,771,426
Total	<u>\$ 2,021,181</u>	<u>\$ 1,094,805</u>	<u>\$ 343,342</u>	<u>\$ 2,772,644</u>

CITY OF ROSEVILLE

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 1996 (Continued on following page)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
NORTHEAST ROSEVILLE				
COMMUNITY FACILITIES DISTRICT #2				
ASSETS				
Cash and investments	\$ 567,224	\$ 1,793,507	\$ 1,290,993	\$ 1,069,738
Restricted cash	1,624,789	114,594	356,611	1,382,772
Accrued interest receivable	44,630	56,083	44,630	56,083
Total	\$ 2,236,643	\$ 1,964,184	\$ 1,692,234	\$ 2,508,593
LIABILITIES				
Debt service reserve	\$ 2,236,643	\$ 1,642,315	\$ 1,370,365	\$ 2,508,593
NORTH CENTRAL ROSEVILLE				
COMMUNITY FACILITIES DISTRICT #1				
ASSETS				
Cash and investments	\$ 4,747,419	\$ 7,434,710	\$ 7,124,062	\$ 5,058,067
Restricted cash	6,497,258	1,212,796		7,710,054
Accrued interest receivable	417,852	64,072	417,852	64,072
Total	\$ 11,662,529	\$ 8,711,578	\$ 7,541,914	\$ 12,832,193
LIABILITIES				
Accounts payable	\$ 8,342	\$ 4,758	\$ 8,342	\$ 4,758
Debt service reserve	11,654,187	8,706,820	7,533,572	12,827,435
Total	\$ 11,662,529	\$ 8,711,578	\$ 7,541,914	\$ 12,832,193
DRY CREEK DRAINAGE BASIN				
ASSETS				
Cash and investments	\$ 46,763	\$ 139,243	\$ 173	\$ 185,833
Accrued interest receivable	550	2,550	550	2,550
Due from other funds	50,772		50,772	
Deferred receivable	322	258	322	258
Total	\$ 98,407	\$ 142,051	\$ 51,817	\$ 188,641
LIABILITIES				
Accrued liabilities	\$ 79,182	\$ 133,136	\$ 51,267	\$ 161,051
Contracts payable				
Debt service reserve	19,225	31,277	22,912	27,590
Total	\$ 98,407	\$ 164,413	\$ 74,179	\$ 188,641
OTHER				
ASSETS				
Cash and investments	\$ 537,948	\$ 1,473,380	\$ 647,712	\$ 1,363,616
Restricted cash	603,343		603,343	
Accrued interest receivable	434	3,831	434	3,831
Total	\$ 1,141,725	\$ 1,477,211	\$ 1,251,489	\$ 1,367,447
LIABILITIES				
Accounts payable	\$ 7,435	\$ 30,999	\$ 7,435	\$ 30,999
Accrued liabilities	35,693	293,582	35,693	293,582
Due to other funds	3,885	438	3,885	438
Due to other government agencies	51,707	59,934	51,707	59,934
Other liabilities	635,975	29,049	48,284	616,740
Debt service reserve	407,030	408,433	449,709	365,754
Total	\$ 1,141,725	\$ 822,435	\$ 596,713	\$ 1,367,447

CITY OF ROSEVILLE

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 1996 (Concluded)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash and investments	\$ 14,737,531	\$ 53,216,152	\$ 50,230,372	\$ 17,723,311
Restricted cash	18,010,387	3,315,146	3,208,304	18,117,229
Deferred compensation plan	13,945,482	3,252,280		17,197,762
Accrued interest receivable	581,640	294,744	581,640	294,744
Due from other funds	87,759		87,759	
Due from other government agencies	170,634	231,693	170,634	231,693
Deferred receivable	322	258	322	258
Total	<u>\$ 47,533,755</u>	<u>\$ 60,310,273</u>	<u>\$ 54,279,031</u>	<u>\$ 53,564,997</u>
LIABILITIES				
Accounts payable	\$ 875,694	\$ 33,123,413	\$ 33,429,756	\$ 569,351
Accrued liabilities	274,412	426,718	246,497	454,633
Due to other funds	3,885	438	3,885	438
Due to other government agencies	51,707	59,934	51,707	59,934
Deferred compensation payable	13,945,482	3,252,280		17,197,762
Other liabilities	831,660	34,807	175,160	691,307
Debt service reserve	31,550,915	22,458,400	19,417,743	34,591,572
Total	<u>\$ 47,533,755</u>	<u>\$ 59,355,990</u>	<u>\$ 53,324,748</u>	<u>\$ 53,564,997</u>

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of the provisions of the Master Installment Purchase Contract and the Trust Agreement. This summary is not intended to be definitive and is qualified in its entirety by reference to the aforementioned documents. Copies of the Master Installment Purchase Contract and the Trust Agreement are available upon request from the Trustee.

DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary of Principal Legal Documents. All capitalized terms not defined herein or elsewhere in this Official Statement have the meanings set forth in the Master Installment Purchase Contract and the Trust Agreement.

"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 12-month period in question, the Annual Debt Service for such Fiscal Year or 12-month period minus the sum of (i) for the purposes of the rate covenant of the City pursuant to the Master Contract, the earnings from the investments in the Parity Reserve Fund deposited in the Electric Revenue Fund in such Fiscal Year or 12-month period, and (ii) the amount of the Annual Debt Service paid from the proceeds of Parity Obligations or interest earned thereon (other than from the Parity Reserve Fund), all as set forth in a Certificate of the City.

"Adjusted Annual Net Revenues" means, for any Fiscal Year or any designated 12-month period in question, the Adjusted Annual Revenues during such Fiscal Year or 12-month period less the Maintenance and Operation Costs during such Fiscal Year or 12-month period.

"Adjusted Annual Revenues" means, for any Fiscal Year or any designated 12-month period in question, the Revenues during such Fiscal Year or 12-month period plus, for the purposes of determining compliance with the rate covenant of the City pursuant to the Master Contract, the amounts on deposit in the Rate Stabilization Fund (or any other unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Maintenance and Operation Costs and/or Annual Debt Service for such Fiscal Year or 12-month period) as of the first day of such Fiscal Year or 12-month period minus, for the purposes of determining compliance with the rate covenant of the City pursuant to the Master Contract, earnings from the investments in the Parity Reserve Fund that are deposited in the Electric Revenue Fund in such Fiscal Year or 12-month period.

"Annual Debt Service" means, for any Fiscal Year or any designated 12-month period in question, the required payments scheduled to be made with respect to all Outstanding Parity Obligations in such Fiscal Year or 12-month period; provided that for purposes of determining compliance with the rate covenant of the City pursuant to the Master Contract, the Reserve Fund Requirement and conditions for the execution of Parity Obligations:

(A) Generally. Except as otherwise provided by subparagraph (B) with respect to Variable Interest Rate Parity Obligations and by subparagraph (C) with respect to Parity

Obligations with respect to which a Payment Agreement is in force, interest on any Parity Obligation will 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 will be calculated on the assumption that the interest rate on that Parity Obligation would be equal to the rate (the "assumed RBI-based rate") that is ninety percent (90%) of the average RBI during the twelve (12) calendar month period immediately preceding the date in which the calculation is made;

(C) Interest on Parity Obligations with respect to which a Payment Agreement is in force. The amount of interest deemed to be payable on any Parity Obligations with respect to which a Payment Agreement is in force will, 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 Parity Obligation and such Payment Agreement, including but not limited to the effects that (i) such Parity Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead will be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Parity Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead will be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Parity Obligation with respect to which a Payment Agreement is in force will, 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 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 will 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 will be assumed to be made at the fixed rate specified by the Payment Agreement and payments by the Qualified Counterparty to the City will 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 will 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 will 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 will be assumed:

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

(b) City Obligated to Make Payments Based on Fixed Interest Rate. If payments by the City under the Payment Agreement are based on a fixed interest rate and payments by the Qualified Counterparty are based on a variable interest rate index, payments by the City to the Qualified Counterparty will be based on an interest rate equal to the rate (the "assumed fixed payor rate") that is one hundred and five percent (105%) of the fixed interest rate specified by the Payment Agreement to be paid by the City, and payments by the Qualified Counterparty to the City will be based on a rate equal to the actual variable interest rate on 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 will 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 will be taken into account with respect to a Parity Payment Agreement for any period during which Payment Agreement Payments on that Parity Payment Agreement are taken into account in determining Annual Debt Service on a related Parity Obligation under subparagraph (C) of this definition; provided, that for any period during which Payment Agreement Payments are not taken into account in calculating Annual Debt Service on any Parity Obligation because the Parity Payment Agreement is not then related to any Parity Obligation, interest on that Parity Payment Agreement will 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 assumed fixed payor rate, and payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable interest rate index specified by the Payment Agreement during the quarter preceding the quarter in which the calculation is made; and

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

(3) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (D)(1) and (2) of this definition, the City will 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 will be assumed that the principal of those Balloon Parity Obligations, together with interest thereon at a rate equal to the assumed RBI-based rate, will be amortized in equal annual installments over a term of thirty (30) years from the date of issuance.

"Authority" means the Roseville Finance Authority, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State.

"Average Annual Debt Service" means the sum of the Annual Debt Service 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 issuance of Parity Obligations) and terminating with the last Fiscal Year in which payments are due under Outstanding Parity Obligations, divided by the number of such Fiscal Years.

"Balloon Parity Obligation" means any Parity Obligation described as such in such Parity Obligation.

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

"Certificate of the Authority" means an instrument in writing signed by the Executive Director of the Authority or by any other officer of the Authority duly authorized by the Authority for that purpose.

"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 Payment Date" means, with respect to any Certificate, the Certificate Payment Date designated therein, which is the February 1 on which or, in the case of Certificates subject to mandatory sinking fund prepayment by which, the principal component of the final 1997 Payment evidenced and represented thereby will become due and payable.

"City" means the City of Roseville, a charter city and municipal corporation, duly organized and existing under and by virtue of the Constitution and laws of the State.

"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 will be deemed to be a reference to any successor to any such section.

"Contracts" means the Contract and all Supplemental Contracts.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority and related to the authorization, execution and delivery of the Master Contract, the 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 Authority and any other cost, charge or fee in connection with the original execution and delivery of the Certificates.

"Debt Service Fund" means the fund by that name established pursuant to the Trust Agreement.

"Electric Revenue Fund" means the City of Roseville Electric Utility Fund continued pursuant to the Master Contract.

"Electric Service" means the service furnished, made available or provided by the Electric System.

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

"Engineer's Report" means a report signed by an Independent Engineer.

"Event of Default" means an event described in the Master Contract and the Trust Agreement.

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

"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 or by the Authority as its Fiscal Year, as applicable.

"Generally Accepted Accounting Principles" means 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 City of Roseville Electric System Improvement Fund established pursuant to the Master Contract.

"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 --

(1) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the City or the Authority, as applicable;

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

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

"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 utilities systems, appointed and paid by the City, and who or each of whom --

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

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

(3) 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" means Financial Information, Incorporated's "Daily Called Certificate Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services, "Called Certificate Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's Investors Service's "Municipal and Government," 5250 77 Center Drive, Suite 150, Charlotte, NC 28217, Attention: Called Certificates Department; and Standard & Poor's Corporation's "Called Certificate 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 Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Interest Account" means the account by that name established pursuant to the Trust Agreement.

"Interest Payment Date" means February 1 and August 1 of each year, commencing February 1, 1998.

"Maintenance and Operation Costs" means the costs paid or incurred by the City for maintaining and operating the Electric System, determined in accordance with Generally Accepted Accounting Principles, including, but not limited to, (a) all costs of electric energy and power generated or purchased by the City for resale, costs of transmission, fuel supply and water supply in connection with the foregoing, (b) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Electric System in good repair and working order, (c) all administrative costs of the City that are charged directly or apportioned to the operation of the Electric System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and (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 Master Contract or of any resolution authorizing the execution of any Contract or of such 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 any such Contracts or Parity Obligations, letter of credit fees for any such Contracts or Parity Obligations, fees and expenses of Independent Certified Public Accountants and Independent Engineers; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles. Anything contained in the Master Contract to the contrary notwithstanding, "Maintenance and Operation Costs" will include all amounts required to be paid by the City under contracts with a joint powers agency for the purchase of capacity, energy, transmission capability or any other commodity or service in connection with the foregoing, which contract requires payments by the City to be made thereunder to be treated as Maintenance and Operation Costs.

"Master Contract" means the Master Installment Purchase Contract executed and entered into as of November 1, 1997, by and between the City and the Authority, as the same may be amended or supplemented from time to time.

"Maximum Annual Debt Service" means the greatest Annual Debt Service payable on Parity Obligations 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 payments are due under Outstanding Parity Obligations.

"Maximum Annual Payments" means the greatest total Payments payable in any Fiscal Year during the period commencing with the then current Fiscal Year and terminating with the last Fiscal Year in which payments are due under Outstanding Parity Obligations.

"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 will be dissolved or liquidated or will no longer perform the services of a municipal securities rating agency, then "Moody's" will be deemed to refer to any other nationally recognized municipal securities rating agency rating Parity Obligations at the Request of the City.

"Net Proceeds" means, 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" means, for any Fiscal Year or any designated 12-month period in question, the Revenues during such Fiscal Year or 12-month period less the Maintenance and Operation Costs during such Fiscal Year or 12-month period.

"1997 Certificate Insurer" shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, as issuer of the 1997 Certificate Insurance Policy.

"1997 Certificate Insurance Policy" shall mean the municipal bond insurance policy issued by the 1997 Certificate Insurer insuring the payment when due of the principal of and interest evidenced and represented by the Certificates as provided therein.

"1997 Payments" means the installment payments of interest, principal, and prepayment premium, if any, payable by the City under and pursuant to the 1997 Supplemental Contract.

"1997 Project" means (i) the refinancing of the costs of the project financed with the proceeds of the Prior Certificates, being a 230-kV substation adjacent to the City's 60-kV Berry Street Receiving Station, improvements to said Receiving Station and the Elverta-Roseville No. 2 transmission line; and (ii) the financing of the costs of the Fiddymont Substation project, being the construction and acquisition of substation and transmission facilities as well as certain modifications and improvements to existing systems, designed to accomplish the interconnection of the Fiddymont Substation to Western's transmission system, which consists of three 230 kV circuit breakers, three terminal 230 kV ring bus, one 230/60 kV 90/120/150 mva power transformer, four 60 kV circuit breakers, and all reports, surveys and feasibility studies relating to any of the foregoing.

"1997 Supplemental Contract" means that certain 1997 Supplemental Installment Purchase Contract, dated as of November 1, 1997, by and between the City and the Authority.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the City or the Authority, as applicable.

"Outstanding," 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 Master Contract, and when used as of any particular time with reference to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates except (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and (3) Certificates in lieu of or in substitution for which other Certificates have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" means any person who will be the registered owner of any Certificate.

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

"Parity Obligation Payment Fund" means the City of Roseville Electric System Parity Obligation Payment Fund established pursuant to the Master Contract.

"Parity Obligations" means all Supplemental Contracts and all other obligations hereafter incurred by the City the payment of which constitutes a charge and lien on the Net Revenues equal to and on a parity with the charge and lien upon the Net Revenues for the payment of the Payments, other than (i) Parity Payment Agreements and (ii) Parity Bank Agreements (provided that no amounts have been drawn under any such Parity Bank Agreements which have not been reimbursed by the City).

"Parity Payment Agreement" means a Payment Agreement which is a Parity Obligation.

"Parity Reserve Fund" means the City of Roseville Electric System Parity Reserve Fund established pursuant to the Trust Agreement.

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

"Payment Agreement Payments" means the amounts required to be paid periodically by the City to the Qualified Counterparty pursuant to a Payment Agreement.

"Payment Agreement Receipts" means the amounts required to be paid periodically by the Qualified Counterparty to the City pursuant to a Payment Agreement.

"Payment Date" means any date on which Payments are scheduled to be paid by the City under and pursuant to any Supplemental Contract.

"Payments" means the installment payments scheduled to be paid by the City under and pursuant to the Contracts.

"Permitted Investments" means 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 Authority will cause the City to provide on a current basis to the Trustee) and to the extent then permitted by law:

(1) Federal Securities;

(2) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America, including: (i) the Export-Import Bank; (ii) the Farm Credit System Financial Assistance Corporation; (iii) the Rural Economic Community Development Administration (formerly, the Farmers Home Administration); (iv) the General Services Administration; (v) the U.S. Maritime Administration; (vi) the Small Business Administration; (vii) the Government National Mortgage Association (GNMA); (viii) the U.S. Department of Housing & Urban Development (PHAs); (ix) the Federal Housing Administration; and (x) the Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America: (i) senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); (ii) obligations of the Resolution Funding Corporation (REFCORP); (iii) senior debt obligations of the Federal Home Loan Bank System; and (iv) senior debt obligations of other government sponsored agencies approved by the 1997 Certificate Insurer;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the Bank);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's, and which matures not more than 270 days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(7) "Pre-refunded Municipal Obligations" defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Federal Securities, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) General obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(9) Investment agreements approved in writing by the 1997 Certificate Insurer with notice to S&P; and

(10) Other forms of investments (including repurchase agreements) approved in writing by the 1997 Certificate Insurer with notice to S&P.

For purposes of determining the value of the above investments as may be required by the terms of the Trust Agreement:

(1) As to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of

the bid and asked prices for such investments so published on or most recently prior to such time of determination;

(2) As to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(3) As to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(4) As to any investment not specified above: the value thereof established by prior agreement between the Authority, the Trustee and the 1997 Certificate Insurer.

"Prepayment Account" means the account by that name established pursuant to the Trust Agreement.

"Principal Subaccount" means the subaccount by that name established pursuant to the Trust Agreement.

"Prior Certificates" means the \$13,355,000 original principal amount of the City's Refunding Certificates of Participation, evidencing and representing proportionate interests of the owners thereof in installment payments to be made by the City to Roseville 1985 Capital Services, Inc. under and pursuant to an installment purchase contract for the City of Roseville 1985 Electric System Project, executed and delivered pursuant to the Prior Trust Agreement.

"Prior Trust Agreement" means that certain Trust Agreement, dated as of February 1, 1987, by and among Seattle-First National Bank, as trustee (which has been succeeded by First Trust National Association), Roseville 1985 Capital Services, Inc. and the City, pursuant to which the Prior Certificates were executed and delivered.

"Prior Trustee" means First Trust National Association, as successor trustee under the Prior Trust Agreement.

"Project" means any additions, betterments, extensions or improvements to the Electric System designated by the City Council of the City as a Project, the cost of acquisition and construction of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of any Parity Obligation as provided therein.

"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 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 any Parity Obligations, and (2) who is otherwise qualified to act as the other party to a Payment Agreement with the City under any applicable laws.

"Rate Stabilization Fund" means the fund by that name established pursuant to the Master Contract.

"Rating Agencies" means Moody's and S&P, and their respective successors or assigns, or any other nationally recognized securities rating agency or agencies rating any 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 interest rate on actively traded thirty (30) year United States Treasury obligations.

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

"Reserve Fund Requirement" means, as of any date of determination and excluding any Parity Obligations which are not Supplemental Contracts and the debt service thereon, the least of (a) ten percent (10%) of the initial offering price to the public of the Parity Obligations as determined under the Code, or (b) the Maximum Annual Debt Service, or (c) one hundred twenty-five percent (125%) of the Average Annual Debt Service, all as computed and determined by the City and specified in writing to the Trustee; provided, that such requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit equal to "Aa" or higher assigned by Moody's (if Moody's is then rating any of the Parity Obligations) and "AA" or higher assigned by S&P (if S&P is then rating any of the Parity Obligations) and that maintain at all times ratings at least equal to the lowest ratings (without giving effect to municipal bond insurance or other credit enhancement) on any of the Parity Obligations provided by Moody's (if Moody's is then rating any of the Parity Obligations) and by S&P (if S&P is then rating any of the Parity Obligations). If at any time obligations insured by any such municipal bond insurer issuing a policy of municipal bond insurance or surety bond or a bank or other institution issuing a letter of credit as permitted by this definition will no longer maintain such ratings as required as described in the immediately preceding sentence, the City will provide or cause to be provided cash or a substitute municipal bond insurance policy or surety bond or a letter of credit meeting such requirements.

"Revenues" means all gross income and revenue received or receivable by the City from the ownership or operation of the Electric System, determined in accordance with Generally Accepted Accounting Principles, including all rates and charges received by the City for the Electric Service and the other services and facilities of the Electric System and 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 arising from the Electric System, including all Payment Agreement Receipts, and including 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) any charges collected by any person to amortize or otherwise relating to the payment of the uneconomic portion of costs associated with assets and obligations ("stranded costs") of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than Contracts, the payments of which obligations will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such "stranded costs" of the City or of

any such joint powers agency to the extent such "stranded costs" are attributable to, or the responsibility of, the City.

"Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; and Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Certificate Department, Fax-(215) 496-5058; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority may designate in a Certificate of the Authority to the Trustee.

"Sinking Fund Payments" means the payments required under the Trust Agreement to be deposited in the Sinking Fund Subaccount.

"Sinking Fund Subaccount" means the subaccount by that name established pursuant to the Trust Agreement.

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

"State" means the State of California.

"Subordinate Obligations" means obligations of the City authorized and executed by the City under applicable law, the payments under and pursuant to which are payable from Net Revenues, subject and subordinate to payments under and pursuant to Parity Obligations and are payable from any fund established for the purpose of paying debt service on such Subordinate Obligations.

"Supplemental Contracts" means all installment purchase contracts of the City supplemental to the Master Contract and authorized and executed by the City under and pursuant to the Master Contract and applicable law, the installment payments under and pursuant to which are payable from Net Revenues.

"Supplemental Trust Agreement" means any trust agreement then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of or supplemental to the Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

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

"Trust Agreement" means that certain Trust Agreement, dated as of November 1, 1997, between the Authority and the Trustee.

"Trust Agreements" means all trust agreements or indentures which are executed and delivered in connection with Parity Obligations, including the Trust Agreement.

"Trustee" means First Trust of California, National Association, a national banking association duly organized and existing under the laws of the United States of America, or any association or corporation which may at any time be substituted in its place, as provided in the Trust Agreement.

"Variable Interest Rate" means any variable interest rate or rates to be paid under any Parity Obligations, the method of computing which variable interest rate will be as specified in the applicable Parity Obligation, which Parity Obligation will 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 will remain in effect, and (ii) the time or times based upon which any change in such variable interest rate will 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" means, for any period of time, any Parity Obligations that bear a Variable Interest Rate during such period, except that Parity Obligations will not be treated as Variable Interest Rate Parity Obligations if the net economic effect of interest rates on particular Payments or Parity Obligations and interest rates on other Payments of the same Supplemental Contract or Parity Obligations, as set forth in such Supplemental Contract or 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 Supplemental Contracts with respect to which a Payment Agreement is in force will 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, all in accordance with the definition of "Annual Debt Service" set forth in the Master Contract.

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

THE MASTER INSTALLMENT PURCHASE CONTRACT

Under the Master Contract, the Authority agrees to finance and refinance the costs of the acquisition and construction of the Projects for and to sell the Projects to the City and appoints the City as its agent for the purpose of such acquisition and construction. Certain provisions of the Master Contract are summarized below. THIS SUMMARY DOES NOT PURPORT TO BE COMPLETE OR DEFINITIVE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TERMS OF THE MASTER CONTRACT.

Acquisition, Construction and Sale of Projects; Funds

Acquisition, Construction and Sale of Projects. Pursuant to the Master Contract, the Authority agrees to finance and refinance the costs of the acquisition and construction of the Projects for and to sell the Projects to the City, and in order to implement such provision, the Authority appoints the City as its agent for the purpose of such acquisition and construction, and the City agrees to enter into such agreements, construction contracts and purchase orders as may be necessary, as agent for the Authority, to provide for the complete acquisition and construction of the Projects.

The City agrees that as such agent it will cause the acquisition and construction of the Projects to be diligently completed after the deposit of funds in the Improvement Fund for such purpose pursuant to the Master Contract, and that it will use its best efforts to cause the acquisition and construction of the

Projects to be completed in a timely fashion, unforeseeable delays beyond the reasonable control of the City only excepted, and the Authority agrees to and sells the Projects to the City. Notwithstanding the foregoing, it is expressly understood and agreed that the Authority will be under no liability of any kind or character whatsoever for the payment of any costs or expenses incurred by the City for the acquisition and construction of the Projects and that all such costs and expenses will be paid by the City, regardless of whether the funds deposited in the Improvement Fund are sufficient to cover all such costs.

Improvement Fund. The Master Contract establishes the City of Roseville Electric System Improvement Fund (the "Improvement Fund"), which fund the City agrees to maintain until the completion of the acquisition and construction of the Projects to be funded from the separate accounts to be established in such fund as provided in the Supplemental Contracts. All money in the Improvement Fund will be used and withdrawn by the City to pay the costs of the Projects (or to reimburse the City for such costs) upon receipt of a Request of the City. The City will maintain on file a record of all expenditures from the Improvement Fund, including appropriate Requests of the City evidencing the person to whom payment is to be made, the amount of money to be paid, the purpose for which the obligation to be paid was incurred and that such payment was a proper charge against the Improvement Fund and has not been the subject of a previous Request of the City. After the completion of the acquisition and construction of each Project to be funded from the Improvement Fund, any remaining balance in the Improvement Fund allocable to such Project will be transferred by the City to the Electric Revenue Fund.

Rate Stabilization Fund. The Master Contract establishes a City of Roseville Electric System Rate Stabilization Fund (the "Rate Stabilization Fund"), which fund the City agrees to maintain so long as any Parity Obligations remain unpaid. The City may at any time deposit in the Rate Stabilization Fund any Net Revenues after providing for the payment of Parity Obligations and any other money received and available to be used therefor, and the City may at any time withdraw any or all of the money from the Rate Stabilization Fund for any legal purpose. All interest or other earnings upon deposits in the Rate Stabilization Fund will be accounted for as Revenues. Notwithstanding the foregoing, no Revenues will be deposited in the Rate Stabilization Fund to the extent that such amount was included by the City in Adjusted Annual Net Revenues for purposes of determining compliance with the additional Parity Obligations test or the rate covenant of the City pursuant to the Master Contract and deduction of the amounts to be deposited in the Rate Stabilization Fund would have caused noncompliance with such section.

Electric Revenue Fund. In order to carry out and effectuate the obligation of the City contained in the Master Contract and in all Supplemental Contracts to pay the Payments, the City agrees and covenants that all Revenues received by it will be deposited when and as received in the City of Roseville Electric System Revenue Fund (the "Electric Revenue Fund"), which fund will be a continuation of the Electric Utility Fund established by the City and which fund the City agrees and covenants to maintain separate and apart from other moneys of the City (subject to the Master Contract) so long as any Parity Obligations remain unpaid, and all money on deposit in the Electric Revenue Fund will be applied and used only as provided in the Master Contract. The City will pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Electric Revenue Fund as they become due and payable, and all remaining money on deposit in the Electric Revenue Fund will be set aside and deposited by the City at the following times in the following order of priority:

- (a) Parity Obligation Payment Fund Deposits. On or before the third Business Day before each date on which interest or principal becomes due and payable under any Parity Obligation or any net payments become due and payable by the City under any Parity Payment Agree-

ment, the City will, from the money in the Electric Revenue Fund, deposit in the City of Roseville Electric System Parity Obligation Payment Fund (the "Parity Obligation Payment Fund"), which fund is established and which fund the City agrees and covenants to maintain separate and apart from other moneys of the City (subject to the Master Contract) so long as any Parity Obligations remain unpaid, a sum equal to the amount of interest and principal becoming due and payable under all Parity Obligations on such due date plus the net payments due on all Parity Payment Agreements on such due date, except that no such deposit need be made if the City then holds money in the Parity Obligation Payment Fund at least equal to the amount of interest and principal becoming due and payable under all Parity Obligations on the next succeeding date on which interest or principal becomes due and payable under any Parity Obligation plus the net payments due on all Parity Payment Agreements on such next succeeding due date. Moneys on deposit in the Parity Obligation Payment Fund will be transferred by the City to make and satisfy the payments due on the next applicable date on which interest or principal becomes due and payable under any Parity Obligation or any net payment becomes due and payable by the City under any Parity Payment Agreement at least one Business Day prior to such next applicable due date.

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

After making the foregoing deposits and transfers required to be made, the City may apply any remaining money in the Electric Revenue Fund for any lawful purpose of the City, including for the payment of any Subordinate Obligations in accordance with the instruments authorizing such Subordinate Obligations; provided, however, that no moneys in the Electric Revenue Fund shall be applied to the payment of any Subordinate Obligations in any Fiscal Year unless amounts on deposit in the Electric Revenue Fund shall be sufficient to make the transfers hereinabove required to be made in such Fiscal Year.

Investments. Any moneys held in the Electric Revenue Fund or the Parity Obligation Payment Fund will 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 under the Master Contract. Any moneys held in the Rate Stabilization Fund will be invested in Permitted Investments which will mature at such dates as the City will determine but prior to the final date on which payments are due under any Outstanding Parity Obligation. All investment earnings from moneys or deposits in the Electric Revenue Fund, the Parity Obligation Payment Fund and the Rate Stabilization Fund will be retained in such fund.

The City may commingle any of the funds or accounts (except for funds held in any rebate fund, which will be held separately) established pursuant to the Master Contract into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the City under the Master Contract will be accounted for separately notwithstanding such commingling. For the purpose of determining the amount in any such fund or account, all Permitted Investments credited to such fund or

account will, except as otherwise provided in the Master Contract, be valued at the lower of cost or market value (inclusive of all interest accrued but not paid).

Execution of Parity Obligations and Other Obligations

Conditions for the Execution of Parity Obligations. The City may at any time execute any Parity Obligations the payments of which are payable from the Net Revenues on a parity with the Payments due under all Supplemental Contracts, provided, however, there will be on file with the Trustee either:

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

(2) An Engineer's Report showing that projected Adjusted Annual Net Revenues during the succeeding five (5) complete Fiscal Years beginning with the first Fiscal Year following issuance of such Parity Obligations in which interest is not capitalized in whole or in part from the proceeds of Parity Obligations, is at least equal to one hundred ten percent (110%) of the Maximum Annual Debt Service for all existing Parity Obligations plus the Parity Obligations proposed to be executed.

Notwithstanding the foregoing provisions, there will be no limitations on the ability of the City to execute any Parity Obligation at any time to refund any Outstanding Parity Obligation.

Procedure for the Execution of Parity Obligations. Before the execution of any Parity Obligation, there will first be delivered to the City and the Trustee (which shall serve as trustee in respect to each and every Parity Obligation which is a Supplemental Contract) the following documents or money or securities:

- (i) An executed counterpart of the Supplemental Contract or other Parity Obligation;
- (ii) A Request of the City as to the delivery of such Parity Obligation;

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

(iv) A Certificate of the City or an Engineer's Report as required pursuant to the applicable provisions of the Master Contract, containing such statements as may be reasonably necessary to show compliance with the requirements of the applicable provisions of the Master Contract;

(v) either (a) if the Parity Obligation is a Supplemental Contract, an amount of money to be deposited in the Parity Reserve Fund so as to increase the amount on deposit therein to the Reserve Fund Requirement, or (b) if the Parity Obligation is other than a Supplemental Contract, a Certificate of the City certifying that a separate reserve has been established for such Parity Obligation if required by the terms of such Parity Obligation and that provision has been made to fund such reserve or that no reserve is required by the terms of such Parity Obligation;

(vi) Such further documents, money and securities as are required by the provisions of the Master Contract and the resolution, indenture, contract or other obligation providing for the issuance of such Parity Obligation; and

(vii) With respect to any Parity Obligation issued in connection with a Payment Agreement, evidence that the incurrence of such Parity Obligation and Payment Agreement will not in and of itself cause a downgrade of the rating issued by the Rating Agencies then rating Parity Obligations.

Other Obligations. The City may incur Subordinate Obligations without meeting any of the tests set forth in the Master Contract.

Covenants

Compliance with Contracts. The City will punctually pay the Payments in strict conformity with the terms of the Master Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Contract required to be observed and performed by it, and will not terminate the Contracts or fail to make any Payment required by a Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Projects or the Electric System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Contracts required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with any Contract or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority 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.

Use of Proceeds. The Authority and the City agree that the proceeds of the Contracts will be used by the City, as agent for the Authority, to pay the costs of financing or refinancing the acquisition and construction of the Projects and to pay the incidental costs and expenses related thereto as provided in the Master Contract and therein.

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 will 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 Authority 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.

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 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 meet the requirements of the rate covenant of the City pursuant to the Master Contract.

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

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

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.

Insurance. The City will procure and maintain such insurance relating to the Electric System which it will deem advisable or necessary to protect its interests and the interests of the Authority, which insurance will 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 in the Master Contract will provide that the Authority will be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports. The City will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Electric System, which records will be available for inspection by the Authority at reasonable hours and under reasonable conditions.

The City will prepare and file with the Authority annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1997) --

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

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

Protection of Security and Rights of the Authority. The City will preserve and protect the security of the Payments under the Contracts and the rights of the Authority to the Payments under the Contracts and will warrant and defend such rights against all claims and demands of all persons.

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 will 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 will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith and contesting such validity or application will not materially impair operation of the Electric System.

Amount of Rates, Fees 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 are reasonably fair and nondiscriminatory and which will be at least sufficient to yield Adjusted Annual Net Revenues for such Fiscal Year equal to at least one hundred ten percent (110%) of Adjusted Annual Debt Service for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Adjusted Annual Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Master Contract.

Collection of Rates, Fees 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, fees and charges applicable to the Electric Service 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 and any city, county, district, political subdivision, public corporation or agency of any thereof). Nothing herein will 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 will not relieve the City of its obligations under the Master Contract.

Eminent Domain and Insurance Proceeds. If all or any part of the Electric System will 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, will be applied either to the proportional prepayment of Outstanding Parity Obligations or will be used to substitute other components for the condemned or destroyed components of the Electric System.

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 the Contracts and for the better assuring and confirming unto the Authority of the rights and benefits provided to it in the Contracts.

Events of Default and Remedies

Events of Default and Acceleration of Principal. If one or more of the following Events of Default will happen, that is to say --

(1) if default will be made in the due and punctual payment of any payment on any Parity Obligation when and as the same will become due and payable;

(2) if default will be made by the City in the performance of any of the agreements or covenants contained in the Master Contract or in any Parity Obligation required to be performed by it, and such default will have continued for a period of sixty (60) days after the City will have been given notice in writing of such default by the Authority; or

(3) if the City will 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 will 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 will assume custody or control of the City or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default specified in clause (1) above, the Authority will, and for any other such Event of Default the Authority may, by notice in writing to the City, declare the entire principal amount of the unpaid Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything contained in the Master Contract to the contrary notwithstanding, subject to the condition, however, that if at any time after the entire principal amount of the unpaid Payments and the accrued interest thereon will have been so declared due and payable and before any judgment or decree for the payment of the money due will have been obtained or entered the City will deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Payments or the unpaid principal amount of any payments under any Parity Obligation referred to in clause (i) 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 amounts of the Payments if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Payments and the accrued interest thereon due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate will have been made therefor, then and in every such case the Authority, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Application of Net Revenues upon Acceleration. All Net Revenues upon the date of the declaration of acceleration by the Authority as provided in the Master Contract and all Net Revenues thereafter received will be applied in the following order:

First, to the payment of the costs and expenses of the Authority, if any, in carrying out the provisions of the Master Contract regarding events of default, including reasonable compensation to its agents, accountants and counsel and including any indemnification expenses;

Second, to the payment of the interest then due and payable on the entire principal amount of the unpaid Parity Obligations, and, if the amount available will not be sufficient to pay in full all such interest then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference; and

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

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

Other Remedies. The Authority will 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 director, officer or employee thereof, and to compel the City or any such director, officer or employee to perform and carry out its or his duties under the law and the agreements and covenants required to be performed by it or him contained in the Contracts;

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

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

Non-Waiver. Nothing in the Master Contract will affect or impair the obligation of the City, which is absolute and unconditional, to pay the Payments from the Net Revenues to the Authority at the respective due dates or upon acceleration or prepayment, or will affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Contracts.

A waiver of any default or breach of duty or contract by the Authority will 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 Authority to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will 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 Authority by law or by the Master Contract may be enforced and exercised from time to time and as often as will be deemed expedient by the Authority.

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

Remedies Not Exclusive. No remedy in the Master Contract conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Master Contract 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.

Discharge of Obligations

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

(b) Any unpaid principal installment of any of the Payments will on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if the City makes payment of such Payment and the prepayment premium, if applicable, in the manner provided therein.

(c) All or any portion of unpaid principal installments of the Payments will, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if (i) there will have been deposited with the Trustee either money in an amount which will be sufficient, or Federal Securities which are not subject to redemption except by the holder thereof prior to maturity (including any such securities issued or held in book-entry form) or municipal obligations which have been defeased under irrevocable escrow instructions with Federal Securities and which are rated in the highest rating category by the Rating Agencies, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, will be sufficient (as evidenced by a report of an Independent Certified Public Accountant regarding such sufficiency) to pay when due the principal installments of such Payments or such portions thereof on their payment dates or their dates of prepayment, as the case may be, the interest installments of such Payments due on and prior to such payment dates or dates of prepayment, and the prepayment premiums, if any, applicable thereto, and (ii) an Opinion of Counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest installments of such Payments so paid to be includable in gross income under the Code for federal income tax purposes.

(d) After the payment of all Payments and prepayment premiums, if any, as provided in this section, and payment in full of all fees and expenses of the Authority, the Authority, upon request of the City, will 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 Authority, and will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Contracts, and the Authority will pay over and deliver to the City, as an overpayment of Payments, all such money or investments held by it pursuant to the Master Contract other than such money and such investments as are required for the payment or prepayment of the Payments and interest installments of such Payments

and the prepayment premiums, if any, applicable thereto, which money and investments will continue to be held in trust for the payment thereof.

Miscellaneous

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

The obligation of the City to make the Payments is a special obligation of the City payable solely from the Net Revenues as provided in the Master Contract. The general fund of the City is not liable, and neither the credit nor taxing power of the City is pledged, for the payment of the Payments.

THE TRUST AGREEMENT

The Trust Agreement sets forth the terms of the Certificates, the nature and extent of the security therefor, various rights of the Owners, rights and duties and immunities of the Trustee and rights and obligations of the Authority. Certain provisions of the Trust Agreement are summarized below. THIS SUMMARY DOES NOT PURPORT TO BE COMPLETE OR DEFINITIVE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TERMS OF THE TRUST AGREEMENT.

Equal Security

In consideration of the acceptance of the Certificates by the Owners thereof, the Trust Agreement will be deemed to be and will constitute a contract between the Authority and the Owners from time to time of all Certificates authorized, executed, and delivered under the Trust Agreement and then Outstanding to secure the full and final payment of the interest, principal, and prepayment premiums, if any, evidenced and represented by the Certificates which may from time to time be authorized, executed, issued and delivered under the Trust Agreement, subject to the agreements, conditions, covenants and provisions contained in the Trust Agreement; and all agreements and covenants set forth in the Trust Agreement to be performed by or on behalf of the Trustee will 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 in the Trust Agreement or therein.

1997 Payments

Deposit of 1997 Payments. The Trustee agrees to establish, maintain and hold in trust the Debt Service Fund, for so long as any Certificates will be Outstanding under the Trust Agreement. All 1997 Payments received by the Trustee will be immediately deposited in the Debt Service Fund and will be disbursed and applied only as provided in the Trust Agreement.

Establishment and Maintenance of Accounts for Use of Money in the Debt Service Fund. Subject to the terms of the Trust Agreement, all money in the Debt Service Fund will be set aside by the Trustee

in the following respective special accounts within the Debt Service Fund (each of which is created by the Trust Agreement and each of which the Trustee agrees and covenants to maintain) in the following order of priority:

- (a) Interest Account, and
- (b) Prepayment Account (with a Principal Subaccount and a Sinking Fund Subaccount therein).

All money in each of such accounts and subaccounts will be held in trust by the Trustee for the benefit of the Owners and will be applied, used and withdrawn only for the purposes authorized in the Trust Agreement.

(a) Interest Account. On the Business Day immediately preceding each February 1 and August 1, commencing on February 1, 1998, the Trustee will 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 evidenced and represented by the Certificates becoming due and payable on such February 1 or August 1, as the case may be.

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

All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest as it will become due and payable (including accrued interest evidenced and represented by any Certificates purchased or prepaid prior to their respective Certificate Payment Date).

(b) Prepayment Account. On the Business Day immediately preceding each February 1, commencing on February 1, 1999, the Trustee will set aside from the Debt Service Fund and deposit in the Principal Subaccount in the Prepayment Account an amount of money equal to the principal amount evidenced and represented by the Outstanding serial Certificates with a Certificate Payment Date of such February 1 and in the Sinking Fund Subaccount in the Prepayment Account the amount of all Sinking Fund Payments required to be made on such February 1.

No deposit need be made in the Prepayment Account if the amount contained in the Principal Subaccount therein is at least equal to the aggregate amount of the principal evidenced and represented by the Outstanding serial Certificates with a Certificate Payment Date of such February 1 and the amount contained in the Sinking Fund Subaccount therein is at least equal to the aggregate amount of all Sinking Fund Payments required to be made on such February 1.

All money in the Principal Subaccount in the Prepayment Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal evidenced and represented by the serial Certificates as they will become due and payable, whether at their respective Certificate Payment Dates or on prior prepayment, and all money in the Sinking Fund Subaccount in the Prepayment Account will be used and withdrawn by the Trustee only to purchase or to prepay or to pay term Certificates, and with respect to the Sinking Fund Subaccount, on each Sinking Fund Payment date, the Trustee will apply the Sinking Fund Payment required on that date to the

prepayment (or payment at Certificate Payment Date, as the case may be) of the term Certificates upon the notice and in the manner provided in the Trust Agreement; provided, however, that at any time prior to giving such notice of such prepayment, the Trustee may, upon the Written Request of the Authority and receipt of moneys sufficient therefor, purchase for cancellation of term Certificates at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed in a Written Request of the Authority, except that the purchase price (excluding accrued interest) will not exceed the prepayment price that would be payable for such term Certificates upon prepayment by application of such Sinking Fund Payment, and if during the twelve-month period immediately preceding any Sinking Fund Payment date the Trustee has so purchased term Certificates, such Certificates so purchased will be applied to the extent of the full principal amount evidenced and represented thereby to reduce the Sinking Fund Payment.

Parity Reserve Fund

The Trustee agrees and covenants to maintain the Parity Reserve Fund so long as the Master Contract has not been discharged in accordance with its terms or any Certificates remain Outstanding under the Trust Agreement. Amounts on deposit in the Parity Reserve Fund are pledged to the payment of the Certificates and any obligations issued in connection with a Supplement to the Master Contract and shall be applied only for such purposes as are permitted by the Trust Agreement. The Trustee will deposit in the Parity Reserve Fund the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Master Contract, as directed by the Authority in a Written Request of the Authority. Moneys on deposit in the Parity Reserve Fund will be transferred by the Trustee to the Debt Service Fund to pay principal and interest evidenced and represented by the Certificates on any Interest Payment Date in the event amounts on deposit therein are insufficient for such purposes. The Trustee will also, from such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund established under a trust agreement under which any obligations are issued in connection with a supplement to the Master Contract, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to such trust agreement under which any obligations are issued in connection with a supplement to the Master Contract. All investments in the Parity Reserve Fund will (beginning in February 1998) be valued on February 1 of each year. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund requirement shall, at the Written Request of the Authority, be withdrawn from the Parity Reserve Fund and transferred to the City for deposit in the Revenue Fund established under the Master Contract.

Deposit and Investments of Money in Accounts and Funds

Subject to the terms of Trust Agreement, all money held by the Trustee in any of the accounts or funds established pursuant to the Trust Agreement will be invested in Permitted Investments at the Written Request of the Authority filed with the Trustee which such Permitted Investments will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement, and the Trustee will have no liability or responsibility for any loss resulting from any investment made in accordance with the Trust Agreement; provided, however, that if no such Written Request is received by the Trustee, the Trustee will invest such money in those Permitted Investments described in clause (6) of the definition thereof. Subject to the Trust Agreement, all interest or profits received on any money so invested will be deposited in the Debt Service Fund.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Trust Agreement.

The Trustee will not be liable for any loss from any Permitted Investment acquired, held, or disposed of at the Written Request of the Authority.

Assignment to Trustee; Enforcement of Obligations

The Authority transfers, assigns and sets over to the Trustee all of the 1997 Payments and any and all rights and privileges it has under the Master Contract, including, without limitation, the right to collect and receive directly all of the 1997 Payments and the right to enforce the provisions of the Master Contract; and any 1997 Payments collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, and will forthwith be paid by the Authority to the Trustee. The Trustee also will, 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 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 1997 Payments under the Master Contract and as beneficiary of any other rights to security for the Certificates which the Trustee may receive in the future.

The Trustee may, in performing the obligations set out above, rely and will be protected in acting or refraining from acting upon an Opinion of Counsel furnished by the City.

Covenants

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

Observance of Laws and Regulations. The Authority 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.

Tax Covenants. The Authority covenants with the Owners of the Certificates that, notwithstanding any other provisions of the Trust Agreement, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest

evidenced and represented by the Certificates under Section 103 of the Code. The Authority will 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 result in the loss of exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Certificates.

The Authority will 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, will 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 Authority, 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 Authority, 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 Authority will establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the Certificates as "governmental bonds."

The Authority will 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 Authority, 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 Authority will 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.

The Authority will not make any use of the proceeds of the Certificates or any other funds of the Authority, 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.

In furtherance of the foregoing tax covenants, the Authority covenants that it will comply with the provisions of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth in the Trust Agreement. These covenants will survive payment in full or defeasance of the Certificates.

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 will be made of all transactions made by the Trustee relating to the receipts, disbursements, allocation and application of the 1997 Payment and the proceeds of the Certificates, and such books will be available for inspection by the Authority, at reasonable hours and under reasonable conditions. Not more than 180 days after the close of each Fiscal Year, the Trustee will furnish or cause to be furnished to the Authority a complete financial statement covering receipts, disbursements, allocation and application of 1997 Payments received by the Trustee for such Fiscal Year. The Authority will keep or cause to be kept such information as required under the Tax Certificate.

Prosecution and Defense of Suits. The Authority 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 1997 Payments and the proceeds of the Certificates or to the extent involving the failure of the Authority to fulfill its obligations under the Trust Agreement; provided, that the Trustee or any affected Owner at its election may appear in and defend any such suit, action or

proceeding. The Authority 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 Authority, 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 under the Trust Agreement, 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 of the Trust Agreement, this covenant will remain in full force and effect even though all Certificates secured may have been fully paid and satisfied.

Amendments to Master Contract. Except for any Supplemental Contract delivered in accordance with the terms of the Master Contract, the Authority will not supplement, amend, modify or terminate any of the terms of the Master Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee, which such consent will 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 given for the payment of the Certificates, or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount evidenced and represented by the Certificates then Outstanding to such supplement, amendment, modification or termination; provided, however, that no such supplement, amendment, modification or termination will reduce the amount of 1997 Payments to be made to the Authority or the Trustee by the City pursuant to the Master Contract, or extend the time for making such 1997 Payments in any manner that would require the amendment of the Trust Agreement in any manner not in compliance with the Trust Agreement.

Recording and Filing. The Trustee upon receipt of a Written Request of the Authority will, at the expense of the Authority, 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, refileing or rerecording in any jurisdiction in which it is not now so subject.

Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee or any Owner, the Authority 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 by the Trust Agreement.

The Trustee

General. First Trust of California, National Association will serve as the Trustee for the purpose of receiving all money which the Authority is required to deposit with the Trustee under the Trust Agreement and for the purpose of allocating, applying and using such money as provided in the Trust Agreement and for the purpose of paying the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates presented for payment and for the purpose of canceling all paid or prepaid Certificates as provided in the Trust Agreement. The Authority agrees that it will at all times maintain a Trustee having a corporate trust office in either San Francisco, California or Los Angeles, California.

The Authority may at any time (unless there exists any Event of Default as defined in Trust Agreement) and upon the written request of the 1997 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 will be a bank 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 \$75,000,000 and subject to supervision or examination by federal or state authority, acceptable to the 1997 Certificate Insurer. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company will 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 Authority and the 1997 Certificate Insurer and by mailing to the Owners notice of such resignation. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee will become effective only upon the acceptance of appointment by the successor Trustee. If, within 30 days after notice of the removal or resignation of the Trustee no successor Trustee will have been appointed and will 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 by the Trust Agreement.

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

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

The Trustee will 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 under the Trust Agreement.

Amendment of the Trust Agreement

General. The Trust Agreement and the rights and obligations of the Authority and of the Owners may be amended at any time by a Supplemental Trust Agreement which will become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee; provided, however, that before executing any such Supplemental Trust Agreement the Trustee may first obtain at the Authority'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. No such amendment will (1) extend the Certificate Payment Date of, or change the

payment dates of, or reduce the rate of interest or principal or prepayment premium, if any, evidenced and represented by any Certificate without the express written consent of the Owner of such Certificate, or (2) reduce the percentage of Certificates required for the written consent to any such amendment, or (3) modify any rights or obligations of the Trustee without its prior written assent thereto.

The Trust Agreement and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Trust Agreement which will become binding upon adoption without the consent of any Owners, but only to the extent permitted by law, for any purpose that will not materially adversely affect the interests of the Owners, including (without limitation) for any one or more of the following purposes:

1. to add to the agreements and covenants required in the Trust Agreement to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the Authority;
2. to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the Authority may deem desirable or necessary and not inconsistent with the Trust Agreement;
3. to add to the agreements and covenants required in the Trust Agreement, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939;
4. to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion of interest evidenced and represented by the Certificates from gross income for federal income tax purposes under the Code or the exemption of such interest from State of California personal income taxes;
5. 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; or
6. to add to the rights of the Trustee.

Amendment by Mutual Consent. The Trust Agreement does 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.

Events of Default; Waiver of Default

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

Other Remedies of the Trustee. The Trustee will have the right --

1. by mandamus or other action or proceeding or suit at law or in equity to enforce the Authority's rights under the Master Contract against the City or any director, officer or employee thereof, and to compel the City or any such director, 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 Master Contract;

2. by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

3. by suit in equity upon the happening of any Event of Default under the Trust Agreement to enforce the Authority's rights under the Master Contract to require the City and its directors, officers and employees to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of any duty or contract by the Trustee will 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 will impair any such right or remedy or will 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 the Trust Agreement may be enforced and exercised from time to time and as often as will 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 will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Trust Agreement conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given thereunder or now or thereafter 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.

No Liability by the City to the Owners. Except for the payment when due of the 1997 Payments and the performance of the other agreements and covenants required to be performed by it contained in the Master Contract, the City will 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 1997 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 in the Trust Agreement.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the 1997 Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained in the Master Contract.

Defeasance

Discharge of Trust Agreement. When the obligations of the City under the Master Contract will cease pursuant to the Master Contract (except for the right of the Trustee and the obligation of the City to have the money and securities mentioned therein applied to the payment of Payments as therein set forth), then and in that case the obligations created by the Trust Agreement will 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 set forth the Trust Agreement and the right of the Trustee to collect any fees or expenses due thereunder and the Trustee will turn over to the City, as an overpayment of 1997 Payments, all balances remaining in any other funds or accounts other than moneys and Federal Securities held for the payment of the Certificates at maturity or on prepayment, which moneys and Federal Securities will continue to be held by the Trustee in trust for the benefit of the Owners and will be applied by the Trustee to the payment, when due, of the principal and interest and premium if any represented by the Certificates, and after such payment, the Trust Agreement will become void.

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

Deposit of Money or Securities with Trustee. Whenever in the Trust Agreement or the Master Contract it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities (certified to be sufficient by a report of an Independent Certified Public Accountant) in the necessary amount to pay or prepay any Certificates, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Trust Agreement and will be --

1. lawful money of the United States of America in an amount equal to the principal amount represented by such Certificates and all unpaid interest represented thereby to maturity, except that, in the case of Certificates which are to be prepaid prior to maturity and in respect of which notice of such prepayment will have been given as provided in the Trust Agreement or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount plus accrued interest to such date of prepayment plus a prepayment premium, if any, represented by such Certificates; or

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

provided, in each case the Trustee will have been irrevocably instructed (by the terms of the Trust Agreement and the Master Contract or by Written Request of the City) to apply such money to the payment of such principal plus prepayment premium, if any, plus interest represented by such Certificates.

Notwithstanding anything contained in the Trust Agreement to the contrary, in the event that the interest and/or the principal evidenced and represented by any of the Certificates shall be paid by the 1997 Certificate Insurer pursuant to the 1997 Certificate Insurance Policy, such Certificates shall remain Outstanding under the Trust Agreement for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid, and the assignment and pledge of the Trust Agreement 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 1997 Certificate Insurer, and the 1997 Certificate Insurer shall be subrogated to the rights of such Owners.

Unclaimed Money. Notwithstanding anything contained in the Trust Agreement to the contrary, any money held by the Trustee in trust for the payment and discharge of any of the Certificates which remains unclaimed for two years after the date when such Certificates have become due and payable, either at their stated Certificate Payment Dates or by call for prepayment prior to Certificate Payment Date, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Certificates have become due and payable, will be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the City for the payment of the 1997 Payments evidenced and represented by such Certificates; provided, however, that before being required to make any such payment to the City, the Trustee will, at the request of and at the expense of the City, cause to be mailed to all Owners and the Securities Depositories and the Information Services a notice that such money remains unclaimed and that, after a date named in such notice, which date will not be less than 30 days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the Authority.

Provisions Relating to the 1997 Certificate Insurer

For so long as, and only during such time as, the 1997 Certificate Insurance Policy is in effect and the 1997 Certificate Insurer has not failed to comply with its payment obligations thereunder, the following provisions shall be in effect, and any conflict between the provisions described below and the provisions of any other section of the Trust Agreement shall be governed by the provisions described below:

(a) (1) Any provision of the Trust Agreement expressly recognizing or granting rights in or to the 1997 Certificate Insurer may not be amended in any manner which affects the rights of the 1997 Certificate Insurer without the prior written consent of the 1997 Certificate Insurer;

(2) Unless otherwise provided, the Certificate Insurer's consent shall be required in addition to the consent of the Owners of the Outstanding Certificates, when required, for the following purposes: (i) the execution and delivery of a Supplemental Trust Agreement or any amendment, supplement or change to or modification of the Contract; (ii) the removal of the original Trustee or selection and appointment of any successor Trustee; and (iii) the initiation or approval of any action not described in clauses (i) or (ii) that requires the consent of Owners of the Outstanding Certificates;

(3) Any reorganization or liquidation plan with respect to the City must be acceptable to the 1997 Certificate Insurer, and in the event of any reorganization or liquidation, the 1997 Certificate Insurer shall have the right to vote on behalf of all Owners of the Certificates absent a default by the 1997 Certificate Insurer under the 1997 Certificate Insurance Policy;

(4) Anything contained in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Certificate Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Certificates or the Trustee for the benefit of the Owners of the Certificates as if the 1997 Certificate Insurer were the Owner of the Certificates Outstanding under the Trust Agreement, including, without limitation: (i) the right to accelerate the principal component of the 1997 Payments under the Contract, and (ii) the right to annul any declaration of acceleration, and the 1997 Certificate Insurer shall also be entitled to approve all waivers of Events of Default;

(5) Upon the occurrence of an Event of Default, the Trustee may, with the consent of the 1997 Certificate Insurer, and shall, at the direction of the 1997 Certificate Insurer or a majority of the Owners with the consent of the 1997 Certificate Insurer, by written notice to the City and the 1997 Certificate Insurer, declare the principal component of the 1997 Payments evidenced and represented by the 1997 Certificates to be immediately due and payable, whereupon that portion of the principal component of the 1997 Payments evidenced and represented by the 1997 Certificates thereby coming due and the interest accrued with respect thereto the date of payment shall, without further action, become and be immediately due and payable, anything contained in the Trust Agreement or in the Certificates to the contrary notwithstanding;

(6) Anything contained in the Trust Agreement to the contrary notwithstanding, in determining whether the rights of the Owners of the Outstanding Certificates will be adversely affected by any action taken pursuant to the terms and provisions of the Trust Agreement, the Trustee shall consider the effect on the Owners of the Certificates as if there were no 1997 Certificate Insurance Policy;

(7) To the extent that the Trust Agreement confers upon or gives or grants to the 1997 Certificate Insurer any right, remedy or claim under or by reason thereof, the 1997 Certificate Insurer is explicitly recognized as a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

(b) While the 1997 Certificate Insurance Policy is in effect, the Trustee shall furnish to the 1997 Certificate Insurer:

(1) as soon as practicable after the filing thereof with the Trustee, a copy of any financial statement of the City and a copy of any audit and annual report of the City and a copy of any report or notice delivered under the Contract;

(2) a copy of any notice or certificate given to the Owners of the Certificates, including, without limitation, any notice of any prepayment of or defeasance of the Certificates and any certificate provided to the Trustee by the Authority or the City pursuant to the Trust Agreement, including, without limitation, any notice or certificate pertaining or relating to the security for the Certificates;

(3) such additional information it may reasonably request in writing; and

(4) notice of any failure of the City or the Authority to provide required notices, certificates and reports.

(c) As long as the Certificates are Outstanding, the Trustee will permit the 1997 Certificate Insurer to have access to and to make copies of all books and records relating to accounting for and payment of the Certificates at any reasonable time during normal business hours.

(d) Notwithstanding any other provision of the Trust Agreement, the Trustee shall immediately notify the 1997 Certificate Insurer if at any time there are insufficient moneys to make any payments of the interest or principal evidenced and represented by the Certificates as required and immediately upon the occurrence of an Event of Default known to the Trustee of the Trust Agreement.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Roseville (the "City") in connection with the execution and delivery of \$11,880,000 Electric System Revenue Certificates of Participation, Series 1997 (the "Certificates"), evidencing and representing proportionate interests of the owners thereof in certain installment payments to be made by the City. The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 1997 (the "Trust Agreement"), by and between the Roseville Finance Authority (the "Authority") and First Trust of California, National Association, as trustee (the "Trustee"). The City covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate 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 Certificate.

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

"Fiscal Year" shall mean the one-year period ending on June 30 of each year.

"Installment Purchase Contract" shall mean that certain Master Installment Purchase Contract, dated as of November 1, 1997, by and between the City and the Authority, as supplemented by that certain 1997 Supplemental Installment Purchase Contract, dated as of November 1, 1997, by and between the City and the Authority.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit A.

"Owner" shall mean a registered owner of the Certificates.

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

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

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

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall provide not later than January 31 of each year (beginning in January 1998) to each Repository an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the City is unable to provide to each Repository an Annual Report by the date required in subsection (a), the City shall send to each Repository a notice in substantially the form attached hereto as Exhibit B.

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

1. Principal amount of the Certificates outstanding as of the end of the immediately preceding Fiscal Year.

2. Balance in the Parity Reserve Fund as of the end of the immediately preceding Fiscal Year and a statement of the Reserve Fund Requirement (as those terms are defined in the Installment Purchase Contract).

3. Balance in the Rate Stabilization Fund as of the end of the immediately preceding Fiscal Year.

4. Updated information comparable to the information in Table 3 entitled "City of Roseville Electric Department Customers, Sales, Revenues and Demand" as it appears in the Official Statement dated October 31, 1997 relating to the Certificates (the "Official Statement").

5. Updated information comparable to the information in Table 4 entitled "City of Roseville Electric Department Ten Largest Customers" as it appears in the Official Statement.

6. Updated information comparable to the information in Table 5 entitled "City of Roseville Electric Department Power Supply Resources" as it appears in the Official Statement.

7. Updated information comparable to the information in Table 7 entitled "City of Roseville Electric Department Outstanding Debt of Joint Powers Agencies" as it appears in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or the City or related public entities, which have been submitted to each of the Repositories; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Certificateholders.
4. optional, contingent or unscheduled Certificate calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events affecting the tax-exempt status of the Certificates.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.

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

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

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

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Certificates pursuant to the Trust Agreement.

SECTION 6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

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

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the

Trust Agreement or the Installment Purchase Contract and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Owner or Beneficial Owner of the Certificates may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: November __, 1997

CITY OF ROSEVILLE

By: _____
Title: _____

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of November __, 1997:

Bloomberg Financial Market

Municipal Repositories
P.O. Box 840
Princeton, NJ 08542-0840
E-MAIL: Munis@Bloomberg.com
PHONE (609) 279-3200
FAX (609) 279-5962

Thomson NRMSIR

Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
E-MAIL: Disclosure@Muller.com
PHONE (212) 807-5001
OR (800) 689-8466
FAX (212) 989-2078

Kenny Information Systems, Inc.

Attn: Kenny Repository Service
65 Broadway, 16th Floor
New York, NY 10006
PHONE (212) 770-4595
FAX (212) 797-7994

R. R. Donnelly Financial

Municipal Securities Disclosure Archives
559 Main Street
Hudson, MA 01749
E-MAIL: Sspotkill@rrdfin.com
INT: <http://www.municipal.com>
PHONE (800) 580-3670
FAX (508) 562-1969

DPC Data Inc.

One Executive Drive, Suite 105
Fort Lee, NJ 07024
E-MAIL: NRMSIR@dpcdata.com
PHONE (201) 346-0701
FAX (201) 947-0107

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF ROSEVILLE

Name of Issue: ELECTRIC SYSTEM REVENUE
CERTIFICATES OF PARTICIPATION, SERIES 1997

Date of Issuance: NOVEMBER 13, 1997

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate dated November 13, 1997 relating to the Certificates and by Section 2.08 of the 1997 Supplemental Installment Purchase Contract, executed and entered into as of November 1, 1997, by and between the City and the Roseville Finance Authority. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF ROSEVILLE, CALIFORNIA

By _____

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APPENDIX E

FORM OF OPINION OF SPECIAL COUNSEL

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APPENDIX E

FORM OF OPINION OF SPECIAL COUNSEL

[Closing Date]

City Council
City of Roseville
Roseville, California

\$11,880,000

Electric System Revenue Certificates of Participation, Series 1997
Evidencing and Representing Proportionate Interests of the Owners
Thereof in 1997 Payments to be made by the City of Roseville

Ladies and Gentlemen:

We have acted as special counsel to the City of Roseville (the "City") in connection with the execution and delivery of \$11,880,000 principal amount of Electric System Revenue Certificates of Participation, Series 1997, dated November 1, 1997 (the "Certificates"), evidencing and representing proportionate interests of the owners thereof in 1997 Payments (as that term is defined in the Trust Agreement referred to below) to be made by the City under and pursuant to that certain Master Installment Purchase Contract, dated as of November 1, 1997 (the "Master Installment Purchase Contract"), by and between the City and the Roseville Finance Authority (the "Authority"), as supplemented by that certain 1997 Supplemental Installment Purchase Contract, dated as of November 1, 1997 (the "1997 Supplemental Installment Purchase Contract"), by and between the City and the Authority. The Master Installment Purchase Contract, as supplemented by the 1997 Supplemental Installment Purchase Contract, is referred to herein as the "Installment Purchase Contract". All of the Authority's rights to receive such 1997 Payments have been assigned by the Authority to First Trust of California, National Association, as trustee (the "Trustee"), pursuant to that certain Trust Agreement, dated as of November 1, 1997 (the "Trust Agreement"), by and between the Authority and the Trustee. The Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement.

In our capacity as special counsel, we have reviewed relevant laws of the State of California, including the City Charter; executed copies of the Master Installment Purchase Contract, the 1997 Supplemental Installment Purchase Contract and the Trust Agreement; certifications and resolutions of the City, the Authority, the Trustee, and others; opinions of counsel to the City, the Authority and the Trustee; and such other documents, opinions and

instruments as we deemed necessary to render the opinions set forth herein.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Certain requirements and procedures contained or referred to in the Installment Purchase Contract and the Trust Agreement or other relevant documents relating to the Certificates may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of municipal bonds. We express no opinion as to the exclusion of the interest represented by the Certificates from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than this firm.

With respect to the opinions expressed herein, the rights and obligations under the Certificates and the Installment Purchase Contract and the Trust Agreement are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights generally, to the application of such principles of equity as the court having jurisdiction may impose, regardless of whether such enforceability is considered in a proceeding in equity or at law, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Master Installment Purchase Contract, the 1997 Supplemental Installment Purchase Contract and the Trust Agreement have been duly authorized, executed and delivered by the Authority; the Master Installment Purchase Contract and the 1997 Supplemental Installment Purchase Contract have been duly authorized, executed and delivered by the City; and, assuming (in the case of the Trust Agreement) due authorization, execution and delivery by the Trustee, such agreements are valid and binding obligations of the Authority and the City (as the case may be), enforceable against the Authority and the City (as the case may be) in accordance with their respective terms.
2. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement.
3. The obligation of the City to make the 1997 Payments under the Installment

Purchase Contract is a special obligation of the City payable solely from Net Revenues (as such term is defined in the Installment Purchase Agreement). The general fund of the City is not liable, and neither the faith and credit nor taxing power of the City is pledged, for the payment of the 1997 Payments under the Installment Purchase Contract.

4. Based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the City and the Authority with certain covenants in the Trust Agreement and the Installment Purchase Contract and with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of Certificate proceeds and the compliance with certain requirements regarding the rebate of certain investment earnings to the United States Treasury, interest represented by the Certificates is not includable in the gross income of the owners of the Certificates for purposes of federal income taxation. Failure by the Authority or the City to comply with the above covenants and requirements may cause interest represented by the Certificates to be included in gross income retroactive to the date of execution and delivery of the Certificates.

Interest represented by the Certificates will not be treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations; however, interest represented by the Certificates will be included as an adjustment in the calculation of the alternative minimum taxable income of corporations and may therefore affect the federal alternative minimum tax liability of corporations. We express no opinion regarding other tax consequences caused by ownership of, or the receipt of interest represented by, the Certificates.

5. Interest represented by the Certificates is exempt from present State of California personal income taxes.

Respectfully submitted,

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APPENDIX F

FORM OF CERTIFICATE INSURANCE POLICY

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Ambac

Municipal Bond Insurance Policy

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

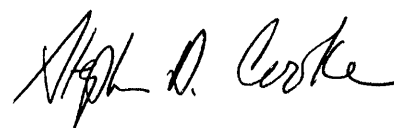
As used herein, the term "Bondholder" means any person, other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer



Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President



Secretary

Authorized Representative



1-2. NAME OF ISSUER AND DESCRIPTION OF ISSUE : CITY OF ROSEVILLE, CALIFORNIA
ELECTRIC SYSTEM REVENUE
CERTIFICATES OF PARTICIPATION
SERIES 1997

3. STATE : CA

4. DATED DATE : 11/01/1997

5. DATE OF FINAL MATURITY OF OFFERING : 02/01/2017 6. DATE OF SALE : 10/31/1997

7. PAR VALUE OF OFFERING : \$ 11,880,000

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate): \$

9. AMENDED OR STICKERED OS? NO NUMBER OF SERIES IN OS : 1
(Enter Y or N) (Fill out one form for each series)

10. CHECK ALL THAT APPLY:

- a. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
- b. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
- c. This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and or sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, with a view toward distributing the securities.

11. MANAGING UNDERWRITER : PaineWebber Incorporated

16. CUSIP NUMBERS (and corresponding maturity dates)

02/01/1998	777790CH7	02/01/1999	777790CJ3
02/01/2000	777790CK0	02/01/2001	777790CL8
02/01/2002	777790CM6	02/01/2003	777790CN4
02/01/2004	777790CP9	02/01/2005	777790CQ7
02/01/2006	777790CR5	02/01/2007	777790CS3
02/01/2010	777790CT1	02/01/2017	777790CU8

17. MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

Check here if the issue is ineligible for CUSIP number assignment.

State the reason why the issue is ineligible for CUSIP number assignment:

18. Submit two copies of the completed form along with the official statement to: Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, VA 22314. Incomplete submissions will be returned for correction.

