
INDENTURE

by and between

DEUTSCHE BANK NATIONAL TRUST COMPANY,
as Trustee,

and the

SACRAMENTO METROPOLITAN FIRE DISTRICT

for the

SACRAMENTO METROPOLITAN FIRE DISTRICT
TAXABLE PENSION FUNDING BONDS, SERIES 2004

Executed and Entered Into as of October 1, 2004

INDEX OF SERIES, MODES AND PRINCIPAL AMOUNTS

Series 2004A Fixed Rate Bonds

\$23,040,000 aggregate principal amount maturing on May 15, 2019

\$14,890,000 aggregate principal amount maturing on May 15, 2025

Series 2004B Auction Rate Securities

\$20,200,000 aggregate principal amount maturing on May 15, 2030

Broker Dealer: Lehman Brothers Inc.

Series 2004C Convertible Auction Rate Securities

\$11,868,975 aggregate principal amount maturing on May 15, 2034

Broker Dealer: Lehman Brothers Inc.

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INDENTURE

The Indenture (the "Indenture"), executed and entered into as of October 1, 2004, by and between Deutsche Bank National Trust Company, a national banking association duly organized and existing under the laws of the United States of America, as Trustee (the "Trustee"), and the Sacramento Metropolitan Fire District, a fire protection district duly organized and existing under the laws of the State of California (the "District");

WITNESSETH:

WHEREAS, the District is obligated pursuant to the County Employees Retirement Law of 1937, being Chapter 3 of Division 4 of Title 3 of the Government Code of the State of California (the "SCERS Retirement Law"), to make payments to the Sacramento County Employees' Retirement System ("SCERS") for the payment of pension benefits accruing to SCERS members and their beneficiaries; and

WHEREAS, the District is obligated by Sections 20000 et seq. of the California Government Code (the "PERS Retirement Law" and, collectively with the SCERS Retirement Law, the "Retirement Laws"), to make payments to the California Public Employees' Retirement System ("PERS" and together with SCERS, the "Systems") relating to pension benefits accruing to District employees who are PERS members;

WHEREAS, the District has entered into a contract with PERS dated August 2, 1983 and witnessed January 18, 1984, and as amended effective July 1, 1987, November 8, 1990, May 1, 1994, June 22, 1995, December 1, 2000, March 22, 2001, June 7, 2001 and May 7, 2003, as heretofore and hereafter amended from time to time (the "PERS Contract"), evidencing the Local Agency's obligation to pay PERS the Local Agency's unfunded accrued actuarial liability; and

WHEREAS, the District issued its Pension Obligation Debenture (the "Debenture") on October 20, 2004, in the principal amount of \$10,538,000 in favor of SCERS evidencing the District's obligation under the SCERS Retirement Law, including obligations under any contracts thereto, to pay a portion of the District's then unfunded accrued actuarial liability to SCERS; and

WHEREAS, the District's obligation to PERS as evidenced by the PERS Contract and its obligation to SCERS as evidenced by the Debenture are debt obligations of the District imposed by law; and

WHEREAS, the District is authorized pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Act") to issue refunding bonds for the purpose of refunding any evidence of indebtedness of the District; and

WHEREAS, for the purpose of refunding the District's obligations to SCERS evidenced by the Debenture and the District's obligations to PERS evidenced by the PERS Contract, the District has determined to issue its Sacramento Metropolitan Fire District Taxable Pension

Funding Bonds, Series 2004, in the aggregate principal amount of \$69,998,975 (the "Bonds") under the Act in the form and manner provided herein; and

WHEREAS, in order to provide for the execution, authentication and delivery of the Bonds and to establish and declare the conditions and terms under which the Bonds will be issued and to secure the payment of the principal, Accreted Value or redemption price of and the interest on the Bonds, the District has authorized the execution and delivery of the Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by the District and authenticated and delivered by the Trustee hereunder, the legal, valid and binding obligations of the District payable in accordance with their terms, and to constitute the Indenture a valid and binding agreement of the parties hereto for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture has been in all respects duly authorized;

NOW, THEREFORE, THE INDENTURE WITNESSETH, that in order to secure the payment of the principal, Accreted Value or redemption price of and the interest on all Bonds at any time issued and outstanding hereunder according to their tenor, and to secure the performance and observance of all agreements and covenants contained herein and therein, and to declare the conditions and terms upon and subject to which the Bonds will be issued, delivered and received, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the Bonds by the respective registered holders thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District hereby agrees and covenants with the Trustee, for the benefit of the respective registered holders from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; EQUAL SECURITY

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

"AA" Financial Commercial Paper Rate

The term "'AA" Financial Commercial Paper Rate," on any date of determination for any Auction Rate Period, means:

- (i) (A) for any Standard Auction Rate Period of 35 days or any Special Auction Rate Period of fewer than 49 days, the interest equivalent of the 30-day rate, and (B) for any Special Auction Rate Period of: (1) 49 or more but fewer than 70 days, the interest equivalent of the 60-day rate; (2) 70 or more but fewer than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates; (3) 85 or more but fewer than 99 days, the interest equivalent of the 90-day rate; (4) 99 or more but fewer than 120 days, the arithmetic average of the interest equivalent of the 90-day and the 120-day rates; (5) 120 or more but fewer than 141 days, the interest equivalent of the 120-day

rate; (6) 141 or more but fewer than 162 days, the arithmetic average of the interest equivalent of the 120-day and 180-day rates; and (7) 162 or more but fewer than 183 days, the interest equivalent of the 180-day rate, in each case on commercial paper placed on behalf of entities whose corporate bonds are rated "Aa" by Moody's and "AA" by S&P, or the equivalent of such rating by Moody's or S&P or another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination; or

(ii) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination;

provided, that if any Commercial Paper Dealer does not quote a commercial paper rate required in order to make the foregoing determinations, the "AA" Financial Commercial Paper Rate shall be determined on the basis of such quotations as may be furnished by a substitute Commercial Paper Dealer or Dealers selected by the District. For the purpose of this definition, the "interest equivalent" means the equivalent yield of an interest-bearing security on a 360-day basis or a rate stated on a discount basis (a "discount rate") for commercial paper of a given number of days maturity which shall be equal to the product of (A) 100, times (B) the quotient (rounded upwards to the next higher one-thousandth (0.001) of 1% of ((x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.0 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures, and the denominator of which shall be 360).

Accreted Value

The term "Accreted Value" means with respect to any Capital Appreciation Bond or Convertible Auction Rate Security, as of any date of calculation, the sum of the Principal Amount thereof and the interest accrued thereon to such date of calculation, compounded from the date of initial issuance at, (i) in the case of Capital Appreciation Bonds, the stated yield to maturity thereof and (ii) in the case of Convertible Auction Rate Securities, the stated yield to the Full Accretion Date, on the Interest Accrual Dates indicated on Schedule I hereto, assuming in any such semiannual period that such Accreted Value increases in equal daily amounts on the basis of a 360-day year comprised of twelve 30-day months.

Act

The term "Act" means Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State.

Administrative Expense Account

The term "Administrative Expense Account" means the account by that name established pursuant to Section 4.02.

Auction Rate Securities

The term "Auction Rate Securities" means all Bonds issued in such Mode prior to their Fixed Rate Conversion Date, if any, in any one or more Sub-Series; and unless otherwise indicated, all references herein to Auction Rate Securities shall include Convertible Auction Rate Securities.

Authorized Denominations

The term "Authorized Denominations" means (a) as to Bonds issued as Fixed Rate Bonds, \$5,000 principal amount or any integral multiple thereof; (b) as to Bonds issued as Listed Securities, \$25 principal amount or any integral multiple thereof; (c) as to Bonds issued as Auction Rate Securities, \$25,000 principal amount or any integral multiple thereof; (d) as to Bonds issued as Capital Appreciation Bonds, \$5,000 Maturity Amount or any integral multiple thereof; (e) as to Bonds issued as Index Bonds, \$5,000 principal amount or any integral multiple thereof; (f) as to Bonds issued as Convertible Auction Rate Securities, \$25,000 Maturity Amount or any integral multiple thereof; and (g) any other principal amount or integral multiple thereof as provided in a Supplemental Indenture.

Beneficial Owner

The term "Beneficial Owner" means, (a) as to Auction Rate Securities, a customer of a Broker-Dealer (other than the District) who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of Auction Rate Securities; and (b) as to all Bonds that are not issued in the form of Auction Rate Securities, the beneficial owner of each such Bond, determined under the rules of DTC.

Bonds, Series 2004 Bonds, Series 2004A Bonds; Series 2004B Bonds; Series 2004C Bonds; Additional Bonds, Serial Bonds, Term Bonds

The term "Bonds" means the Series 2004 Bonds and all Additional Bonds.

The term "Series 2004 Bonds" means the Bonds designated the "Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004" authorized to be issued pursuant hereto and at any time Outstanding hereunder that are executed, authenticated, issued and delivered in accordance with Article II.

The term "Series 2004A Bonds" means the Bonds designated the "Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004A" authorized to be issued pursuant hereto and at any time Outstanding hereunder that are executed, authenticated, issued and delivered in accordance with Article II.

The term "Series 2004B Bonds" means the Bonds designated the "Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004B" authorized to be issued pursuant hereto and at any time Outstanding hereunder that are executed, authenticated, issued and delivered in accordance with Article II.

The term "Series 2004C Bonds" means the Bonds designated the "Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004C" authorized to be

issued pursuant hereto and at any time Outstanding hereunder that are executed, authenticated, issued and delivered in accordance with Article II.

The term "Additional Bonds" means all Bonds of the District authorized to be issued pursuant hereto and at any time Outstanding hereunder that are executed, authenticated, issued and delivered in accordance with Article III.

The term "Serial Bonds" means Bonds for which no Sinking Fund Account Payments are provided.

The term "Term Bonds" means Bonds which are payable on or before their specified maturity date or dates from Sinking Fund Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

Bond Year

The term "Bond Year" means the twelve-month period ending on May 14 of each year to which reference is made. The first Bond Year shall commence on the date the Series 2004 Bonds are originally delivered and shall end on May 14, 2005.

Business Day

The term "Business Day" means any day other than (i) a Saturday or a Sunday, (ii) a day on which banking institutions in the city in which the Corporate Trust Office of the Trustee is located or banking institutions in New York, New York, are authorized or required by law to be closed, or (iii) a day on which the New York Stock Exchange is closed.

Calculation Agent

The term "Calculation Agent" means the Calculation Agent for Index Bonds, designated on Schedule I hereto, if any, or its successor appointed by the District.

Capital Appreciation Bonds

The term "Capital Appreciation Bonds" means those Bonds issued in Maturity Amounts of \$5,000 or any integral multiple thereof, which by their terms accrete interest on a compounded basis payable, together with their Principal Amount, solely at maturity or on a Redemption Date, if any.

Certificate of the District

The term "Certificate of the District" means an instrument in writing signed by the Fire Chief, the Deputy Chief, the District Treasurer or the Director of Finance, or by any other officer of the District duly authorized by the Board of Directors of the District for that purpose.

Closing Date

The term "Closing Date" means the date on which the Bonds are initially delivered to the Purchaser against payment by the Purchaser to the Trustee of the purchase price thereof.

Commercial Paper Dealers

The term "Commercial Paper Dealers" means Lehman Commercial Paper Inc., or in lieu thereof, its affiliates or successors, if such entity is a commercial paper dealer; provided that in the event that any Commercial Paper Dealer should fail to qualify as a commercial paper dealer, the District may appoint another organization to serve as a Commercial Paper Dealer hereunder.

Convertible Auction Rate Securities

The term "Convertible Auction Rate Securities" means all Bonds issued as Auction Rate Securities, which by their terms accrete interest on a compounded basis through the Full Accretion Date and, thereafter bear interest at a rate which will be established in accordance with the provisions of Appendix F, payable, together with their Accreted Value, solely at maturity or on a Redemption Date, if any, prior to their Fixed Rate Conversion Date, if any.

Corporate Trust Office

The term "Corporate Trust Office" means the principal corporate trust office of the Trustee in San Francisco, California; provided, that the Trustee may designate in writing to the District and the Holders such other office or agency from time to time for purposes of registration, transfer, exchange, payment or redemption of any of the Bonds.

Costs of Issuance

The Term "Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the District and related to each Series of Bonds, 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 related Series of Bonds, a fee in the amount of \$2,000 to be delivered to the County on the initial date of delivery of the Series 2004 Bonds relating to the performance duties of the District Treasurer as set forth in Section 4.01 hereof, and any other cost, charge or fee in connection with the original issuance of the related Series of Bonds.

County

The term "County" means the County of Sacramento, a political subdivision duly organized and existing under the Constitution and laws of the State.

County Treasurer

The term "County Treasurer" means the Director of Finance of the County.

Debenture

The term "Debenture" means the 2004 Pension Obligation Debenture dated as of October 20, 2004, issued by the District in favor of SCERS in the principal amount of \$10,538,000.

Debt Service Fund

The term "Debt Service Fund" means the Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004 Debt Service Fund established by the District Treasurer and maintained by such officer in the treasury of the County under Section 4.01.

Deputy Chief

The term "Deputy Chief" means the Deputy Chief of Administration for the District.

Director of Finance

The term "Director of Finance" means the Director of Finance of the District.

District

The term "District" means the Sacramento Metropolitan Fire District, a fire protection district duly organized and existing under the laws of the State.

District Representative

The term "District Representative" means the Fire Chief, the Deputy Chief, the District Treasurer or the Director of Finance, or any other officer of the District duly authorized by the Board of Directors of the District.

District Treasurer

The term "District Treasurer" means the District Treasurer of the District who, pursuant to Section 13854 of the Health and Safety Code of the State is the County Treasurer. Subject to Section 5.09 hereof, if the District Board of Directors adopts a resolution approving a district treasurer other than the County Treasurer, "District Treasurer" shall refer to such other appointee.

DTC

The term "DTC" means The Depository Trust Company and any successor to it or any nominee of it.

Event of Bankruptcy

The term "Event of Bankruptcy" means the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against the District.

Event of Default

The term "Event of Default" means an event described as such in Section 8.01.

Federal Securities

“Federal Securities” means

(1) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – “SLGs”).

(2) Direct obligations of the Department of Treasury of the United States of America which have been stripped by the Treasury itself.

(3) The interest component of Resolution Funding Corporation (REFCORP) strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form.

(4) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s. If the issue is rated solely by Standard & Poor’s, the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipal bonds.

(5) Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America.

- a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
- b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- c. Federal Financing Bank
- d. General Services Administration
Participation certificates
- e. U.S. Maritime Administration
Guaranteed Title XI financing
- f. U.S. Department of Housing and Urban Development
Project Notes
Local Authority Bonds
New Communities Debentures
U.S. Public Housing Notes and Bonds

Fire Chief

The term “Fire Chief” means the Fire Chief of the District.

Fiscal Year

The term “Fiscal Year” means the twelve month period terminating on June 30 of each year, or any other annual accounting period hereafter designated by the District as its Fiscal Year under applicable law.

Financial Advisor

The term "Financial Advisor" means Sutter Securities Incorporated or any other entity designated by the District in writing.

Fixed Rate

The term "Fixed Rate" means a rate of interest that does not change during a specific term, without adjustment, resetting or variation due to the effects of marketing, remarketing or indices.

Fixed Rate Bonds

The term "Fixed Rate Bonds" means those Bonds which, by their terms, have been issued in denominations of \$5,000 Principal Amount or any integral multiple thereof, bear interest at Fixed Rates, payable semiannually (except that the first interest period with respect thereto may be less than six months but not more than twelve months following their Closing Date), and shall include Standard Bonds and those Bonds issued as Listed Securities.

Full Accretion Date

The term "Full Accretion Date" means the date, initially as set forth in Schedule I hereto, that each Convertible Auction Rate Security shall reach its stated Maturity Amount, assuming in any semiannual period that the value increases in equal daily amounts on the basis of a 360-day year of twelve 30-day months.

Holder

The term "Holder" means any person who shall be the registered owner of any Outstanding Bond, as shown on the registration books maintained by the Trustee under Section 2.10.

Indenture

The term "Indenture" means the Indenture executed and entered into under the Act as of October 1, 2004, by and between the Trustee and the District, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Indentures executed under the provisions hereof.

Independent Certified Public Accountant

The term "Independent Certified Public Accountant" means any individual or firm of certified public accountants duly licensed and entitled to practice and practicing as such under the laws of the State, appointed and paid by the District, and who or each of whom --

- (1) is in fact independent and not under the domination of the District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and

(3) is not connected with the District as a member of the Board of Directors, officer or employee of the District, but which individual or firm may be regularly retained to audit the accounting records of and make reports thereon to the District.

Index Adjustment Date

The term "Index Adjustment Date" means each Thursday (whether or not such day is a Business Day) following the Closing Date.

Index Bonds

The term "Index Bonds" means those Bonds which have been issued in denominations of \$5,000 Principal Amount or integral multiples thereof, bear interest at an Index Rate, and are payable as to principal and interest quarterly.

Index Rate

The term "Index Rate" means the interest rate on Index Bonds established as provided in Section 2.16; provided, that the Index Rate shall not exceed 17% per annum or the maximum rate, if any, established under the laws of the State for obligations of public agencies such as the District, if less than 17%.

Index Rate Determination Date

The term "Index Rate Determination Date" means the first Business Day of the applicable Index Rate Period.

Index Rate Period

The term "Index Rate Period" means, with respect to the Index Bonds, each period commencing on an Index Adjustment Date and ending on the day before the next Index Adjustment Date.

Information Services

The term "Information Services" means Financial Information, Inc., Daily Called Bond Service, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, NC 28217. Attn: Called Bond Department; and Standard & Poor's J.J. Kenny Drake, Inc., 55 Water Street, New York, NY 10041-0001, Attention: Notification Department; or, in accordance with then current guidelines of the Securities and Exchange Commission, any other service providing information with respect to called bonds that the District may designate in a Certificate of the District delivered to the Trustee.

Interest Account

The term "Interest Account" means the account by that name established pursuant to Section 4.02.

Interest Accrual Date

The term "Interest Accrual Date" means each date established for the accrual and compounding of interest on Capital Appreciation Bonds and Convertible Auction Rate Securities, initially as set forth in Schedule I hereto and as may be modified as set forth in a Supplemental Indenture.

Interest Payment Date

The term "Interest Payment Date" means each date upon which interest is due on the Bonds (excepting Capital Appreciation Bonds and Convertible Auction Rate Securities, prior to the Full Accretion Date), as initially set forth in Schedule I hereto.

Interest Rate Period

The term "Interest Rate Period" means any designated period during which a Series of Bonds are Outstanding in the form of Auction Rate Securities or bear interest at the Index Rate.

LIBOR

The term "LIBOR" on any date of determination for any Auction Rate Period, means:

(i) subject to clause (ii) below, (A) for any Standard Auction Rate Period or any Special Auction Rate period of fewer than 49 days, the offered rate for deposits in U.S. dollars for a one-month period which appears on Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a London Business Day, then on the next preceding London Business day (the "calculation date") and (b) for any Special Auction Rate period of (i) 49 or more but fewer than 70 days, such rates for deposits in U.S. dollars for a two-month period; (ii) 70 or more but fewer than 85 days, the arithmetic average of such rates for deposits in U.S. dollars for two- and three-month periods; (iii) 85 or more but fewer than 120 days, such rate for deposits in U.S. dollars for a three-month period; (iv) 120 or more but fewer than 148 days, the arithmetic average of such rates for deposits in U.S. dollars for three- and six-month periods; (v) 148 or more but fewer than 180 days, such rate for deposits in U.S. dollars for a six-month period; (vi) 180 or more but fewer than 225 days, the arithmetic average of such rates for deposits in U.S. dollars for six- and nine-month periods; (vii) 225 or more but fewer than 290 days, such rate for deposits in U.S. dollars for a nine-month period; (viii) 290 or more but fewer than 325 days, the arithmetic average of such rates for deposits in U.S. dollars for nine-month and one-year periods; and (ix) 325 days or more, such rate for deposits in U.S. dollars for a one-year period; or

(ii) if, on any calculation date, no rate appears on Telerate Page 3750 as specified in clause (i) above, the arithmetic average of the offered quotations of four major banks in the London interbank market, selected by the Auction Agent for deposits in U.S. dollars for the respective periods specified in clause (i) above to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time, unless fewer than two

such quotations are provided, in which case, the arithmetic average of the rates quoted at approximately 11:00 a.m., New York time, on the date next preceding such calculation date by three major banks in the City of New York, selected by the Auction Agent, for loans in U.S. dollars to leading European banks in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time.

LIBOR Spread

The term "LIBOR Spread" means the percentage of LIBOR established on the Closing Date for the affected Bonds, as provided in Schedule I hereto.

Listed Securities

The term "Listed Securities" means those Bonds which, by their terms, bear interest at a Fixed Rate, payable semiannually, issued in denominations of \$25 Principal Amount and integral multiples thereof, which are listed on the New York Stock Exchange.

London Business Day

The term "London Business Day" means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date, are expected to be transacted, in the London, U.K., interbank market.

Maturity Amount

The term "Maturity Amount" means (i) the Accreted Value of any Capital Appreciation Bond on its maturity date and (ii) the Accreted Value of any Convertible Auction Rate Security as of the Full Accretion Date.

Mode

The term "Mode" means the Principal Amount, Authorized Denomination, interest rate and payment structure, including any methodology for the reset thereof, for any Series of Bonds. The Indenture authorizes the issuance of Bonds in the following Modes: Fixed Rate Bonds, Listed Securities, Auction Rate Securities, Capital Appreciation Bonds, Index Bonds and any other Mode as set forth in a Supplemental Indenture.

Moody's

The term "Moody's" means Moody's Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the District.

Opinion of Counsel

The term "Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the

District and satisfactory to and approved by the Trustee (who shall not be under any liability by reason of such approval).

Outstanding

The term "Outstanding," when used as of any particular time with reference to any Bonds, means (subject to the provisions of Section 7.02) all Bonds executed by the District and authenticated by the Trustee hereunder except

- (1) Bonds theretofore cancelled and destroyed by the Trustee or surrendered to the Trustee for cancellation and destruction under Section 11.05;
- (2) Bonds paid or deemed to have been paid under Section 9.01; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed by the District and authenticated and delivered by the Trustee under Section 2.11.

Participant

The term "Participant" or "DTC Participant" has the meaning given to that term in Section 2.14(b).

Payment Date

The term "Payment Date" means any Interest Payment Date, any Principal Payment Date or any Redemption Date.

Permitted Investments

The term "Permitted Investments" means any of the following obligations if and to the extent that, at the time of making the investment, they are permitted by law:

- (1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.
- (2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America:
 - A. U.S. Export-Import Bank (Eximbank)
 - B. Farmers Home Administration (FmHA)
 - C. Federal Financing Bank
 - D. Federal Housing Administration Debentures (FHA)

- E. General Services Administration
- F. Government National Mortgage Association (GNMA or "Ginnie Mae")
- G. U.S. Maritime Administration
- H. U.S. Department of Housing and Urban Development (HUD)

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- A. Senior debt obligations of the Federal Home Loan Bank System.
- B. Participation Certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac").
- C. Mortgage-backed securities and senior debt obligations of Fannie Mae.
- D. Senior debt obligations of the Student Loan Marketing Association.
- E. Obligations of the Resolution Funding Corporation (REFCORP).
- F. Consolidated systemwide bonds and notes of the Farm Credit System.

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G; AAA-m; or AA-m and, if rated by Moody's, a rating by Moody's of Aaa, Aa1 or Aa2, including money market funds for which the Trustee or its parent and their affiliates provide investment advice or other investment management services.

(5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Bondholders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation.

(7) Investment Agreements which do not adversely affect the rating on the Bonds by the Rating Agencies.

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

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

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

(11) Repurchase Agreements which do not adversely affect the rating on the Bonds by the Rating Agencies.

(12) Any state administered pool investment fund in which the District is statutorily permitted or required to invest.

(13) The County of Sacramento investment pool.

(14) Any other investments which do not adversely affect the ratings on the Bonds by the Rating Agencies.

PERS

The term "PERS" means the Public Employees' Retirement System.

PERS Contract

The term "PERS Contract" means the contract dated August 2, 1983 and witnessed January 18, 1984, and as amended effective July 1, 1987, November 8, 1990, May 1, 1994, June 22, 1995, December 1, 2000, March 22, 2001, June 7, 2001 and May 7, 2003 between the Local Agency and PERS, as heretofore and hereafter amended from time to time.

PERS Retirement Law

The term "PERS Retirement Law" means Section 20000 et seq. of the California Government Code.

Principal Account

The term "Principal Account" means the account by that name established pursuant to Section 4.02.

Principal Amount

The term "Principal Amount" means (a) as to any Fixed Rate Bond, Auction Rate Security or Index Bond, the principal amount thereof; or (b) as to any Capital Appreciation Bond or Convertible Auction Rate Security, the Maturity Amount thereof.

Principal Payment Date

The term "Principal Payment Date" means a date on which principal is due on the Bonds as set forth on Schedule I attached hereto.

Purchaser

The term "Purchaser" means the underwriter named in the bond purchase contract for the Bonds, as original purchasers of the Bonds.

Qualified Swap Agreement

The term "Qualified Swap Agreement" or "Swap Agreement" means (i) any ISDA Master Swap Agreement, by and between the District and a Qualified Swap Provider, which includes Schedule A thereto and the applicable Commitment, (a) which is entered into by the District with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (b) which provides that the District shall pay to such entity an amount based on the interest accruing at a Fixed Rate on an amount equal to the Principal Amount of Outstanding Bonds covered by such Swap Agreement, if any, and that such entity shall pay to the District an amount based on the interest accruing on a principal amount equal to the then-Outstanding Principal Amount of the affected Bonds, at a variable rate of interest computed according to a formula set forth in the Swap Agreement (which need not be the same formula by which the Auction Rate, if applicable, is calculated) or that one shall pay to the other any net amount due under such arrangement; and (c) which has been designated in writing to the Trustee in a Certificate of the District as a Qualified Swap Agreement with respect to the affected Bonds; provided, that the District shall have notified each Rating Agency of the proposed Swap Agreement and shall have determined that the execution of the Swap Agreement would not cause the reduction or withdrawal of the current rating from such Rating Agencies on the Bonds.

Qualified Swap Provider

The term "Qualified Swap Provider" means with respect to the counterparty under any other Swap Agreement meeting the requirements of the definition thereof, a financial institution approved by the District, (A) the long-term, unsecured and unsubordinated obligations of which are rated at the time of execution of the related Qualified Swap Agreement by at least two Rating Agencies as: (i) at least "A3" by Moody's or "A-" by S&P; or (B) the obligations of which under the particular Qualified Swap Agreement and any Swap Policy related thereto are unconditionally guaranteed by a bank or non-bank financial institution, the long-term, unsecured and unsubordinated obligations of which are rated at the time of execution of the Qualified Swap Agreement by at least two Rating Agencies as: (i) at least "A3" by Moody's or "A-" by S&P.

Rating Agencies

The term "Rating Agencies" means Moody's and Standard & Poor's, but in each case only to the extent that either of them is then rating the Bonds at the request of the District.

Record Date

The term "Record Date" means, with respect to (a) Fixed Rate Bonds, the first day (whether or not such day is a Business Day) of the month immediately preceding each Interest Payment Date, (b) Auction Rate Securities, the fifth day (whether or not such day is a Business Day) immediately preceding each Interest Payment Date, (c) Capital Appreciation Bonds, the first day (whether or not such day is a Business Day) of the month immediately preceding the maturity thereof, (d) Convertible Auction Rate Securities, the fifth day (whether or not such day is a Business Day) of the month immediately preceding the Fixed Rate Conversion Date, and after such Fixed Rate Conversion Date, the first day (whether or not such day is a Business Day) of the month immediately preceding each Interest Payment Date and (e) Index Bonds, the close of business on the Business Day prior to the next Interest Payment Date.

Redemption Date

The term "Redemption Date" means a date on which any of the Bonds is called for redemption prior to the Principal Payment Date of such Bonds.

Redemption Fund

The term "Redemption Fund" means the Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004 Redemption Fund established by the District Treasurer and maintained by the Trustee under Section 4.01.

Refunding Fund

The term "Refunding Fund" means the Sacramento Metropolitan Fire District 2004 Pension Obligation Debenture Refunding Fund established and maintained by the Trustee under Section 2.05(a).

Reported Rate

The term "Reported Rate" means the rate that appears on Telerate Page 3750 or a successor reporter of such rates, selected by the Calculation Agent and acceptable to the District.

Representation Letter

The term "Representation Letter" means the letter of representation to The Depository Trust Company from the District and the Trustee relating to the Bonds.

Retirement Laws

The term "Retirement Laws" means, collectively, the PERS Retirement Law and the SCERS Retirement Law.

SCERS

The term "SCERS" means the Sacramento County Employees' Retirement System.

SCERS Retirement Law

The term "SCERS Retirement Law" means the County Employees Retirement Law of 1937, being Chapter 3 of Division 4 of Title 1 of the Government Code of the State.

Securities Depository

The term "Securities Depository" means, initially, DTC, and its successors and assigns, and any replacement securities depository appointed under the Indenture.

Series

The term "Series" means all of the Bonds designated as being within a certain series, as

indicated on the inside cover hereof, regardless of variations in maturity date, interest rate (but within the same Mode), redemption and other provisions, and any Bonds thereafter issued in transfer or exchange for such Bonds pursuant to the Indenture.

Sinking Fund Account, Series 2004 Sinking Fund Account

The term "Sinking Fund Account" means any subaccount established for the Term Bonds of any Series and maturity within the Principal Account, as more particularly designated as provided in Section 4.02.

The term "Series 2004 Sinking Fund Account" means the Sinking Fund Account established for the Series 2004 Bonds pursuant to Section 2.03.

Sinking Fund Account Payment

The term "Sinking Fund Account Payment" means the amount of money required hereby or by any Supplemental Indenture to be deposited by the Trustee in any Sinking Fund Account on any Sinking Fund Account Payment Date for the redemption of the Term Bonds of any Series and maturity.

Sinking Fund Account Payment Date

The term "Sinking Fund Account Payment Date" means any date on which any Sinking Fund Account Payments for the Term Bonds of any Series and maturity are required to be deposited in the Sinking Fund Account for the Bonds of such Series and maturity.

Standard Bonds

The term "Standard Bonds" means those Fixed Rate Bonds issued in Authorized Denominations of \$5,000 and any integral multiple thereof.

Standard & Poor's or "S&P"

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

State

The term "State" means the State of California.

Sub-Series

The term "Sub-Series" means the designated portion of a Series of Bonds sharing a particular Mode, and other characteristics, designated as such on the inside cover hereof. Each Sub-Series of Bonds within a Series of Bonds must be within the same Mode.

Supplemental Indenture

The term "Supplemental Indenture" means any indenture then in full force and effect which has been duly executed and delivered by the Trustee and the District amendatory hereof or supplemental hereto, but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

Swap Payments

The term "Swap Payments" means any of the periodic payments due from the District pursuant to the terms of a Qualified Swap Agreement.

Systems

The term "Systems" means, collectively, PERS and SCERS.

Telerate Page 3750

The term "Telerate Page 3750" means the display designated on page 3750 on Moneyline Telerate, Inc. (or such other page as may subsequently replace the 3750 page on that service or such other service as may be nominated by the British Banker's Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

Treasury Note Rate

The term "Treasury Note Rate" means (a) the bond equivalent yield, calculated in accordance with prevailing industry conventions, of the rate on the most recently auctioned direct obligation of the United States Government having a remaining maturity closest to the length of the applicable Auction Rate Period, as quoted in The Wall Street Journal on such date for the Business Day next preceding such date; or (b) in the event that such rate is not published in The Wall Street Journal, then the bond equivalent yield, calculated in accordance with prevailing industry conventions, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a remaining maturity closest to the length of the applicable Auction Rate Period, based on bid price quotations on such date obtained by the Auction Agent from the U.S. Government Securities Dealers.

Trustee

The term "Trustee" means Deutsche Bank National Trust Company, a national banking association duly organized and existing under the laws of the United States of America, or any other bank with trust powers or trust company which may at any time be substituted in its place as provided in Section 6.01.

Written Request of the District

The term "Written Request of the District" means an instrument in writing signed by a District Representative.

SECTION 1.02. Equal Security. In consideration of the acceptance of the Bonds by the Holders thereof, the Indenture shall be deemed to be and shall constitute a contract by and among the District, the Trustee and the Holders from time to time of all Bonds authorized, executed, authenticated and delivered hereunder and then Outstanding to provide for the payment of the principal, Accreted Value or redemption price of and the interest on all Bonds which may from time to time be authorized, executed, authenticated and delivered hereunder, subject to the agreements, conditions, covenants and provisions contained herein; and all agreements and covenants set forth herein required to be performed by or on behalf of the District shall be for the equal and proportionate benefit, protection and security of all Holders of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, execution, authentication or delivery thereof or for any cause whatsoever, except as expressly provided herein or therein.

ARTICLE II

ISSUANCE OF THE SERIES 2004 BONDS; GENERAL BOND PROVISIONS

SECTION 2.01. Authorization and Purpose of and Obligation Under the Series 2004 Bonds. The District has reviewed all proceedings heretofore taken relative to the authorization of the Series 2004 Bonds and has found, as a result of such review, and hereby finds and determines that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to the issuance of the Series 2004 Bonds do exist, have happened and have been performed in due time, form and manner as required by law, that the District is duly authorized, pursuant to each and every requirement of the Act, to execute and enter into the Indenture and to issue the Series 2004 Bonds in the form and manner and for the purpose provided herein, that the Series 2004 Bonds shall be entitled to the benefit, protection and security of the provisions hereof, that the Series 2004 Bonds will be legal, valid and binding obligations of the District payable in accordance with their terms, that the obligation of the District under the Series 2004 Bonds, including the obligation to make all payments of the principal, Accreted Value or redemption price of and the interest on the Series 2004 Bonds on their respective Payment Dates, is not subject to the debt limitations of the California Constitution, that the District is obligated to satisfy its obligations under the Series 2004 Bonds from any money lawfully available in any fund of the District (whether held by the District or in the County treasury). The Series 2004 Bonds do not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation, and neither the Series 2004 Bonds nor the obligation of the District to make payment of the principal, Accreted Value or redemption price of or the interest on the Bonds constitutes an indebtedness of the District, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

SECTION 2.02. Assignment and Pledge for the Series 2004 Bonds. The District hereby irrevocably assigns and pledges to the Trustee, in trust for the security of the Holders upon the terms hereof, all the District's rights, title and interest in and to all money and securities held by the District Treasurer in the Debt Service Fund and in the Redemption Fund, and all investment earnings thereon, and all collateral security for, and all proceeds of, any of the foregoing. The Trustee shall hold all such rights, title and interest received by it under this

section and all money and securities (exclusive of money to which the Trustee is entitled in its own right as a fee, indemnity, reimbursement or otherwise) received from the District or derived from the exercise of the District's powers hereunder in trust for the security of the Holders in accordance with the provisions hereof, and the District shall from time to time execute, deliver, file and record such instruments as the Trustee may reasonably require to confirm or maintain the security created hereby and the assignment and pledge hereby of the rights, title and interest assigned and pledged by the District to the Trustee hereunder.

SECTION 2.03. Terms of the Series 2004 Bonds. The Series 2004 Bonds shall be designated the "Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004" and shall be further designated as set forth in the definitions hereof, in the Modes, Series and Sub-Series and with the maturities set forth thereon.

Sinking Fund Account Payments are hereby established for the mandatory redemption and payment of the Series 2004A Bonds, the Series 2004B Bonds and the Series 2004C Bonds (the "Series 2004 Term Bonds"), which payments shall become due prior to maturity for each Sub-Series of Bonds, during the years ending on the dates and in the amounts set forth (a) in Schedule I, with respect to Series 2004 Bonds (except that if any Series 2004 Term Bonds have been optionally redeemed pursuant to Section 2.04, the amounts of such Sinking Fund Account Payments shall be reduced proportionately by the Principal Amount of all such Series 2004 Term Bonds so optionally redeemed as provided therein), and (b) in the corresponding exhibit of any Supplemental Indenture pursuant to which Additional Bonds are subsequently issued.

All such Sinking Fund Account Payments shall be deposited in a subaccount in the Redemption Account to be known as the "Series 2004 Sinking Fund Account," which is hereby created and which the Trustee hereby agrees and covenants to cause to be maintained so long as any Series 2004 Term Bonds are Outstanding. All money in the Series 2004 Sinking Fund Account on May 15 of each year indicated on Schedule I hereto, shall be used and withdrawn by the Trustee on such May 15 for the mandatory redemption or payment of the Series 2004 Term Bonds; and the Trustee hereby agrees and covenants with the Holders of the Series 2004 Term Bonds to call and redeem in accordance herewith or pay such Series 2004 Term Bonds from such Sinking Fund Account Payments deposited in the Series 2004 Sinking Fund Account pursuant to this section whenever on May 15 of each year indicated on Schedule I hereto, there is money in the Series 2004 Sinking Fund Account available for such purpose.

The Principal Amount of the Series 2004 Bonds shall be payable in lawful money of the United States of America at the Corporate Trust Office of the Trustee; provided, that payments of the Principal Amount of Auction Rate Securities, at maturity or upon earlier redemption, shall be made by wire transfer of immediately available funds to the Securities Depository so long as the Auction Rate Securities are in book-entry form, unless such method of payment of Principal Amount shall have been modified by written agreement among the Trustee, the Securities Depository and the Auction Agent.

The Series 2004 Bonds shall mature on the dates and in the Principal Amounts and bear or accrete interest at the rates (based on a 360-day calendar year of twelve 30-day months), payable on Interest Payment Dates as set forth in Schedule I. The Series 2004 Bonds shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication is an Interest Payment Date or during the period from the Record

Date preceding an Interest Payment Date to such Interest Payment Date, in which event they shall bear interest from such Interest Payment Date, or unless such date of authentication is prior to the first Record Date, in which event they shall bear interest from the date of original delivery; provided, that if at the time of authentication of any Series 2004 Bond interest is then in default on the Outstanding Series 2004 Bonds, such Series 2004 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2004 Bonds. Payment of interest on the Series 2004 Bonds due on or before the maturity or prior redemption thereof shall be made to the person whose name appears in the Series 2004 Bonds registration books kept by the Trustee pursuant to Section 2.10 as the registered owner thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail to such registered owner at the address as it appears in such books; provided, that upon the written request of a Holder of one million dollars (\$1,000,000) or more in aggregate principal amount of Series 2004 Bonds received by the Trustee prior to the applicable Record Date, interest shall be paid by wire transfer in immediately available funds.

Payment of the principal, Accreted Value or redemption price of the Series 2004 Bonds shall be made upon the surrender thereof at maturity or on redemption prior to maturity at the Corporate Trust Office of the Trustee.

SECTION 2.04. Redemption of the Series 2004 Bonds. The Series 2004 Bonds are subject to optional redemption by the District prior to their respective stated maturities as set forth in Schedule I. Notice of optional redemption shall be given by the District to the Trustee not less than 45 days prior to any optional redemption date.

Any Series 2004 Term Bonds subject to mandatory redemption by the District as set forth in Schedule I shall be redeemed prior to their stated maturity in part on May 15 of each year indicated on Schedule I, pro rata among the Holders, solely from Sinking Fund Account Payments in the amounts and on the dates set forth in Schedule I, upon mailed notice as hereinafter provided, at a redemption price equal to the sum of the Principal Amount thereof plus accrued interest thereon to the redemption date, without premium. For the purposes of such selection, the Series 2004 Bonds selected for redemption shall be deemed to be composed of \$5,000 portions and any such portion may be separately prepaid. The Trustee shall promptly notify the District in writing of the Series 2004 Bonds so selected for redemption. So long as there is a securities depository for the Series 2004 Bonds, there will only be one Holder and neither the District nor the Trustee will have responsibility for pro rating partial redemptions among Beneficial Owners of Series 2004 Bonds.

Notice of redemption of any Series 2004 Bonds or any portions thereof shall be given by first class mail not less than thirty (30) days nor more than sixty (60) days before the redemption date of such Series 2004 Bonds or portions thereof to the respective Holders thereof as their names and addresses appear on the registration books maintained by the Trustee pursuant to Section 2.10 and to the Information Services. Each notice of redemption shall state the date of such notice, the Series 2004 Bonds to be redeemed, the date of issue of such Series 2004 Bonds, the redemption date, the redemption price, the place of redemption (including the name and appropriate address), the CUSIP number (if any) and ISIN number (if any) of the maturity or maturities, and, if less than all of any such maturity are to be redeemed, the distinctive numbers of the Series 2004 Bonds of such maturity to be redeemed and, in the case of Series 2004 Bonds

to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on such redemption date there will become due and payable on each of such Series 2004 Bonds the redemption price thereof or of the specified portion of the principal amount thereof in the case of a Series 2004 Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Series 2004 Bonds be then surrendered at the address of the Trustee specified in the redemption notice; provided, that failure by the Trustee to give notice pursuant to this section to any one or more of the Information Services, or the insufficiency of any such notice or the failure of any Holder to receive any redemption notice mailed to such Holder or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Series 2004 Bonds; and provided further, that that any such notice of redemption may be cancelled and annulled by a Written Request of the District given to the Trustee at least five (5) days prior to the date fixed for redemption, whereupon the Trustee shall forthwith give appropriate notice of such cancellation and annulment to all the recipients of such notice of redemption.

Upon surrender of any Series 2004 Bond redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the District, a new Series 2004 Bond or Bonds of Authorized Denominations equal to the aggregate Principal Amount, of the unredeemed portion of the Series 2004 Bond surrendered and of the same maturity.

From and after the date fixed for redemption of any Series 2004 Bonds or any portions thereof, if notice of such redemption shall have been duly given and funds available for the payment of such redemption price of the Series 2004 Bonds or such portions thereof so called for redemption shall have been duly provided, no interest shall accrue on such Series 2004 Bonds or such portions thereof from and after the redemption date specified in such notice.

All Series 2004 Bonds redeemed or purchased pursuant to the provisions of this section shall be destroyed by the Trustee and the Trustee shall deliver a certificate of destruction to the District.

SECTION 2.05. Procedure for the Issuance of the Series 2004 Bonds: Application of Proceeds of the Series 2004 Bonds. At any time after the sale of the Series 2004 Bonds in accordance with the Act, the District shall execute the Series 2004 Bonds for issuance hereunder, in accordance with the provisions as to Mode, Series and other provisions as set forth on the inside front cover hereof and in Schedule I hereto, and shall deliver them to the Trustee, and thereupon the Series 2004 Bonds shall be authenticated and delivered by the Trustee to the Purchaser thereof upon the Written Request of the District and upon receipt of the net purchase price of the Bonds from the Purchaser thereof as provided in such Written Request; and upon receipt of payment of the net purchase price of the Bonds from the Purchaser thereof, the Trustee shall set aside and deposit the net proceeds received from such sale in the following order of priority:

(a) The Trustee shall deposit the amount of \$69,302,039.80 in the Refunding Fund, designated the "Sacramento Metropolitan Fire District 2004 Pension Obligation Debenture Refunding Fund," which fund the Trustee hereby agrees to establish and maintain until the

Debenture has been refunded as provided herein, which sum shall be used for refunding the Debenture and the PERS Contract in accordance with and subject to the terms thereof;

(b) The Trustee shall deposit \$283,300 in the Costs of Issuance Fund, which fund is hereby created and which fund the District hereby agrees to maintain with the Trustee until April 1, 2005. All money in the Costs of Issuance Fund shall be used and withdrawn by the District to pay the Costs of Issuance of the Series 2004 Bonds upon receipt of a Written Request of the District filed with the Trustee, each of which shall be sequentially numbered and shall state the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On April 1, 2005, or upon the earlier Written Request of the District, any remaining balance in the Costs of Issuance Fund shall be transferred to the District;

(c) The Trustee shall transfer from amounts on deposit in the Refunding Fund an amount equal to \$58,764,039.80 to PERS (representing \$53,164,039.80 relating to safety members and \$5,600,000.00 relating to miscellaneous members);

(d) The Trustee shall transfer from amounts on deposit in the Refunding Fund an amount equal to \$10,538,000 to SCERS (representing \$9,643,000 relating to former Florin members and \$895,000 relating to former North Highland members); and

(e) The Trustee shall transfer from amounts on deposit in the Costs of Issuance Fund an amount equal to \$2,000 to the County.

SECTION 2.06. Form of the Series 2004 Bonds. The Series 2004 Bonds and the certificate of authentication and the form of assignment and other details to appear thereon shall be substantially in one or more of the forms set forth in Appendix A, Appendix B, Appendix C, Appendix D, Appendix E and Appendix G hereto attached and by this reference incorporated herein.

SECTION 2.07. Execution of the Bonds. The President of the Board of Directors is hereby authorized and directed to execute each of the Bonds on behalf of the District by his manual or facsimile signature and the Clerk of the Board of Directors of the District is hereby authorized and directed to affix and attest the seal of the District on each of the Bonds on behalf of the District by her manual or facsimile signature; provided, that in case any officer whose signature appears on the Bonds shall cease to be such officer before the delivery of the Bonds to the Purchaser thereof, such signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in office until the delivery of the Bonds.

Only those Bonds bearing thereon a certificate of authentication in the form hereinabove recited, executed manually and dated by the Trustee, shall be entitled to any benefit, protection or security hereunder or be valid or obligatory for any purpose, and the execution of such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly authorized, executed and delivered hereunder and are entitled to the benefit, protection and security hereof.

SECTION 2.08. Transfer and Payment of the Bonds. Any Bond may, in accordance with its terms, be transferred in the books required to be kept pursuant to the

provisions of Section 2.10 by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation at the Corporate Trust Office of the Trustee accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee; provided, that the Trustee shall require the payment by the Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege; and provided further, that the Trustee may refuse to transfer any Bonds during the fifteen (15) day period prior to the date established by the Trustee for the selection of Bonds for redemption, or to transfer any Bonds selected by the Trustee for redemption. Whenever any Bond shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of the same Series of Bonds and maturity of Authorized Denominations equal to the Principal Amount or, with respect to Convertible Auction Rate Securities prior to the Full Accretion Date and Capital Appreciation Bonds, the Accreted Value of the Bond surrendered.

The District and the Trustee may deem and treat the Holder of any Bond as the absolute owner of such Bond for the purpose of receiving payment thereof and for all other purposes, whether such Bond shall be overdue or not, and neither the District nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the principal, Accreted Value or redemption price of and the interest due on such Bond shall be made only to such Holder, which payments shall be valid and effectual to satisfy and discharge liability on such Bond to the extent of the sum or sums so paid.

The cost of preparing the Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of the Bonds shall be paid by the District.

SECTION 2.09. Exchange of the Bonds. Any Bond may, in accordance with its terms, be exchanged at the Corporate Trust Office of the Trustee for a new Bond or Bonds of the same Series of Bonds and maturity of Authorized Denominations equal to the Principal Amount or, with respect to Convertible Auction Rate Securities prior to the Full Accretion Date and Capital Appreciation Bonds, the Accreted Value of the Bond surrendered; provided, that the Trustee shall require the payment by the Holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege; and provided further, that the Trustee may refuse to exchange any Bonds during the fifteen (15) day period prior to the date established by the Trustee for the selection of Bonds for redemption, or to exchange any Bonds selected by the Trustee for redemption.

The cost of preparing the Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange shall be paid by the District.

SECTION 2.10. Bond Registration Books. The Trustee will keep at its Corporate Trust Office sufficient books for the registration and transfer of the Bonds which shall during normal business hours with reasonable notice be open to inspection by the District, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Bonds in such books as hereinabove provided.

SECTION 2.11. Mutilated, Destroyed, Stolen or Lost Bonds. If any Bond shall become mutilated, the Trustee, at the expense of the Holder, shall thereupon authenticate and deliver a new Bond or Bonds of the same Series of Bonds and maturity of Authorized Denominations equal in aggregate Principal Amount or, with respect to Convertible Auction Rate Securities prior to the Full Accretion Date and Capital Appreciation Bonds, Accreted Value to the Bond so mutilated in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated, and every mutilated Bond so surrendered to the Trustee shall be cancelled.

If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Holder, shall thereupon authenticate and deliver a new Bond of the same Series of Bonds and maturity of authorized denominations equal in aggregate Principal Amount or, with respect to Convertible Auction Rate Securities prior to the Full Accretion Date and Capital Appreciation Bonds, Accreted Value to the Bond so lost, destroyed or stolen in lieu of and in substitution for the Bond so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Bond delivered under this section and of the expenses which may be incurred by the District and the Trustee in the premises. Any Bond delivered under the provisions of this section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Bonds secured hereby, and neither the District nor the Trustee shall be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same.

SECTION 2.12. Temporary Bonds. The Bonds issued hereunder may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery, which temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the District, shall be in fully registered form and may contain such reference to any of the provisions hereof as may be appropriate. Every temporary Bond shall be executed and authenticated as authorized by the District in accordance with the terms hereof. If the District issues temporary Bonds it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Corporate Trust Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Bonds definitive Bonds. Until so exchanged, the temporary Bonds shall be entitled to the same benefits hereunder as definitive Bonds delivered hereunder.

SECTION 2.13. Validity of the Bonds. The recital contained in the Bonds that the same are issued pursuant to the Act and pursuant hereto shall be conclusive evidence of their validity and of the regularity of their issuance, and all Bonds shall be incontestable from and after the definitive Bonds (or any temporary Bonds exchangeable therefor) shall have been delivered to the Purchaser and the proceeds of sale thereof received by the Trustee as provided herein.

SECTION 2.14. Book-Entry System for the Series 2004 Bonds.

(a) Except as otherwise provided in subsections (b) and (c) of this section, the Series 2004 Bonds shall initially be issued in the form of a single authenticated fully registered bond for each Principal Payment Date of the Series 2004 Bonds, and shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Series 2004 Bond registered in the name of Cede & Co. shall be made on each Interest Payment Date for such Series 2004 Bonds to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Trustee and the District may treat DTC (or its nominee) as the sole and exclusive owner of the Series 2004 Bonds registered in its name for the purposes of payment of the principal, Accreted Value or redemption price of and the interest on such Series 2004 Bonds, selecting the Series 2004 Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Holders hereunder, registering the transfer of the Series 2004 Bonds, obtaining any consent or other action to be taken by Holders of the Series 2004 Bonds and for all other purposes whatsoever, and neither the Trustee nor the District shall be affected by any notice to the contrary. Neither the Trustee nor the District shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this section, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Series 2004 Bonds under or through DTC or any Participant, or any other person which is not shown on the registration records as being a Holder, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal, Accreted Value or redemption price of or the interest on any of the Series 2004 Bonds, (iii) any notice which is permitted or required to be given to Holders of Series 2004 Bonds hereunder, or (iv) any consent given or other action taken by DTC as Holder of Series 2004 Bonds. The Trustee shall pay the principal, Accreted Value or redemption price of and the interest on the Series 2004 Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the District's obligations with respect to the Series 2004 Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Series 2004 Bonds will be transferable to such new nominee in accordance with subsection (f) of this section.

(c) In the event that the District determines that it is in the best interests of the Beneficial Owners of the Series 2004 Bonds that they be able to obtain definitive Series 2004 Bonds, the Trustee shall, upon receipt of a Written Request of the District, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of definitive Series 2004 Bonds, and in such event the Series 2004 Bonds shall be transferable in accordance with subsection (f) of this section. DTC may determine to discontinue providing its services with respect to the Series 2004 Bonds at any time by giving written notice of such discontinuance to the Trustee or the District and discharging its responsibilities with respect thereto under applicable law, and in such event the Series 2004 Bonds shall be transferable in accordance with subsection (f) of this section. Whenever DTC requests the Trustee or the District to do so, the

Trustee and the District will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Series 2004 Bonds then Outstanding, and in such event the Series 2004 Bonds shall be transferable to such securities depository in accordance with subsection (f) of this section, and thereafter, all references in the Indenture to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision hereof to the contrary, so long as all Series 2004 Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal, Accreted Value or redemption price of and the interest on each such Series 2004 Bond and all notices with respect to each such Series 2004 Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) The Trustee and the District are each hereby authorized and requested to execute and deliver the Representation Letter and, in connection with any successor nominee for DTC or any successor depository, enter into comparable arrangements, and shall have the same rights with respect to its actions thereunder as it has with respect to its actions hereunder.

(f) In the event that any transfer or exchange of Series 2004 Bonds is authorized under subsection (b) or (c) of this section, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner thereof of the Series 2004 Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of Sections 2.08 and 2.09. In the event that definitive Series 2004 Bonds are issued to Holders other than Cede & Co., its successor as nominee for DTC as Holder of all the Series 2004 Bonds, another securities depository as holder of all the Series 2004 Bonds, or the nominee of such successor securities depository, the provisions of Sections 2.08 and 2.09 shall also apply to, among other things, the registration, exchange and transfer of the Series 2004 Bonds and the method of payment of the principal, Accreted Value or redemption price of and the interest on the Series 2004 Bonds.

SECTION 2.15. Methodology and Interest Rate Setting for Auction Rate Securities. The provisions in Appendix F shall apply to all Auction Rate Securities.

SECTION 2.16. Methodology and Interest-Rate Setting for Index Bonds. In the event the District shall designate a Series of Index Bonds, such Index Bonds shall bear interest at the Index Rate to be determined as follows:

(a) On or immediately prior to the Closing Date, the Purchaser of the Bonds shall determine and the District shall approve the LIBOR Spread to apply to Index Bonds issued hereunder, if any, reflected on Schedule I hereto.

(b) On each Index Rate Determination Date until the end of the applicable Index Rate Period (each, an "Index Adjustment Date"), the Calculation Agent will (i) calculate the interest rate for the Index Bonds, based on the LIBOR Spread, and (ii) notify the Trustee of such interest rate, which shall apply to all Index Bonds until the immediately following Index Adjustment Date.

(c) Promptly upon the calculation of the Index Rate by the Calculation Agent, and notification thereof to the Trustee, the Trustee will notify the District of the Index Rate for the applicable period. The Index Rate calculated by the Calculation Agent, absent manifest error, shall be binding and conclusive upon the Beneficial Owners, the Holders, the District, the Calculation Agent and the Trustee.

(d) If the following circumstances exist on any Index Rate Determination Date, the Index Rate shall be determined by the following alternative method: (i) In the event that no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m., London, U.K., time, on an Index Rate Determination Date, the Index Rate for that week shall be based on the Reported Rate for the preceding week; provided, that if no Reported Rate appears in Telerate Page 3750 for two consecutive weeks, the Index Rate shall be determined by the Calculation Agent and shall be the minimum percentage of four-week U.S. Treasury Bills that would have been necessary (as determined in the best business judgment of the Calculation Agent, based on its examination of taxable municipal obligations comparable to the Index Bonds known by the Calculation Agent to have been priced or traded under then-prevailing marketing conditions) to permit the Calculation Agent to sell the Index Bonds on such date and at the time of such determination at their Principal Amount (without regard to accrued interest), if the Index Bonds were being sold on such date.

(e) If the appropriate interest rate or LIBOR Spread is not or cannot be determined for Index Bonds for whatever reason, the method of determining the interest rate for the Index Bonds shall automatically be established in accordance with paragraph (d) of this section, until such time as the LIBOR Spread can again be determined based on the available published LIBOR.

ARTICLE III

ISSUANCE OF ADDITIONAL BONDS

SECTION 3.01. Conditions for the Issuance of Additional Bonds. The District may at any time issue Additional Bonds on a parity with the Series 2004 Bonds, but only subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Additional Bonds.

(a) The District shall be in compliance with all agreements and covenants contained herein.

(b) The issuance of such Additional Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:

(i) The purpose for which such Additional Bonds are to be issued; provided, that such Additional Bonds shall be applied solely for (i) the purpose of satisfying any obligation to make payments to the Systems pursuant to the Retirement Laws relating to pension benefits accruing to the Systems' members and their beneficiaries, and/or for payment of all costs incidental to or connected with the issuance of Additional Bonds for such purpose (including funded interest), and/or (ii) the purpose of refunding any Bonds

then Outstanding, including payment of all costs incidental to or connected with such refunding (including funded interest);

(ii) The authorized principal amount and designation of such Additional Bonds;

(iii) The interest payment dates and principal payment dates for such Additional Bonds;

(iv) Whether such Additional Bonds are fixed rate bonds, variable rate bonds, indexed notes, current interest bonds, deferred interest bonds, capital appreciation bonds, convertible capital appreciation bonds, embedded cap bonds, equity participation bonds or synthetic or hedged fixed rate bonds or such other Mode as may be set forth in a Supplemental Indenture;

(v) The denomination or denominations of and method of numbering such Additional Bonds;

(vi) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(vii) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account; and

(viii) Such other provisions (including the requirements of a book-entry Bond registration system, if any) as are necessary or appropriate and not inconsistent herewith.

SECTION 3.02. Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, the District shall execute such Additional Bonds for issuance hereunder and shall deliver them to the Trustee, and thereupon such Additional Bonds shall be delivered by the Trustee to the Purchaser thereof upon the Written Request of the District, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Trustee:

(a) An executed copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) A Written Request of the District as to the delivery of such Additional Bonds;

(c) An Opinion of Counsel to the effect that (1) the District has executed and delivered the Supplemental Indenture, and the Supplemental Indenture is valid and binding upon the District and (2) such Additional Bonds are valid and binding obligations of the District;

(d) A Certificate of the District containing such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Bonds contained herein; and

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

ARTICLE IV

FUNDS AND ACCOUNTS

SECTION 4.01. Deposits into the Debt Service Fund and into the Redemption Fund. On or before January 1 of each calendar year, the Trustee shall notify the District and the District Treasurer of the estimated amount of the District's obligations on the Series 2004 Bonds in the current calendar year (amounts due on the subsequent May 15th and November 15th). The District Treasurer agrees and covenants that, to the extent permitted by law, from the first apportionment of property taxes due to the District in such calendar year, and in any event not later than March 1 of each year, it will transfer to and deposit in the "Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004 Debt Service Fund" (which fund is hereby established and shall be maintained by the District Treasurer in the treasury of the County so long as any Bonds are Outstanding) the amount of the District's obligations on the Bonds in such calendar year. On or before May 1 and November 1 of each calendar year, the Trustee shall notify the District Treasurer of the amount of debt service due on the following May 15 and November 15, and on the last Business Day immediately preceding each Payment Date, the District Treasurer shall withdraw from the Debt Service Fund and deposit with the Trustee in immediately available funds an amount of money equal to the District's obligations on the Bonds on such date, and all amounts payable by the District Treasurer to the Trustee hereunder shall be promptly deposited by the Trustee upon receipt thereof in the "Sacramento Metropolitan Fire District Taxable Pension Funding Bonds, Series 2004 Redemption Fund" (which fund is hereby established and shall be maintained in trust by the Trustee so long as any Bonds are Outstanding).

In establishing the amounts of the District's obligations on the Bonds to be prefunded by deposit into the Debt Service Fund in each Fiscal Year, (i) (A) the debt service for Auction Rate Securities with an Auction Rate Period of less than 360 Rate Period Days and Index Bonds not subject to a Qualified Swap Agreement shall be prefunded by deposit into the Debt Service Fund at the actual average interest rate for the immediately preceding Fiscal Year plus 200 basis points (2.00%), and if such information is not available for the full immediately preceding Fiscal Year, then the debt service for such Auction Rate Securities shall be prefunded by deposit into the Debt Service Fund at the average one-month LIBOR plus 200 basis points (2.00%) for the immediately preceding Fiscal Year, provided, that if the average one-month LIBOR for the prior Fiscal Year is not available, then such debt service shall be prefunded by deposit into the Debt Service Fund at a rate determined by the District; and (B) the debt service for Auction Rate Securities with an Auction Rate Period of 360 Rate Period Days or longer shall be prefunded by deposit into the Debt Service Fund at the actual interest rate in effect for such Auction Rate Securities; and (ii) the debt service for all other Bonds then Outstanding shall be prefunded by deposit into the Debt Service Fund at (A) the rate prescribed under the applicable Qualified Swap Agreement, if any, for Auction Rate Securities and Index Bonds subject to a Qualified Swap Agreement, and (B) the actual rate for Fixed Rate Bonds, in each case, for all such Bonds Outstanding during the immediately preceding Fiscal Year. Notwithstanding the foregoing

transfer provisions, the District and the District Treasurer shall comply with the terms of Section 5.03 hereof.

SECTION 4.02. Allocation of Money in the Redemption Fund. On each Interest Payment Date, the Trustee shall transfer from the Redemption Fund, in immediately available funds, for deposit into the following respective accounts (each of which is hereby created and which the Trustee shall maintain in trust separate and distinct from the other accounts and funds established hereunder) the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of funds sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

- First: Interest Account,
- Second: Principal Account, and
- Third: Administrative Expense Account.

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

(a) Interest Account. On each Interest Payment Date, the Trustee shall set aside from the Redemption Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

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

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

(b) Principal Account. On each Principal Payment Date, the Trustee shall set aside from the Redemption Fund and deposit (i) in the Principal Account an amount of money equal to the Principal Amount of all Outstanding Serial Bonds maturing on such Principal Payment Date and (ii) into the respective Sinking Fund Accounts for all Outstanding Term Bonds (established below) the amount of all Sinking Fund Account Payments required to be made on such Sinking Fund Account Payment Date

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such Principal Payment Date plus the aggregate amount of all Sinking Fund Account Payments required to be made on such Sinking Fund Account Payment Date for all Outstanding Term Bonds.

The Trustee shall establish and maintain within the Principal Account a separate Sinking

Fund Account for the Term Bonds of each series and maturity, designated as the “__ Sinking Fund Account,” inserting therein the series and maturity (if more than one such account is established for such series) designation of such Bonds. With respect to each Sinking Fund Account, on each Sinking Fund Account Payment Date established for such Sinking Fund Account in Schedule I attached hereto, the Trustee shall apply the Sinking Fund Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Fund Account was established, upon the notice and in the manner set forth herein or in the Supplemental Indenture providing for the issuance of such Term Bonds; provided, that, at any time prior to giving such notice of such redemption, the Trustee may, upon the Written Request of the District, apply moneys in such Sinking Fund Account to the purchase for cancellation of Term Bonds of such series and maturity for which such Sinking Fund Account was established 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 by the District, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Term Bonds upon redemption by application of such Sinking Fund Account Payment. If, during the twelve-month period immediately preceding any Sinking Fund Account Payment Date the Trustee has purchased Term Bonds of such series and maturity for which such Sinking Fund Account was created with money in such Sinking Fund Account, such Term Bonds so purchased shall be applied (to the extent of the full Principal Amount thereof) to reduce such Sinking Fund Account Payment.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal, Accreted Value or redemption price of the Bonds as they shall become due and payable, whether at maturity or prior redemption, except that any money in any Sinking Fund Account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such Sinking Fund Account was created.

(c) Administrative Expense Account. Following the deposits set forth above, any money remaining in the Redemption Fund shall be deposited by the Trustee in the Administrative Expense Account. All money deposited in the Administrative Expense Account shall be transferred by the Trustee to or upon the order of the District, as specified in a Written Request of the District, on each date provided therefor in the Auction Agent Agreement and the Broker-Dealer Agreement, for payment of the fees then due to the Auction Agent and the Broker-Dealer, as set forth therein, provided all of the District’s obligations hereunder are then otherwise satisfied.

SECTION 4.03. Deposit and Investments of Money in Accounts and Funds. All money held by the Trustee in any of the accounts or funds established pursuant hereto shall be invested in Permitted Investments at the Written Request of the District. If no Written Request of the District is received, the Trustee shall invest funds held by it in Permitted Investments described in clause (4) of the definition thereof. Such investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement hereunder. All interest or profits received on any money so invested shall be deposited in the Redemption Fund.

SECTION 4.04. Establishment of Deposit Fund and Transfers Therefrom. The following Section shall apply in the event the District were to elect to enter into a Qualified

Swap Agreement. The Trustee shall establish a special fund designated as the "Sacramento Metropolitan Fire District Deposit Fund, Series 2004" (the "Deposit Fund"). The Deposit Fund shall be funded and applied solely in accordance with this section; it is intended for the proper matching of debt service payments on the Auction Rate Securities and Index Bonds, if any, that are covered by Qualified Swap Agreements, with the related Swap Payments and the required netting of such payments in order to assure full and timely payments to the Holders of the Auction Rate Securities and Index Bonds affected by such Qualified Swap Agreements (collectively, "Swapped Bonds"); provided, that in the absence of any Qualified Swap Agreements, the Deposit Fund shall remain unfunded.

On or before the date that is two (2) Business Days prior to each Interest Payment Date or such other date that may be established for Swapped Bonds, the District shall transfer to the Trustee for deposit into the Deposit Fund the portion of the District's debt service prepayment obligation (as set forth in Section 4.01(a)) on deposit in the Debt Service Fund that is necessary in order to make Swap Payments for all Swapped Bonds.

SECTION 4.05. Establishment of Pension Funding Stabilization Fund. The Trustee shall establish a special fund designated as the "Pension Funding Stabilization Fund", (the "Pension Funding Stabilization Fund"). At its sole option, the District may make deposits into the Pension Funding Stabilization Fund at any time. Amounts in the Pension Funding Stabilization Fund shall only be used by the Trustee to pay principal or Accreted Value of or interest on the Bonds or to redeem Bonds prior to maturity or transferred to the District and applied by the District to pension funding costs, as specified in a Written Request of the District.

ARTICLE V

COVENANTS OF THE DISTRICT

SECTION 5.01. Punctual Payment and Performance. The District will punctually pay the principal, Accreted Value or redemption price of and the interest on every Bond issued hereunder in strict conformity with the terms hereof and of the Bonds, and will faithfully observe and perform all the agreements and covenants required to be observed or performed by the District contained herein and in the Bonds.

SECTION 5.02. Extension of Payment of the Bonds. The District will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any Event of Default hereunder, to the benefits hereof, except subject to the prior payment in full of the Principal Amount of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended; provided, that nothing in this section shall be deemed to limit the right of the District to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

SECTION 5.03. Obligation of the District Treasurer. In the event the District fails to have deposited with the Trustee the full amount of money required to pay the principal,

Accreted Value or redemption price of or interest on the Bonds by any Payment Date, the District shall be obligated, to the extent permitted by law, to satisfy its obligations under the Bonds from any money lawfully available in any fund of the District (whether held by the District or in the County treasury), and the District Treasurer shall be obligated to transfer from any money lawfully available in any such fund amounts necessary to make such payments to the Trustee to pay the principal, Accreted Value or redemption price of and the interest on the Bonds on such Payment Date. The District may issue at any time, and from time to time, Additional Bonds in accordance with Article III and any such Additional Bonds shall be subject to the benefits of the obligation imposed upon the District Treasurer by the preceding sentence hereof.

SECTION 5.04. Accounting Records and Reports. The District will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of all money on deposit in the funds established hereunder, which such books shall be available for inspection by the Trustee upon reasonable notice at reasonable times and under reasonable conditions. Not more than two hundred ten (210) days after the close of each Fiscal Year, the District shall furnish to the Trustee copies of the audited financial statements of the District for such Fiscal Year, including a balance sheet as of the end of such Fiscal Year and such accompanying statements for such Fiscal Year as are required by generally accepted accounting principles, with each such statement and balance sheet prepared in accordance with generally accepted accounting principles consistently applied; provided, that the Trustee shall have no duty to review or examine any such financial statements.

SECTION 5.05. Prosecution and Defense of Suits. The District will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent involving the failure of the District to fulfill its obligations hereunder; provided, that the Trustee or any Holder at its election may appear in and defend any such suit, action or proceeding.

SECTION 5.06. Continuing Disclosure. The District will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed by the District and dated the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof, and notwithstanding any other provision hereof, failure of the District to comply with such Continuing Disclosure Certificate shall not be considered an Event of Default hereunder; provided, that any Holder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations thereunder.

SECTION 5.07. Waiver of Laws. The District shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the agreements and covenants contained herein or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the District to the extent permitted by law.

SECTION 5.08. Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee or any Holder, the District 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 Holders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them hereby.

SECTION 5.09. Agreement to Enter into Intercept Agreement. So long as any Bonds are Outstanding, the District shall not appoint a District Treasurer other than the County Treasurer prior to entering into an agreement between the County and the Trustee providing for transfers and deposits to the Debt Service Fund as described in the first paragraph of Section 4.01 hereof from the County directly to the Trustee.

ARTICLE VI

THE TRUSTEE

SECTION 6.01. The Trustee. Deutsche Bank National Trust Company is hereby appointed the Trustee for the Bonds issued hereunder for the purpose of receiving all money which the District is required to deposit with the Trustee hereunder and for the purpose of allocating, applying and using such money as provided herein, with the rights and obligations provided herein, and the District agrees that it will at all times so long as any Bonds are Outstanding maintain a Trustee having the qualifications required hereby.

The District may at any time (unless there exists any Event of Default hereunder) remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided, that any such successor shall be a state or national bank or corporation with trust powers or a trust company having (or in the case of a corporation, bank or trust company included in a bank holding company system, the related bank holding company shall have) a combined capital (exclusive of borrowed capital) and surplus of at least one hundred million dollars (\$100,000,000) and shall be subject to supervision or examination by federal or state authority; and if such bank, corporation 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, corporation or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the District and by mailing notice of such resignation under Section 11.06 to the Holders, and upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only after a successor Trustee shall have been appointed and upon the acceptance of appointment by such successor Trustee; provided, that if, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required hereby.

Any bank, corporation or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, corporation or trust company

resulting from any merger, conversion or consolidation to which it shall be a party or any bank, corporation or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business shall become the successor Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding; provided, that such bank, corporation or trust company shall be eligible under this section.

The Trustee is hereby authorized to pay the principal, Accreted Value or redemption price of the Bonds when duly presented for payment on their Principal Payment Dates or their Redemption Dates as provided herein and to pay the interest on the Bonds on their Interest Payment Dates as provided herein. The Trustee shall cancel all Bonds upon payment thereof on their Principal Payment Date or on their Redemption Date or upon the surrender thereof to the Trustee by the District, and the Trustee shall destroy all such cancelled Bonds and shall deliver a certificate of destruction to the District and shall keep accurate records of all Bonds paid and discharged and cancelled and destroyed by it.

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

SECTION 6.02. Liability of the Trustee. The recitals of facts, agreements and covenants contained herein and in the Bonds shall be taken as recitals of facts, agreements and covenants of the District, and the Trustee shall not assume any responsibility for the correctness of the same and does not make any representation as to the sufficiency, validity or priority hereof or of the Bonds, and shall not incur any responsibility in respect thereof other than in connection with the rights or obligations assigned to or imposed upon it herein, in the Bonds or in law or equity. The Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct, and the Trustee shall not be liable for any error of judgment made in good faith unless it shall be proved that the Trustee was negligent in ascertaining the relevant facts.

The Trustee shall not be bound to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and such Holder's title thereto satisfactorily established, if disputed.

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

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it hereby at the request, order or direction of any of the Holders pursuant to the provisions hereof unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred therein or thereby. The Trustee shall have

no obligation or liability to the Holders for the payment of the principal, Accreted Value or redemption price of or the interest on the Bonds from its own funds; but rather the Trustee's obligations shall be limited solely to the performance of its duties hereunder.

The Trustee shall not be deemed to have knowledge of any Event of Default hereunder unless and until an officer of the Trustee at its Corporate Trust Office responsible for the administration of its duties hereunder shall have actual knowledge thereof or shall have received written notice thereof, and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the agreements, conditions, covenants or terms contained herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default hereunder but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the District, personally or by agent or attorney.

The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through attorneys in fact, agents or receivers, and shall not be answerable for the negligence or misconduct of any such attorney in fact, agent or receiver if such attorney-in-fact, agent or receiver was selected by the Trustee with due care. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty hereunder, but the Trustee shall not be answerable for the professional malpractice of any attorney at law or certified public accountant in connection with the rendering of his professional advice in accordance with the terms hereof if such attorney at law or certified public accountant was selected by the Trustee with due care.

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any money or securities which shall be released to the District in accordance with the provisions hereof.

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

The Trustee shall be protected in acting upon any bond, certificate (including any Certificate of the District), consent, email or facsimile transmission, notice, opinion, order, report, request (including any Written Request of the District), requisition, resolution or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

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

thereof, but in its discretion the Trustee may in lieu thereof accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

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

The Trustee shall have no responsibility, opinion, or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

The Trustee shall not be considered in breach of or in default with respect to any obligation created hereunder in the event of any enforced delay in the performance of such obligation due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of God, or of the public enemy, acts of a government, acts of the District, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction, malicious mischief, condemnation and unusually severe weather or delays of supplies or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

All moneys received by the Trustee, until used or applied or invested as provided in this Indenture, shall be held in trust and such moneys need not be segregated from other moneys except to the extent required by law or as provided in this Indenture. The Trustee shall not otherwise be under liability for interest on any moneys received under this Indenture except such as may be agreed upon.

The Trustee may become the Holder of Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its offices or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Holders, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

SECTION 6.03. Compensation and Indemnification of the Trustee. The District covenants to pay to the Trustee from time to time, and the Trustee shall be entitled to, receive reasonable compensation for all services rendered by it in the exercise and performance of any of the powers and duties hereunder, and the District will pay or reimburse the Trustee upon its request for all expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance that may arise from its negligence or willful misconduct, including the negligence or willful misconduct of any of its directors, officers or employees. The District, to the extent permitted by law, shall indemnify, defend and hold

harmless the Trustee, including its directors, officers and employees, against any loss, damages, liability or expense incurred without negligence or willful misconduct on the part of the Trustee arising out of or in connection with the acceptance or administration of the trusts created hereby, including costs and expenses (including attorneys' fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder; provided, that the Trustee shall make payments on the Bonds when due, shall cause the acceleration of the Bonds and shall cause the mandatory redemption of the Bonds in accordance herewith prior to seeking any indemnity hereunder. The rights of the Trustee and the obligations of the District under this section shall survive the discharge of the Bonds and the Indenture and the resignation or removal of the Trustee.

ARTICLE VII

AMENDMENT OF THE INDENTURE

SECTION 7.01. Amendment of the Indenture.

(a) Amendment with Written Consent of Holders. The Indenture and the rights and obligations of the District and of the Holders may be amended at any time (after one (1) week's prior written notice to the Rating Agencies without the District receiving any objection thereto) by a Supplemental Indenture which shall become binding when the written consents of the Holders of a majority in aggregate principal amount of the Outstanding Bonds, exclusive of Bonds disqualified as provided in Section 7.02, are filed with the Trustee and after receipt of an approving Opinion of Counsel that such amendment is authorized hereunder. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal, Accreted Value or redemption price of any Bond without the express written consent of the Holder of such Bond, or (2) reduce the percentage of Bonds required for the written consent to any such amendment.

(b) Amendment without Written Consent of Holders. The Indenture and the rights and obligations of the District and of the Holders may also be amended at any time for any purpose that will not materially adversely affect the interests of the Holders (after one (1) week's prior written notice to the Rating Agencies without the District receiving any objection thereto) by a Supplemental Indenture which shall become binding without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel that any such amendment is authorized hereunder, including (without limitation) for any one or more of the following purposes --

(i) to add to the agreements and covenants required herein to be performed by the District other agreements and covenants thereafter to be performed by the District, to pledge or assign additional security for the Bonds (or any portion thereof) or to surrender any right or power reserved herein to or conferred herein on the District;

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

(iii) to modify, amend or add to the provisions herein or in any Supplemental Indenture to permit the qualification hereof or thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statutes hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or any similar statute;

(iv) to modify, amend or add to the provisions herein to provide for the establishment of different interest rate modes, tender or purchase provisions in connection with the Bonds or to adjust any Mode provided for to the specifications for such Mode generally used by the remarketing agent, broker-dealer or similar firm which has agreed with the District to handle the marketing, remarketing or auctioning of the Bonds to which such Mode applies;

(v) to modify, amend or add to the provisions herein to provide for credit facilities, liquidity facilities or other financial products agreements in connection with the Bonds; or

(vi) to make any amendments necessary or appropriate to preserve or protect the exemption of interest on the Bonds from State personal income taxes.

The Trustee shall not be required to enter into or consent to the execution of any Supplemental Indenture which, in the sole judgment of the Trustee, might adversely affect the rights, obligations, powers, privileges, indemnities, or immunities provided the Trustee herein.

SECTION 7.02. Disqualified Bonds. Bonds owned or held by or for the account of the District shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in this article, and shall not be entitled to consent to or take any other action provided in this article; provided, that the Trustee shall not be deemed to have knowledge that the District owns any such Bonds unless the District is a Holder or the Trustee has received written notice that the District is a Holder.

SECTION 7.03. Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds may bear a notation by endorsement (in a form approved by the District) as to such action, and in that case upon demand of the Holder of any Outstanding Bond and presentation of his Bond for such purpose at the Corporate Trust Office, a suitable notation as to such action shall be made on such Bond; provided, that if the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Holder of any Outstanding Bond a new Bond or Bonds shall be exchanged at the Corporate Trust Office without cost to each Holder for his Bond or Bonds then Outstanding upon surrender of such Outstanding Bond or Bonds.

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

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF HOLDERS

SECTION 8.01. Events of Default. If any of the following events occur, they shall constitute Events of Default hereunder, namely:

(a) If default shall be made by the District in the due and punctual payment of the interest due on any Bond when and as the same shall become due and payable;

(b) If default shall be made by the District in the due and punctual payment of the principal, Accreted Value or redemption price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) If default shall be made by the District in the performance of any of the agreements or covenants required herein to be performed by the District, and such default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Trustee or the Holders of not less than twenty-five per cent (25%) in aggregate Principal Amount of the Outstanding Bonds, specifying such default and requiring the same to be remedied; provided, if the default stated in the notice can be corrected, but not within the applicable period, the Trustee and such Holders shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected; or

(d) If an Event of Bankruptcy shall occur, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

SECTION 8.02. Remedies for Events of Default. If an Event of Default occurs hereunder and is continuing, the Trustee shall, by written notice to the District, declare the Principal Amount of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, whereupon the same shall become immediately due and payable without any further action or notice; provided, that if at any time after such acceleration and before any judgment or decree for the payment of money with respect thereto has been entered all amounts payable to the Trustee hereunder on the Bonds subject to acceleration under this paragraph (except principal or Accreted Value of or the interest on the Bonds which is due solely by reason of such acceleration) shall have been paid or payment shall have been duly provided for by deposit with the Trustee and all existing Events of Default hereunder shall have been cured or waived, then the Trustee may annul such acceleration and its consequences by written notice to the District, which such annulment shall be binding upon the District and all of the Holders, but no such annulment shall extend to or affect any subsequent Event of Default hereunder or impair any right or remedy consequent thereon.

SECTION 8.03. Application of Funds Upon Acceleration. All money in the funds provided in Sections 4.01 and 4.02 upon the date of the declaration of acceleration by the Trustee as provided in Section 8.02 and any amounts thereafter received by the District

hereunder shall be transmitted to the Trustee and shall be applied by the Trustee in the following order --

First, to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of this article, including payment of reasonable compensation to its accountants and counsel and any outstanding fees and expenses of the Trustee, and then to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, including reasonable compensation to their accountants and counsel;

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for the principal or Accreted Value thereof and the interest thereon, with interest on the overdue principal or Accreted Value and interest at the rate borne by such Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal or Accreted Value, interest and (to the extent permitted by law) interest on overdue principal or Accreted Value and interest without preference or priority among such principal or Accreted Value, interest and interest on overdue principal or Accreted Value and interest ratably to the aggregate of such principal or Accreted Value, interest and interest on overdue principal or Accreted Value and interest.

SECTION 8.04. Institution of Legal Proceedings by the Trustee. If an Event of Default hereunder shall happen and be continuing, the Trustee may, and upon the written request of the Holders of a majority in Principal Amount of the Outstanding Bonds, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of the Holders of the Bonds hereunder by a suit in equity or action at law, either for the specific performance of any agreement or covenant contained herein or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties hereunder.

SECTION 8.05. Non Waiver. Nothing in this article or in any other provision hereof or in the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the principal, Accreted Value or redemption price of and the interest on the Bonds to the respective Holders of the Bonds on the respective Payment Dates as provided herein, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein and in the Bonds.

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

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

SECTION 8.06. Actions by the Trustee as Attorney in Fact. Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Holders, whether or not the Trustee is a Holder, and the Trustee is hereby appointed (and the successive Holders, by taking and holding the Bonds issued hereunder, shall be conclusively deemed to have so appointed it) the true and lawful attorney in fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney in fact.

SECTION 8.07. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or by any other law.

SECTION 8.08. Limitation on Holders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceedings, at law or equity, for any remedy hereunder unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Holders of at least a majority in aggregate Principal Amount of all Outstanding Bonds shall have made written request upon the Trustee to exercise the powers hereinabove granted or to institute such suit, action or proceeding in its own name; (c) such Holders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred by it in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such request shall have been received by, and such tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision hereof shall be instituted and maintained in the manner herein provided and for the equal benefit of the Holders of all Outstanding Bonds.

SECTION 8.09. Absolute Obligation of the District. Nothing contained herein or in the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the principal, Accreted Value or redemption price of and the interest on the Bonds to the respective Holders of the Bonds on their respective Payment Dates as provided herein.

ARTICLE IX

DEFEASANCE

SECTION 9.01. Discharge of the Bonds.

(a) If the District shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the principal, Accreted Value or redemption price thereof and the interest thereon at the times and in the manner stipulated herein and therein, then all agreements, covenants and other obligations of the District to the Holders of such Bonds hereunder shall thereupon cease, terminate and become void and be discharged and satisfied, and in such event the Trustee shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District all money or securities held by it pursuant hereto which are not required for the payment of the principal, Accreted Value or redemption price of and the interest on such Bonds.

(b) Any Outstanding Bonds shall prior to the Payment Dates or Redemption Dates thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) there shall have been deposited with the Trustee either (A) money or (B) Federal Securities which are not subject to redemption prior to maturity (including any such Federal Securities issued or held in book entry form on the books of the Treasury of the United States of America), the interest on and principal of which when paid will provide money, which, together with other money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the principal, Accreted Value or redemption price of and the interest on such Bonds on and prior to the Payment Dates or Redemption Dates thereof, as the case may be, and (2) the District shall have given the Trustee in form satisfactory to it irrevocable instructions to mail to the Holders in accordance with Section 11.06 and to the Information Services notice that the deposit required by clause (1) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the Payment Dates or Redemption Dates on which money is to be available for the payment of the principal, Accreted Value or redemption price of and the interest on such Bonds.

SECTION 9.02. Unclaimed Money. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the Bonds or the interest thereon which remains unclaimed for two (2) years after the date when such Bonds or interest thereon shall have become due and payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when such Bonds and interest shall have become due and payable, shall be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Holders shall not look to the Trustee for the payment of such Bonds; provided, that before being required to make any such payment to the District, the Trustee may, and at the request of the District shall, at the expense of the District, mail to the Holders in accordance with Section 11.06 and to the Information Services a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than thirty (30) days after the date of mailing such notice, the balance of such money then unclaimed will be returned to the District.

ARTICLE X

[RESERVED]

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. Benefits of the Indenture Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the Trustee, the District and the Holders any right, remedy or claim under or by reason hereof, and any agreement, condition, covenant or term contained herein required to be observed or performed by or on behalf of the District or any officer or employee thereof shall be for the sole and exclusive benefit of the Trustee and the Holders.

SECTION 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever herein either the District or any officer thereof or the Trustee is named or referred to, such reference shall be deemed to include the successor or assigns thereof, and all agreements and covenants required hereby to be performed by or on behalf of the District or any officer thereof or the Trustee shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 11.03. Execution of Documents by Holders. Any declaration, request or other instrument which is permitted or required herein to be executed by Holders may be in one or more instruments of similar tenor and may be executed by Holders in person or by their attorneys appointed in writing. The fact and date of the execution by any Holder or such Holder's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which such person purports to act that the person signing such declaration, request or other instrument or writing acknowledged to such person the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer. The ownership of any Bonds and the amount, maturity, number and date of holding the same may be proved by the registration books for the Bonds maintained by the Trustee under Section 2.10.

Any declaration, request, consent or other instrument or writing of the Holder of any Bond shall bind all future Holders of such Bond with respect to anything done or suffered to be done by the Trustee or the District in good faith and in accordance therewith.

SECTION 11.04. Waiver of Personal Liability. No officer of the District shall be individually or personally liable for the payment of the principal, Accreted Value or redemption price of or the interest on the Bonds by reason of their issuance, but nothing herein contained shall relieve any officer of the District from the performance of any official duty provided by the Act or any other applicable provisions of law or hereby.

SECTION 11.05. Acquisition of Bonds by the District. All Bonds acquired by the District shall be surrendered to the Trustee for cancellation.

SECTION 11.06. Notice to Holders. Any notice required to be given by the Trustee hereunder by mail to any Holders of Bonds shall be given by mailing a copy of such notice, first class postage prepaid, or by giving such notice by telecopy or by an overnight delivery service, to the Holders of such Bonds at their addresses appearing in the registration books maintained by the Trustee pursuant to Section 2.10 not less than thirty (30) days nor more than forty five (45) days following the action or prior to the event concerning which notice thereof is required to be given; provided, that receipt of any such notice shall not be a condition precedent to the effect of such notice and neither failure of any Holder to receive any such notice nor any immaterial defect contained therein shall affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

SECTION 11.07. Notice to Rating Agencies. A copy of any notice required to be given by the Trustee or the District hereunder, and a copy of any notice received by the Trustee or the District hereunder, shall be promptly given to each of the Rating Agencies.

SECTION 11.08. [Reserved].

SECTION 11.09. Content of Certificates. Every Certificate of the District with respect to compliance with any agreement, condition, covenant or provision provided herein shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or provision has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or provision has been complied with.

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

SECTION 11.10. Accounts and Funds; Business Days. Any account or fund required hereby to be established and maintained by the District Treasurer; the Director of Finance or the Trustee may be established and maintained in the accounting records of the District Treasurer, the Director of Finance or the Trustee, as the case may be, either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such accounts and funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Holders. Any action required to occur hereunder on a day which is not a Business Day shall be required to occur on the next succeeding Business Day.

SECTION 11.11. Addresses of Notice Parties. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the District:

Sacramento Metropolitan Fire District
2101 Hurley Way
Sacramento, California 95825
Phone: (916) 566-4000
Fax: (916) 566-4157
Attention: Fire Chief

If to the Trustee:

Deutsche Bank National Trust Company
101 California Street, 46th Floor
San Francisco, California 94111
Phone: (415) 617-2872
Fax: (415) 617-4270
Attention: Trust and Security Services

If to the District Treasurer:

County of Sacramento
County Executive Office
700 H Street, Room 2720
Sacramento, California 95814
Phone: (916) 874-6705
Fax: (916) 874-8904
Attention: Director of Finance

If to Moody's:

Moody's Investors Service
99 Church Street, 9th Floor
New York, New York 10007
Phone: (212) 553-0300
Fax: (212) 553-4558

If to Standard & Poor's:

Standard & Poor's Ratings Group
One Market
Steuart Tower, 15th Floor
San Francisco, California 94105
Phone: (415) 371-5000
Fax: (415) 371-5090

SECTION 11.12. Article and Section Headings, Singular and Plural Forms, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and the singular and plural forms of words shall be deemed interchangeable, and words of any gender shall be deemed and construed to include all genders, and all references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith," "hereunder" and other words of similar import refer to the Indenture as a whole and not to any particular article, section, subsection, paragraph, subparagraph or clause in which such word appears.

SECTION 11.13. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Trustee or the District shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof or of the Bonds, and the Holders shall retain all the benefit, protection and security afforded to them under the Act or any other applicable provisions of law. The Trustee and the District hereby declare that they would have executed and delivered the Indenture and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 11.14. Execution in Counterparts. The Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Trustee and the District shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 11.15. Governing Law. The Indenture shall be governed by and construed in accordance with the laws of the State.

IN WITNESS WHEREOF, Deutsche Bank National Trust Company, in token of its acceptance of the trusts created hereunder, has caused the Indenture to be signed in its name by one of its duly authorized officers, and the Sacramento Metropolitan Fire District has caused the Indenture to be signed in its name by the Authorized Representative of the District, all as of the day and year first above written.

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Trustee

By  _____
Authorized Officer

SACRAMENTO METROPOLITAN FIRE
DISTRICT

By  _____
Authorized Representative

APPENDIX A

FORM OF STANDARD BOND

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

SACRAMENTO METROPOLITAN FIRE DISTRICT
TAXABLE PENSION FUNDING BOND, SERIES 2004_

No. R-__ \$ _____

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue Date</u>	<u>CUSIP</u>	<u>ISIN</u>
__%	_____, ____	_____, 2004	_____	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL SUM: _____ DOLLARS

THE OBLIGATIONS OF THE DISTRICT HEREUNDER, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS WHEN DUE, ARE OBLIGATIONS OF THE DISTRICT IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL, WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION, AND NEITHER THE BONDS NOR THE OBLIGATION OF THE DISTRICT TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Sacramento Metropolitan Fire District, a fire protection district duly organized and existing under the laws of the State of California (the "District"), for value received hereby promises to pay in lawful money of the United States of America to the registered owner specified above, or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal sum specified above, together with interest on such principal sum from the interest payment date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of an interest payment date or during the period from the Record Date (as that term is defined in the Indenture hereafter defined, and herein a "Record Date") preceding an interest payment date to such interest

payment date, in which event it shall bear interest from such interest payment date, or unless this Bond is authenticated prior to the first interest payment date, in which event it shall bear interest from the original issue date specified above) until the principal hereof shall have been paid at the interest rate per annum specified above, payable on November 15, 2004, and thereafter on May 15 and November 15 of each year. Interest due on or before the maturity or prior redemption hereof shall be payable only by check mailed by first class mail to the registered owner hereof by Deutsche Bank National Trust Company, as trustee (the "Trustee"); provided, that upon the written request of the registered owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Bonds received by the Trustee prior to the applicable Record Date, interest shall be paid by wire transfer in immediately available funds. The principal hereof and redemption premium, if any, hereon is payable in lawful money of the United States of America at the Corporate Trust Office (as that term is defined in the Indenture hereinafter defined, and herein "Corporate Trust Office") of the Trustee.

This Bond is one of a duly authorized issue of bonds of the District designated as its "Taxable Pension Funding Bonds, Series 2004," further designated "Series 2004_" and issued as Fixed Rate Bonds (the "Bonds") in the aggregate principal amount of _____ (\$ _____), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates and modes), and is issued under and pursuant to the provisions of Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of an Indenture dated as of October 1, 2004, by and between the Trustee and the District (the "Indenture") (copies of which are on file at the Corporate Trust Office of the Trustee). The Bonds are issued on a parity under the Indenture with \$ _____ aggregate principal amount of the District's Taxable Pension Funding Bonds, Series 2004_ and Series 2004_ (collectively with the Bonds, the "2004 Bonds").

Under the Indenture, the obligation of the District under the 2004 Bonds, including the obligation to make all payments of the principal, Accreted Value or redemption price of and the interest on the 2004 Bonds on their respective Payment Dates (as that term is defined in the Indenture), is not subject to the debt limitations of the California Constitution, the District is obligated to satisfy its obligations under the 2004 Bonds from any money lawfully available in any fund of the District (whether held by the District or in the County treasury) and the Director Treasurer of the District is obligated, to the extent permitted by law, to transfer from any money lawfully available in any such fund amounts necessary to make such payments. Reference is hereby made to the Act and to the Indenture and to any and all amendments thereof for a description of the terms on which the 2004 Bonds are issued, for the rights of the registered owners of the 2004 Bonds, for the security for payment of the 2004 Bonds, for the remedies upon default and the limitations thereon and for the provisions for the amendment of the Indenture (with or without consent of the registered owners of the 2004 Bonds); and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the District and the registered owner of this Bond, to all the provisions of which the registered owner of this Bond, by acceptance hereof, agrees and consents. Under the Indenture, additional bonds may be issued on a parity with the 2004 Bonds, but only subject to the conditions and upon compliance with the procedures set forth in the Indenture.

The Bonds are subject to redemption on the dates, at the redemption prices and pursuant to the terms set forth in the Indenture. Notice of redemption of any Bonds or any portions thereof shall be given as set forth in the Indenture. Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the Information Services, or the insufficiency of any such notice or the failure of any registered owner to receive any redemption notice mailed to such registered owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds; provided that any such notice of redemption may be cancelled and annulled by a Written Request of the District (as that term is defined in the Indenture) given to the Trustee at least five (5) days prior to the date fixed for redemption, whereupon the Trustee shall forthwith give appropriate notice of such cancellation and annulment to all the recipients of such notice of redemption.

If an Event of Default (as that term is defined in the Indenture) shall occur, the Principal Amount of all Bonds (and any additional bonds authorized by the Indenture) may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture; provided, that the Indenture provides that in certain events such declaration and its consequences may be rescinded under the circumstances as provided therein.

This Bond is transferable only on a register to be kept for that purpose at the above mentioned office of the Trustee by the registered owner hereof in person or by his duly authorized attorney upon payment of the charges provided in the Indenture and upon surrender of this Bond, together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney, and thereupon a new fully registered Bond or Bonds of the same maturity in the same aggregate principal amount of authorized denominations will be issued to the transferee in exchange therefor. The Trustee and the District may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of the interest hereon and principal hereof and for all other purposes, whether or not this Bond shall be overdue, and neither the Trustee nor the District shall be affected by any notice or knowledge to the contrary; and payment of the principal, Accreted Value or redemption price of and interest on this Bond shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on this Bond to the extent of the sum so paid.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been executed and dated by an authorized signatory the Trustee.

It is hereby certified that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Constitution or laws of the State of California and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the Sacramento Metropolitan Fire District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the Authorized Representative of the District and the seal of the District to be affixed and attested by the facsimile signature of the Clerk of the Board of Directors of the District and has caused this Bond to be dated as of the original issue date specified above.

SACRAMENTO METROPOLITAN FIRE
DISTRICT

By _____
Authorized Representative

[SEAL]

Attested:

Clerk of the Board of Directors

DTC ENDORSEMENT

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

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within mentioned Indenture which has been authenticated on _____.

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Trustee

By _____
Authorized Signatory

ASSIGNMENT

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

Dated: _____

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

Signature Guaranteed: _____

Notice: Signature must be guaranteed by a guarantor institution participating in the Securities Transfer Agents Medallion Program.

APPENDIX B

FORM OF CAPITAL APPRECIATION BOND

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

SACRAMENTO METROPOLITAN FIRE DISTRICT
TAXABLE PENSION FUNDING BOND, SERIES 2004

No. R- _____ \$ _____

<u>Reoffering</u> <u>Yield</u>	<u>Yield to Maturity</u>	<u>Maturity</u> <u>Date</u>	<u>Dated Date</u>	<u>CUSIP</u>	<u>ISIN</u>
%	____%	_____, _____	Date of Delivery		_____

REGISTERED OWNER:

PRINCIPAL AMOUNT:

MATURITY AMOUNT:

THE OBLIGATIONS OF THE DISTRICT HEREUNDER, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS OF ACCRETED VALUE WHEN DUE, ARE OBLIGATIONS OF THE DISTRICT IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL, WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION, AND NEITHER THE BONDS NOR THE OBLIGATION OF THE DISTRICT TO MAKE PAYMENTS ON THE BONDS CONSTITUTES AN INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Sacramento Metropolitan Fire District, a fire protection district duly organized and existing under the laws of the State of California (the "District"), for value received hereby promises to pay in lawful money of the United States of America to the registered owner specified above, or registered assigns, the Maturity Amount set forth above, on the Maturity Date set forth above. Interest on this Bond with respect to the Principal Amount hereof will accrue at the Interest Rate per annum shown above from the Dated Date shown above and will be compounded thereafter on May 15 and November 15 of each year until maturity, computed using a year of 360 days comprised of twelve 30-day months and shall be payable only at maturity as part of the Maturity Amount. The Accreted Value hereof is payable at the

corporate trust office of the Trustee, Deutsche Bank National Trust Company (the "Trustee"), located in San Francisco, California, or such other place as may be designated by the Trustee, acting as Trustee under that certain Indenture, by and between the District and the Trustee, dated as of October 1, 2004 (the "Indenture").

This Bond is issued under and pursuant to the provisions of Articles 10 and 11 (commencing with Section 53570) of Chapter 2, Division 2, Title 5 of the Government Code of the State of California, and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of the Indenture (copies of which are on file at the Corporate Trust Office of the Trustee). The Bonds are issued on a parity under the Indenture with \$_____ aggregate principal amount of the District's Taxable Pension Funding Bonds, 2004 Series ___, ___ and ___ (collectively with the Bonds, the "2004 Bonds").

Under the Indenture, the obligation of the District under the 2004 Bonds, including the obligation to make all payments of the principal, Accreted Value or redemption price of and the interest on the 2004 Bonds on their respective Payment Dates (as that term is defined in the Indenture), is not subject to the debt limitations of the California Constitution, the District is obligated to satisfy its obligations under the 2004 Bonds from any money lawfully available in any fund of the District (whether held by the District or in the County treasury) and the Director Treasurer of the District is obligated to transfer from any money lawfully available in any such fund amounts necessary to make such payments. Reference is hereby made to the Act and to the Indenture and to any and all amendments thereof for a description of the terms on which the 2004 Bonds are issued, for the rights of the registered owners of the 2004 Bonds, for the security for payment of the 2004 Bonds, for the remedies upon default and the limitations thereon and for the provisions for the amendment of the Indenture (with or without consent of the registered owners of the 2004 Bonds); and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the District and the registered owner of this Bond, to all the provisions of which the registered owner of this Bond, by acceptance hereof, agrees and consents. Under the Indenture, additional bonds may be issued on a parity with the 2004 Bonds, but only subject to the conditions and upon compliance with the procedures set forth in the Indenture.

This Bond is subject to redemption prior to its maturity date as set forth in the Indenture.

This Bond is transferable only on a register to be kept for that purpose at the abovementioned office of the Trustee by the registered owner hereof in person or by his duly authorized attorney upon payment of the charges provided in the Indenture and upon surrender of this Bond, together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney, and thereupon a new fully registered Bond or Bonds in the same aggregate principal amount of authorized denominations will be issued to the transferee in exchange therefor. The District and the Trustee may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of the interest hereon and principal hereof and for all other purposes, whether or not this Bond shall be overdue, and neither the District nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of this Bond shall be made only to

such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on this Bond to the extent of the sum or sums so paid.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been executed and dated by an authorized signatory of the Trustee.

It is hereby certified that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Constitution or laws of the State of California and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the Sacramento Metropolitan Fire District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the Authorized Representative of the District and the seal of the District to be affixed and attested by the facsimile signature of the Clerk of the Board of Directors of the District and has caused this Bond to be dated as of the original issue date specified above.

SACRAMENTO METROPOLITAN FIRE
DISTRICT

By: _____
Authorized Representative

[SEAL]

ATTESTED:

By: _____
Clerk of the Board of Directors

DTC ENDORSEMENT

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

[FORM OF CERTIFICATE OF AUTHENTICATION]

This is one of the Bonds described in the within-mentioned Indenture which has been authenticated on _____.

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Trustee

By: _____
Authorized Signatory

[FORM OF ASSIGNMENT]

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

Dated: _____

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

Signature Guaranteed: _____

Notice: Signature(s) guarantee should be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program.

APPENDIX C

FORM OF AUCTION RATE SECURITY

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

SACRAMENTO METROPOLITAN FIRE DISTRICT
TAXABLE PENSION FUNDING BONDS, SERIES 2004_

No. R- _____

\$ _____

Interest Rate Maturity Date Original Issue Date CUSIP ISIN

_____, ____ , _____, 2004

REGISTERED OWNER: CEDE & CO.

PRINCIPAL SUM: _____ DOLLARS

THE OBLIGATIONS OF THE DISTRICT HEREUNDER, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS WHEN DUE, ARE OBLIGATIONS OF THE DISTRICT IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL, WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION, AND NEITHER THE BONDS NOR THE OBLIGATION OF THE DISTRICT TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Sacramento Metropolitan Fire District, a fire protection district duly organized and existing under the laws of the State of California (the "District"), for value received hereby promises to pay in lawful money of the United States of America to the registered owner specified above, or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal sum specified above, together with interest on such principal sum from the interest payment date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of an interest payment date or during the period from the Record Date (as that term is defined in the Indenture hereafter defined, and herein a "Record Date") preceding an interest payment date to such interest payment date, in which event it shall bear interest from such interest payment date, or unless this Bond is authenticated prior to the first interest payment date, in which event it shall bear interest

from the original issue date specified above) until the principal hereof shall have been paid at the interest rate per annum specified above, payable on each Interest Payment Date (as defined below).

This Bond is issued as an Auction Rate Security, and will initially bear interest at the Applicable Auction Rate established pursuant to the Auction and Settlement Procedures set forth in the Indenture and the Auction Agent Agreement. Interest on Auction Rate Securities will accrue for each Auction Rate Period or portion thereof and will be payable in arrears on each succeeding Interest Payment Date. The length of an Auction Rate Period may be adjusted pursuant to the Indenture.

While this Bond is an Auction Rate Security, except as otherwise specifically provided in the Indenture, the provisions of the Indenture and the Auction and Settlement Procedures set forth in the Auction Agent Agreement shall govern the interest rates per annum and the payment terms of this Bond. Interest due on or before the maturity or prior redemption of this Bond shall be payable only by check mailed on the Interest Payment Date by first-class mail to the registered owner hereof by Deutsche Bank National Trust Company, as trustee (the "Trustee") provided that upon the written request of an Holder of \$1,000,000 or more in aggregate principal amount of Bonds received by the Trustee prior to the applicable record date, interest shall be paid to such Holder by wire transfer in immediately available funds. The principal hereof is payable in lawful money of the United States of America at the Corporate Trust Office of the Trustee.

This Bond is one of a duly authorized issue of bonds of the District designated as its "Taxable Pension Funding Bonds, Series 2004," further designated "Series 2004_" and issued as Bonds in the form of Auction Rate Securities (the "Bonds"), in aggregate principal amount of _____ dollars (\$ _____), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates and modes), and is issued under and pursuant to the provisions of the Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California, and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of the Indenture, dated as of October 1, 2004, by and between the Trustee and the District (the "Indenture"), copies of which are on file at the Corporate Trust Office of the Trustee. The Bonds are issued on a parity under the Indenture with \$ _____ aggregate principal amount of the District's Taxable Pension Funding Bonds, Series 2004_ and Series 2004_ (collectively with the Bonds, the "2004 Bonds").

Under the Indenture, the obligation of the District under the 2004 Bonds, including the obligation to make all payments of the principal, Accreted Value or redemption price of and the interest on the 2004 Bonds on their respective Payment Dates (as that term is defined in the Indenture), is not subject to the debt limitations of the California Constitution, the District is obligated, to the extent permitted by law, to satisfy its obligations under the 2004 Bonds from any money lawfully available in any fund of the District (whether held by the District or in the County treasury) and the Director Treasurer of the District is obligated to transfer from any money lawfully available in any such fund amounts necessary to make such payments. Reference is hereby made to the Act and to the Indenture and to any and all amendments thereof for a description of the terms on which the 2004 Bonds are issued, for the rights of the registered

owners of the 2004 Bonds, for the security for payment of the 2004 Bonds, for the remedies upon default and the limitations thereon and for the provisions for the amendment of the Indenture (with or without consent of the registered owners of the 2004 Bonds); and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the District and the registered owner of this Bond, to all the provisions of which the registered owner of this Bond, by acceptance hereof, agrees and consents. Under the Indenture, additional bonds may be issued on a parity with the 2004 Bonds, but only subject to the conditions and upon compliance with the procedures set forth in the Indenture.

Interest on Auction Rate Securities shall accrue for each Auction Rate Period and shall be payable in arrears, on each succeeding Interest Payment Date.

An "Interest Payment Date" for the Bonds means, (i) for each Auction Rate Period of 360 days or less (including the Initial Auction Rate Period), the next Business Day after an Auction Date; (iii) for any other Auction Rate Period, each May 15 and November 15; and (iv) each Maturity Date for the Auction Rate Securities. An "Auction Rate Period" means the Initial Auction Rate Period and any Subsequent Auction Rate Period and, more specifically, means, as to the applicable Auction Rate Securities of a Sub-Series, each period during which a specific Auction Rate is in effect, as a result of an Auction, for such Sub-Series of Auction Rate Securities, which Auction Rate Period may be a Standard Auction Rate Period or a Special Auction Rate Period as may be designated from time to time by the District pursuant to an Auction Period Adjustment for a Sub-Series of Auction Rate Securities, each Auction Rate Period running from, and including, the Rate Adjustment Date and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date.

Interest on the Bonds during the initial Auction Rate Period and during any Subsequent Auction Period shall be computed by the Trustee for the actual number of days elapsed on the basis of a 360-day year while in an Auction Rate Period of 360 days or less and on the basis of a 360-day year of twelve 30-day months while in an Auction Rate Period of greater than 360 days. The Trustee shall make the calculation described above not later than the close of business of each Auction Date.

The rate of interest on the Auction Rate Securities during the Initial Auction Rate Period (which ends on _____ 1, 20__) shall be the rate of _____ % per annum. The rate of interest on Auction Rate Securities for each Auction Rate Period following the Initial Auction Rate Period, shall be equal to the per annum rate of interest that results from implementation of the Auction Procedures described in the Indenture; provided that the Auction Rate shall not exceed the Maximum Auction Rate; and provided further that if on any Auction Date, an Auction is not held for any reason (other than for a Catastrophic Event), then the rate of interest for the next succeeding Auction Rate Period shall equal the Maximum Auction Rate on such Auction Date. Notwithstanding the foregoing, (i) if the ownership of Auction Rate Securities is no longer maintained in book-entry form by DTC, the rate of interest on Auction Rate Securities for any Auction Period commencing after the delivery of certificates representing Auction Rate Securities shall equal the Maximum Auction Rate on the Business Day immediately preceding the first day of such Auction Rate Period or (ii) if a Payment Default occurs, Auctions will be suspended and the interest rate for the Auction Rate Period commencing on or after such Payment Default and for each Auction Rate Period thereafter to and including the Auction Rate

Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate. Notwithstanding anything herein to the contrary, no Auction Rate shall exceed the Maximum Auction Rate.

By purchasing Auction Rate Securities, whether in an Auction or otherwise, each prospective purchaser or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms set forth in the Indenture; (ii) so long as the beneficial ownership of the Auction Rate Securities is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or a Sell Order in an Auction, or to or through a Broker-Dealer, provided that in the Auction Rate Securities so transferred, its Participant or its Broker-Dealer advises the Auction Agent of such transfer; and (iii) to have its beneficial ownership of Bonds maintained at all times in book-entry form by the purchaser for the account of its Participants, which in turn will maintain records of such beneficial ownership, and to authorize such Participants to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

Following the Initial Auction Rate Period, Auction Rate Securities will bear interest at the applicable Auction Rate, which will be established for each Subsequent Auction Period in accordance with the Auction Procedures described in the Indenture; provided, that as of the initial Auction Date, each Existing Owner of Auction Rate Securities will be automatically deemed by the Auction Agent to have submitted a Sell Order for all of the Auction Rate Securities then owned by such Existing Owner unless such Existing Owner, prior to the Submission Deadline, submits a Hold Order to a Broker-Dealer indicating the principal amount of Auction Rate Securities which such Existing Owner desires to continue to hold regardless to the Auction Rate for the next succeeding Auction Rate Period.

During the Initial Auction Rate Period, this Bond is transferable as provided in the Indenture, only upon the books of the Trustee kept for the purpose at the principal corporate trust office of the Trustee, by the registered owner hereof in person, or by his or her duly authorized attorney, upon surrender of this Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his or her duly authorized attorney, and thereupon a new registered Bond or Bonds, in the same aggregate principal amount, Mode and maturity, in the same denomination, or in different authorized denominations equal in the aggregate to the principal amount of this Bond, shall be issued to the transferee in exchange therefor as provided in the Indenture, and upon payment of the charges therein prescribed. During the Initial Auction Rate Period, the Trustee shall not be required to register the transfer or exchange of any Bond during the 15 day period next preceding selection of Bonds for redemption (if applicable) or as to any Bond selected for any redemption.

Following the Initial Auction Rate Period and so long as the ownership of the Auction Rate Securities is maintained in book-entry form by DTC, an Existing Owner may sell, transfer or otherwise dispose of the Bonds only pursuant to a Bid or Sell Order (as defined in the Indenture) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. An Auction shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in the Indenture.

Following the Initial Auction Rate Period, the District may change from time to time the length of one or more Auction Rate Periods (an "Auction Period Adjustment") for the Auction Rate Securities of a Sub-Series. The District shall initiate the Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent and DTC at least 10 Business Days prior to the Auction Date for such Auction Period. Any such changed Auction Period shall not be less than seven days.

At the option of the District, all, but not less than all, of the Bonds of a Sub-Series may be converted from Auction Rate Securities to Bonds bearing interest at fixed interest rates on the Business Day immediately following the end of the Auction Rate Period for such Bonds (the "Fixed Rate Conversion Date"). The Auction Rate Securities of such Sub-Series will be subject to mandatory tender for purchase at a price of par, plus accrued but unpaid interest (the "Tender Price"). Upon satisfaction of certain conditions set forth in the Indenture, the affected Auction Rate Securities shall be purchased or deemed purchased at their Tender Price.

The Bonds are subject to redemption on the dates, at the redemption prices and pursuant to the terms set forth in the Indenture. Notice of redemption of any Bonds or any portions thereof shall be given as set forth in the Indenture. Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the Information Services, or the insufficiency of any such notice or the failure of any registered owner to receive any redemption notice mailed to such registered owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds; provided that any such notice of redemption may be cancelled and annulled by a Written Request of the District (as that term is defined in the Indenture) given to the Trustee at least five (5) days prior to the date fixed for redemption, whereupon the Trustee shall forthwith give appropriate notice of such cancellation and annulment to all the recipients of such notice of redemption.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all Bonds (and any additional bonds authorized by the Indenture) may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture; except that the Indenture provides that in certain events such declaration and its consequences may be rescinded under the circumstances as provided therein.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been executed and dated by the Trustee.

It is hereby certified that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Constitution or laws of the State of California and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the Sacramento Metropolitan Fire District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the Authorized Representative of the District and the seal of the District to be affixed and attested by the facsimile signature of the Clerk of the Board of Directors of the District, and has caused this Bond to be dated as of the original issue date specified above.

SACRAMENTO METROPOLITAN FIRE
DISTRICT

By: _____
Authorized Representative

[SEAL]

ATTESTED:

By: _____
Clerk of the Board of Directors

DTC ENDORSEMENT

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

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture which has been authenticated on _____.

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Trustee

By _____
Authorized Signatory

ASSIGNMENT

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

Dated: _____

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

Signature Guaranteed: _____
Signature(s) guarantee should be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program.

[FORM OF NOTICE OF PAYMENT DEFAULT]

VIA FACSIMILE OR E-MAIL

To: Auction Agent

Broker Dealer(s)

NOTICE IS HEREBY GIVEN that a Payment Default has occurred in connection with the above-referenced Bonds of the Sacramento Metropolitan Fire District (the "District") as specified in the Indenture, dated as of October 1, 2004, between the District and Deutsche Bank National Trust Company, as trustee (the "Trustee"), and has not been cured.

Determination of the interest rate on the Auction Rate Securities pursuant to the Auction Procedures will be suspended. The interest rate on the Auction Rate Securities for each Auction Rate Period commencing after _____, _____ will equal the Non-Payment Rate as it is determined by the Trustee on the first day of such Auction Rate Period. All terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture.

Dated: _____

DEUTSCHE BANK NATIONAL TRUST COMPANY, as Trustee

By _____
Authorized Signatory

cc: Sacramento Metropolitan Fire District

[NOTICE OF CURE OF PAYMENT DEFAULT]

VIA FACSIMILE OR E-MAIL

To: Auction Agent

Broker Dealer(s)

NOTICE IS HEREBY GIVEN that the Payment Default previously reported in connection with the above-referenced Bonds of the Sacramento Metropolitan Fire District (the "District") as specified in the Indenture, dated as of October 1, 2004, between the District and Deutsche Bank National Trust Company, as trustee (the "Trustee"), has been cured.

Dated:

DEUTSCHE BANK NATIONAL TRUST COMPANY, as Trustee

By _____
Authorized Signatory

cc: Sacramento Metropolitan Fire District

APPENDIX D

FORM OF INDEX BOND

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

SACRAMENTO METROPOLITAN FIRE DISTRICT
TAXABLE PENSION FUNDING BONDS,
SERIES 2004

No. R- _____ \$ _____

Interest Rate Maturity Date Original Issue Date CUSIP ISIN

LIBOR plus _____, _____, 2004
_____%

REGISTERED OWNER: CEDE & CO.

PRINCIPAL SUM: _____ DOLLARS

THE OBLIGATIONS OF THE DISTRICT HEREUNDER, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS WHEN DUE, ARE OBLIGATIONS OF THE DISTRICT IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL, WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION, AND NEITHER THE BONDS NOR THE OBLIGATION OF THE DISTRICT TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Sacramento Metropolitan Fire District, a fire protection district duly organized and existing under the laws of the State of California (the "District"), for value received hereby promises to pay in lawful money of the United States of America to the registered owner specified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal sum specified above, together with interest on such principal sum from the interest payment date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of an interest payment date or during the period from the Record Date (as that term is defined in the Indenture hereafter defined, and herein a "Record Date") preceding an interest payment date to such interest payment date, in which event it shall bear interest from such interest payment date, or unless this Bond is authenticated prior to the first interest payment date, in which event it shall bear interest

from the original issue date specified above) until the principal hereof shall have been paid at the interest rate per annum specified above, payable on _____ and, thereafter on _____, _____, and _____ of each year (each, an "Index Bond Interest Payment Date").

This Bond is one of a duly authorized issue of bonds of the District designated as its "Taxable Pension Funding Bonds, Series 2004", further designated "Series 2004 __," and issued as Index Bonds (the "Bonds"), in aggregate principal amount of _____ dollars (\$ _____), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates and modes), and is issued under and pursuant to the provisions of the Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California, and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of the Indenture, dated as of October 1, 2004, by and between Deutsche Bank National Trust Company, as trustee (the "Trustee") and the District (the "Indenture"), copies of which are on file at the Corporate Trust Office of the Trustee. The Bonds are issued on a parity under the Indenture with \$ _____ aggregate principal amount of the District's Taxable Pension Funding Bonds, 2004 Series __ and __ (collectively with the Bonds, the "2004 Bonds").

This Bond is issued as an Index Bond, and will bear interest at the Index Rate established pursuant to the Indenture. Interest on Index Bonds will accrue for each Index Rate Period or portion thereof and will be payable in arrears on each succeeding Interest Payment Date. The length of an Index Rate Period may be adjusted pursuant to the Indenture.

Interest due on or before the maturity or prior redemption of this Bond shall be payable only by check mailed on the Interest Payment Date by first-class mail to the registered owner hereof; provided that upon the written request of an Holder of \$1,000,000 or more in aggregate principal amount of Bonds received by the Trustee prior to the applicable record date, interest shall be paid to such Holder by wire transfer in immediately available funds. The principal hereof is payable in lawful money of the United States of America at the Corporate Trust Office of the Trustee. Deutsche Bank National Trust Company shall serve as initial Calculation Agent for the Index Bonds (the "Calculation Agent").

The LIBOR Spread is equal to _____%. On each Index Rate Determination Date following the date of delivery of this Bond, until the end of the applicable Interest Rate Period for Index Bonds (each, an "Index Adjustment Date"), the Calculation Agent will add to LIBOR the LIBOR Spread to determine the Index Rate applicable for the next succeeding Interest Rate Period, and (ii) notify the Trustee of such interest rate for the upcoming Interest Rate Period.

The Indenture provides for the setting of an alternate rate for Index Bonds, in the event that LIBOR is no longer a published index.

The Bonds are subject to redemption on the dates, at the redemption prices and pursuant to the terms set forth in the Indenture. Notice of redemption of any Bonds or any portions thereof shall be given as set forth in the Indenture. Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the Information Services, or the insufficiency of any such notice or the failure of any registered owner to receive any redemption notice mailed to such

registered owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds; provided that any such notice of redemption may be cancelled and annulled by a Written Request of the District (as that term is defined in the Indenture) given to the Trustee at least five (5) days prior to the date fixed for redemption, whereupon the Trustee shall forthwith give appropriate notice of such cancellation and annulment to all the recipients of such notice of redemption.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all Bonds (and any additional bonds authorized by the Indenture) may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture; except that the Indenture provides that in certain events such declaration and its consequences may be rescinded under the circumstances as provided therein.

The rights and obligations of the District and of the owners of the Bonds may be modified or amended at any time by a supplemental resolution adopted by the District with the written consent of owners of at least 60% in aggregate Principal Amount of the Outstanding Bonds, exclusive of Bonds, if any, owned by the District; provided, that no such modification or amendment shall, without the express consent of the registered owner of each Bond affected, reduce the Principal Amount of any Bond, reduce the interest rate payable thereon, extend its maturity or the times for paying interest thereon, extend its maturity or the times for paying interest thereon or change the monetary medium in which the principal, Accreted Value and interest is payable, nor shall any modification or amendment reduce the percentage of consents required for amendment or modification hereof.

This Bond is transferable only on a register to be kept for that purpose at the above-mentioned office of the Trustee by the registered owner hereof in person or by his duly authorized attorney upon payment of the charges provided in the Indenture and upon surrender of this Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney, and thereupon a new fully registered Bond or Bonds in the same aggregate principal amount of authorized denominations will be issued to the transferee in exchange therefor. The District and the Trustee may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of the interest hereon and principal hereof and for all other purposes, whether or not this Bond shall be overdue, and neither the District nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of this Bond shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on this Bond to the extent of the sum or sums so paid.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been executed and dated by the Trustee.

It is hereby certified that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Constitution or laws of the State of California and is not in excess of

the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the Sacramento Metropolitan Fire District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the Authorized Representative of the District and the seal of the District to be affixed and attested by the facsimile signature of the Clerk of the Board of Directors of the District, and has caused this Bond to be dated as of the original issue date specified above.

SACRAMENTO METROPOLITAN FIRE
DISTRICT

By: _____
Authorized Representative

[SEAL]

ATTESTED:

By: _____
Clerk of the Board of Directors

DTC ENDORSEMENT

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

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture which has been authenticated on _____.

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Trustee

By _____
Authorized Signatory

FORM OF ASSIGNMENT

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

Dated: _____

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

Signature guaranteed: _____

Notice: Signature(s) guarantee should be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program.

APPENDIX E

FORM OF LISTED SECURITY

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

\$ _____
(CONSISTING OF _____ IN \$25 DENOMINATIONS OF)
SACRAMENTO METROPOLITAN FIRE DISTRICT
TAXABLE PENSION FUNDING BOND, SERIES 2004

No. R-__

Maximum Number of Bonds
issued as of _____, 2004

REGISTERED OWNER: CEDE & CO.

PRINCIPAL SUM:

DOLLARS

THE OBLIGATIONS OF THE DISTRICT HEREUNDER, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS WHEN DUE, ARE OBLIGATIONS OF THE DISTRICT IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL, WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION, AND NEITHER THE BONDS NOR THE OBLIGATION OF THE DISTRICT TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Sacramento Metropolitan Fire District, a fire protection district duly organized and existing under the laws of the State of California (the "District"), for value received hereby promises to pay in lawful money of the United States of America to the registered owner specified above, or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal sum specified above, together with interest on such principal sum from the interest payment date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of an interest payment date or during the period from the Record Date (as that term is defined in the Indenture hereafter defined, and herein a "Record Date") preceding an interest payment date to such interest payment date, in which event it shall bear interest from such interest payment date, or unless this Bond is authenticated prior to the first interest payment date, in which event it shall bear interest from the original issue date specified above) until the principal hereof shall have been paid at the interest rate per annum specified above, payable on _____ 15, 20__, and thereafter on May 15 and November 15 of each year. Interest due on or before the maturity or prior redemption hereof shall be payable only by check mailed by first class mail to the registered

owner hereof by Deutsche Bank National Trust Company, as trustee (the "Trustee"); provided, that upon the written request of the registered owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Bonds received by the Trustee prior to the applicable Record Date, interest shall be paid by wire transfer in immediately available funds. The principal hereof and redemption premium, if any, hereon is payable in lawful money of the United States of America at the Corporate Trust Office (as that term is defined in the Indenture hereinafter defined, and herein "Corporate Trust Office") of the Trustee.

This Bond is one of a duly authorized issue of bonds of the District designated as its "Taxable Pension Funding Bonds, Series 2004" (the "Bonds") in the aggregate principal amount of _____ dollars (\$_____), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates and modes), and is issued under and pursuant to the provisions of Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of an Indenture dated as of October 1, 2004, by and between the Trustee and the District (the "Indenture") (copies of which are on file at the Corporate Trust Office of the Trustee). The Bonds are issued on a parity under the Indenture with \$_____ aggregate principal amount of the District's Taxable Pension Funding Bonds, Series 2004__ and __ (collectively with the Bonds, the "2004 Bonds").

Under the Indenture, the obligation of the District under the 2004 Bonds, including the obligation to make all payments of the principal, Accreted Value or redemption price of and the interest on the 2004 Bonds on their respective Payment Dates (as that term is defined in the Indenture), is not subject to the debt limitations of the California Constitution. The District is obligated to satisfy its obligations under the 2004 Bonds from any money lawfully available in any fund of the District (whether held by the District or in the County treasury) and the Director Treasurer of the District is obligated to transfer from any money lawfully available in any such fund amounts necessary to make such payments. Reference is hereby made to the Act and to the Indenture and to any and all amendments thereof for a description of the terms on which the 2004 Bonds are issued, for the rights of the registered owners of the 2004 Bonds, for the security for payment of the 2004 Bonds, for the remedies upon default and the limitations thereon and for the provisions for the amendment of the Indenture (with or without consent of the registered owners of the 2004 Bonds); and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the District and the registered owner of this Bond, to all the provisions of which the registered owner of this Bond, by acceptance hereof, agrees and consents. Under the Indenture, additional bonds may be issued on a parity with the 2004 Bonds, but only subject to the conditions and upon compliance with the procedures set forth in the Indenture.

The Bonds are subject to redemption on the dates, at the redemption prices and pursuant to the terms set forth in the Indenture. Notice of redemption of any Bonds or any portions thereof shall be given as set forth in the Indenture. Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the Information Services, or the insufficiency of any such notice or the failure of any registered owner to receive any redemption notice mailed to such registered owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds; provided that any such notice of redemption

may be cancelled and annulled by a Written Request of the District (as that term is defined in the Indenture) given to the Trustee at least five (5) days prior to the date fixed for redemption, whereupon the Trustee shall forthwith give appropriate notice of such cancellation and annulment to all the recipients of such notice of redemption.

If an Event of Default (as that term is defined in the Indenture) shall occur, the principal of all Bonds (and any additional bonds authorized by the Indenture) may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture; provided, that the Indenture provides that in certain events such declaration and its consequences may be rescinded under the circumstances as provided therein.

This Bond is transferable only on a register to be kept for that purpose at the above mentioned office of the Trustee by the registered owner hereof in person or by his duly authorized attorney upon payment of the charges provided in the Indenture and upon surrender of this Bond, together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney, and thereupon a new fully registered Bond or Bonds of the same maturity in the same aggregate principal amount of authorized denominations will be issued to the transferee in exchange therefor. The Trustee and the District may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of the interest hereon and principal hereof and for all other purposes, whether or not this Bond shall be overdue, and neither the Trustee nor the District shall be affected by any notice or knowledge to the contrary; and payment of the principal, Accreted Value or redemption price of and interest on this Bond shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on this Bond to the extent of the sum so paid.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been executed and dated by an authorized signatory the Trustee.

It is hereby certified that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Constitution or laws of the State of California and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the Sacramento Metropolitan Fire District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the Authorized Representative of the District and the seal of the District to be affixed and attested by the facsimile signature of the Clerk of the Board of Directors of the District, and has caused this Bond to be dated as of the original issue date specified above.

SACRAMENTO METROPOLITAN FIRE
DISTRICT

By _____
Authorized Representative

[SEAL]

Attested:

Clerk of the Board of Directors

DTC ENDORSEMENT

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

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within mentioned Indenture which has been authenticated on _____.

DEUTSCHE BANK NATIONAL TRUST COMPANY, as Trustee

By _____
Authorized Signatory

ASSIGNMENT

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

Dated: _____

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

Signature Guaranteed: _____

Notice: Signature must be guaranteed by a guarantor institution participating in the Securities Transfer Agents Medallion Program.

APPENDIX F
PROVISIONS RELATING TO AUCTION RATE SECURITIES

ARTICLE I

DEFINITIONS

SECTION 1.01. The following definitions shall apply to this Appendix F in addition to the definitions found in Section 1.01 of the Indenture.

All-Hold Rate

The term “All-Hold Rate” means, on any date of determination, the interest rate per annum equal to 85% of LIBOR on such date; provided that in no event shall the All-Hold Rate be more than the Maximum Auction Rate.

Applicable Auction Rate

The term “Applicable Auction Rate” means the rate per annum at which interest accrues with respect to the Auction Rate Securities of each Sub-Series for any Auction Rate Period.

Auction

The term “Auction” means the implementation of the Auction Procedures on an Auction Date.

Auction Agent Agreement

The term “Auction Agent Agreement” means each initial Auction Agent Agreement for Auction Rate Securities identified on Schedule I to the Indenture, unless and until a substitute auction agent agreement acceptable to the applicable Broker-Dealer is entered into, after which “Auction Agent Agreement” shall mean each such substitute auction agent agreement in each case as from time to time amended or supplemented.

Auction Agent

The term “Auction Agent” means the initial Auction Agent for the Auction Rate Securities identified on Schedule I to the Indenture, unless and until a substitute Auction Agent Agreement, acceptable to the Broker-Dealers, becomes effective, after which “Auction Agent” shall mean the substitute Auction Agent.

Auction Agent Fee

The term “Auction Agent Fee” means the fee set forth in each Auction Agent Agreement.

Auction Date

The term "Auction Date" means the Business Day immediately preceding the first day of each Auction Rate Period for each Sub-Series of Auction Rate Securities, other than:

- (a) each Auction Rate Period for each Sub-Series commencing after the ownership of the Auction Rate Securities is no longer maintained in book-entry form by the Securities Depository; or
- (b) each Auction Rate Period commencing after the occurrence and during the continuance of a Payment Default; or
- (c) any Auction Rate Period commencing less than two Business Days after the cure or waiver of a Payment Default.

Auction Documents

The term "Auction Documents" means, collectively, the Auction Agent Agreement and each Broker-Dealer Agreement, in each case, as supplemented or amended from time to time.

Auction Period Adjustment

The term "Auction Period Adjustment" means an adjustment to the length of an Auction Rate Period implemented by the District pursuant to the Indenture as described below under Section 2.10 of this Appendix F.

Auction Procedures

The term "Auction Procedures" means the Auction and Settlement Procedures set forth in Section 2.05 of this Appendix F and in the Auction Agent Agreement.

Auction Rate

The term "Auction Rate" means, as to the interest rate with respect to the applicable Sub-Series of Auction Rate Securities, the rate of interest per annum that results from implementation of the Auction Procedures with respect to such Sub-Series of Auction Rate Securities, and determined as described in Section 2.03 or 2.04 of this Appendix F; provided, that the Auction Rate shall not exceed 17% per annum or the Maximum Auction Rate, if less than 17%.

Auction Rate Period

The term "Auction Rate Period" means the Initial Auction Rate Period and any Subsequent Auction Rate Period and, more specifically, means, as to the applicable Auction Rate Securities of a Sub-Series, each period during which a specific Auction Rate is in effect, as a result of an Auction, for such Sub-Series of Auction Rate Securities, which Auction Rate Period may be a Standard Auction Rate Period or a Special Auction Rate Period as may be designated from time to time by the District pursuant to an Auction Period Adjustment for a Sub-Series of Auction Rate Securities, each Auction Rate Period running from, and including, the Rate

Adjustment Date and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date.

Broker-Dealer

The term “Broker-Dealer” means any broker or dealer (each as defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures which is an “Authorized Broker-Dealer” under the Broker-Dealer Agreement, initially designated on the inside cover hereof, and which:

- (a) is a Securities Depository System Participant (or an affiliate of a Securities Depository System Participant);
- (b) has been appointed as such by the District pursuant to Section 2.14 of this Appendix F; and
- (c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

When used herein at a time when more than one Broker-Dealer is acting under the Indenture, the term “the Broker-Dealer” shall mean, as the context dictates, either all such Broker-Dealers collectively, or only each Broker-Dealer acting with respect to the applicable Auction Rate Securities.

Broker-Dealer Agreement

The term “Broker-Dealer Agreement” means each agreement between the Auction Agent and the applicable Broker-Dealer relating to the Auction Rate Securities pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

Broker-Dealer Fee

The term “Broker-Dealer Fee” means the fee set forth in the applicable Broker-Dealer Agreement.

Catastrophic Event

The term “Catastrophic Event” means an unexpected event that interferes with the normal conduct of business, e.g. an event resulting in the suspension of trading on one or more exchanges, or where one or more exchanges and/or banks are authorized to be closed, severe weather, regional power/communication interruption, physical attack and unexpected events of a limited nature that affect the Auction Agent’s and/or Broker Dealers’ ability to conduct an Auction including, without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; epidemics; riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications service; accidents; labor disputes; terrorist acts; or acts of civil or military authority or governmental actions.

Date of Interest Accrual

The term “Date of Interest Accrual” means the first day of any Auction Rate Period for Auction Rate Securities.

District Representative

The term “District Representative” means the Fire Chief, the Deputy Chief, the District Treasurer or the Director of Finance, or any other officer of the District duly authorized by the Board of Directors of the District.

Existing Owners

The term “Existing Owners” means, with respect to Auction Rate Securities, those registered owners of such Auction Rate Securities as of the day prior to each Auction Date.

Existing Owners Registry

The term “Existing Owners Registry” means, with respect to each Sub-Series of Auction Rate Securities, the registry of Persons who are Existing Owners of the related Sub-Series of Auction Rate Securities, maintained by the Auction Agent as provided in the applicable Auction Agent Agreement.

Fixed Rate Conversion

The term “Fixed Rate Conversion” means the conversion of the interest rate mode for the Bonds issued as Auction Rate Securities to a Fixed Rate.

Fixed Rate Conversion Date

The term “Fixed Rate Conversion Date” means the date upon which a Fixed Rate Conversion occurs.

Hold Order

The term “Hold Order” shall have the meaning given to such term in Section 2.05 hereof.

Initial Auction Rate Period

The term “Initial Auction Rate Period” means with respect to Auction Rate Securities, the period from and including the Closing Date to but excluding the Initial Interest Payment Date for such Auction Rate Securities.

Initial Interest Payment Date

The term “Initial Interest Payment Date,” with respect to Auction Rate Securities, refers to the initial Interest Payment Date for such Auction Rate Securities set forth on Schedule I to the Indenture.

Interest Payment Date

The term "Interest Payment Date" as used in this Appendix F with respect to Auction Rate Securities, other than Convertible Auction Rate Securities during the Initial Auction Rate Period, means (i) for each Auction Rate Period of 360 days or less, the next Business Day after an Auction Date; (ii) for any other Auction Rate Period, each May 15 and November 15; and (iii) each Principal Payment Date for the Auction Rate Securities, whether that date be the Stated Maturity Date, redemption date or otherwise and whether or not an Interest Payment Date.

Maximum Auction Rate

The term "Maximum Auction Rate," on any date of determination for any Auction Rate Period, means 17% per annum, or the maximum rate, if any, established under the laws of the State for obligations of public agencies such as the District, if less than 17%.

Minimum Auction Rate

The term "Minimum Auction Rate," on any date of determination, means the rate per annum equal to 80% of the greater of (a) LIBOR, or (b) the applicable Reference Rate in effect on the applicable Auction Date; provided, that in no event shall such Minimum Auction Rate exceed the Maximum Auction Rate.

Non-Payment Rate

The term "Non-Payment Rate" means, for Auction Rate Securities of each Sub-Series, on any date of determination, the Maximum Auction Rate.

Notice of Cure of Payment Default

The term "Notice of Cure of Payment Default" means a notice substantially in the form appended to the form of Auction Rate Security in Appendix C and Appendix G.

Notice of Payment Default

The term "Notice of Payment Default" means a written notice as to a payment default of Auction Rate Securities, substantially in the form appended to the form of Auction Rate Security in Appendix C and Appendix G.

Order

The term "Order" means a Hold Order, Bid or Sell Order as each of those terms are defined in Section 2.05(a)(i) of this Appendix F.

Overdue Rate

The term "Overdue Rate" means, as to any Auction Rate Securities, on any date of determination and for any Standard Auction Rate Period, the interest rate per annum equal to the Maximum Auction Rate, and for any Special Auction Rate Period, the interest rate per annum equal to 265% of LIBOR equal in length to the then-ending Special Auction Rate Period; provided that in no event shall the Overdue Rate exceed the Maximum Auction Rate.

Payment Default

The term "Payment Default" means the default of the District in the due and punctual payment of (a) any installment of interest on the Bonds or (b) any principal or Accreted Value of, premium, if any, or interest on, the Bonds at their maturity (whether on the Stated Maturity Date, prior redemption or otherwise), which default shall continue for a period of two Business Days.

Potential Beneficial Owner

The term "Potential Beneficial Owner" shall mean a customer of a Broker-Dealer that is not a Beneficial Owner of Auction Rate Securities but that wishes to purchase Auction Rate Securities, or that is a Beneficial Owner of Auction Rate Securities that wishes to purchase an additional Principal Amount of Auction Rate Securities.

Potential Owner

The term "Potential Owner" shall mean a Broker-Dealer (or any such other person as may be permitted by the District) that is not an Existing Owner or that is an Existing Owner that wishes to become the Existing Owner of an additional Principal Amount of Auction Rate Securities.

Rate Adjustment Date

The term "Rate Adjustment Date" means with respect to each Sub-Series of the Auction Rate Securities, the date on which a new interest rate becomes effective with respect to such Sub-Series of Auction Rate Securities, and shall mean the first Business Day following each Rate Determination Date (which, until an Auction Period Adjustment, generally is each fourth Wednesday, or the next Business Day if such Wednesday is not a Business Day).

Rate Determination Date

The term "Rate Determination Date" means, initially, those dates set forth for the Sub-Series of Auction Rate Securities on Schedule I to the Indenture, and thereafter, the Business Day immediately preceding the first day of each related Auction Rate Period, other than: (i) each Auction Rate Period commencing after the ownership of Auction Rate Securities is no longer maintained in Book-Entry Form; (ii) each Auction Rate Period commencing after and during the continuance of a Payment Default; or (iii) an Auction Rate Period commencing less than two Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Rate Determination Date for one or more Auction Rate Periods may be changed as described below under Section 2.09 of this Appendix F.

Rate Period

The term "Rate Period" means that period commencing on a Date of Interest Accrual and ending on the earlier of the Fixed Rate Conversion Date or the Stated Maturity Date of the affected Auction Rate Security.

Rate Period Days

The term "Rate Period Days" means for any Auction Rate Period the number of days that would constitute such Auction Rate Period but for the application of Section 2.09 of this Appendix F.

Reference Rate

The term "Reference Rate" means (i) for a Standard Auction Rate Period or any Special Auction Rate Period of fewer than 180 Rate Period Days, the "AA" Financial Commercial Paper Rate or LIBOR for such Auction Rate Period, whichever is less; and (ii) for an Auction Rate Period of more than 180 Rate Period Days, the Treasury Note Rate for such Auction Rate Period.

Regular Record Date

The term "Regular Record Date" means, with respect to Auction Rate Securities, the second Business Day immediately preceding each Interest Payment Date.

Sell Order

The term "Sell Order" has the meaning given to such term in the Auction Procedures.

Special Auction Rate Period

The term "Special Auction Rate Period" means a Subsequent Auction Rate Period, other than a Standard Auction Rate Period, designated pursuant to Section 2.10 of this Appendix F that consists of a specified number of Rate Period Days not fewer than 42 and not more than 1,820 and evenly divisible by seven, subject to adjustment as provided in said Section.

Standard Auction Rate Period

The term "Standard Auction Rate Period" means any Auction Rate Period consisting of 7, 14, 21, 28 or 35 Rate Period Days, or such other period as may be designated from time to time by the District.

Stated Maturity Date

The term "Stated Maturity Date" means the date given as the stated maturity date on each Bond.

Submission Deadline

The term "Submission Deadline" means 1:00 p.m., New York time, on any Auction Date

or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

Subsequent Auction Rate Period

The term "Subsequent Auction Rate Period" means the period from and including the Initial Interest Payment Date for Auction Rate Securities to but excluding the next Interest Payment Date for Auction Rate Securities and each period thereafter from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date; provided that if any Subsequent Auction Rate Period is a Special Auction Rate Period consisting of more than 91 days, such term shall mean the period commencing on the first day of such Special Auction Rate Period and ending on the last day of the last Auction Rate Period thereof; provided, further, that the Subsequent Auction Rate Period shall normally begin on the respective Interest Payment Date after the end of such Special Auction Rate Period, and the Auction therefor shall normally be held on the preceding Business Day.

Substitute Commercial Paper Dealer

The term "Substitute Commercial Paper Dealer" means Lehman Brothers, Inc., or their affiliates or successors, if such affiliate or successor is a commercial paper dealer, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

Sufficient Clearing Bids

The term "Sufficient Clearing Bids" shall have the meaning set forth in this Appendix F.

Tender Price

The term "Tender Price" means the price at which Auction Rate Securities are tendered for purchase upon conversion to Fixed Rate Bonds, comprised of the Principal Amount thereof, plus interest, if any, accrued to the date of purchase, being payable solely from the proceeds of remarketing of said Auction Rate Securities in the form of Fixed Rate Bonds.

Undelivered Auction Rate Security

The term "Undelivered Auction Rate Security" shall have the meaning set forth in Section 2.11(b)(3) of this Appendix F.

ARTICLE II

AUCTION RATE PROVISIONS

SECTION 2.01. Auction Rate Periods. After the Initial Auction Rate Period for any Bonds issued as Auction Rate Securities, each Auction Rate Period shall be that period established in accordance with the definition of Subsequent Auction Rate Period.

SECTION 2.02. Dated Date of Auction Rate Securities, Initial Accrual of Interest. Each Auction Rate Security shall be dated its date of delivery. Interest thereon shall be payable from

the Interest Payment Date next preceding the date of execution thereof, unless:

- (a) it is executed on an Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or
- (b) it is executed after a Regular Record Date and on or before the following Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or
- (c) it is executed on or before the first Regular Record Date, in which event interest with respect thereto shall be payable from its Dated Date;

provided, that if, as of the date of execution of any Auction Rate Security, interest is in default with respect to any Outstanding Auction Rate Security, interest on such Auction Rate Security shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Auction Rate Securities.

SECTION 2.03. Interest on Auction Rate Securities – General.

- (a) Auction Rate Securities, other than Convertible Auction Rate Securities, shall bear interest at an Auction Rate (computed for the actual number of days elapsed on the basis of a 360-day year for an Auction Rate Period of 360 or days or less and on the basis of a 360-day year comprised of twelve 30-day months for an Auction Rate Period greater than 360 days).
- (b) Interest on Auction Rate Securities, other than Convertible Auction Rate Securities, shall accrue at the Auction Rate for each Auction Rate Period and shall be payable in arrears, commencing on the Initial Interest Payment Date specified in Schedule I to the Indenture and on each Interest Payment Date.
- (c) Convertible Auction Rate Securities shall not bear current interest but shall accumulate earned interest in equal daily amounts on the basis of a 360-day year comprised of twelve 30-day months, compounded on May 15 and November 15 of each year commencing November 15, 2004 until the Full Accretion Date. On the initial Auction Date, each Existing Owner of Convertible Auction Rate Securities will be automatically deemed by the Auction Agent to have submitted a Sell Order for all of the Convertible Auction Rate Securities then owned by such Existing Owner unless such Existing Owner, prior to the Submission Deadline, submits a Hold Order to a Broker-Dealer indicating the principal amount of Convertible Auction Rate Securities which such Existing Owner desires to continue to hold regardless of the Auction Rate for the next succeeding Auction Rate Period. For each Subsequent Auction Rate Period or portion thereof, interest on the Accreted Value of Convertible Auction Rate Securities will accrue at the Applicable Auction Rate and will be payable in arrears on each succeeding Interest Payment Date (computed for the actual number of days elapsed on the basis of a 360-day year); provided that, if an Auction is not held on the initial Auction Date for a reason other than a Catastrophic Event, the Convertible Auction Rate Securities shall bear interest at the Maximum Auction Rate and the length of such Subsequent Auction Rate Period shall be 7 Rate Period Days; and provided further, that if such Maximum Auction Rate shall be in effect for the lesser of (a) three successive Auction Rate Periods or (b) 35 days, the District shall initiate proceedings

to convert such Auction Rate Securities to a Fixed Rate.

SECTION 2.04. Interest on Auction Rate Securities During Subsequent Auction Rate Periods. The rate of interest on Auction Rate Securities during each Subsequent Auction Rate Period therefor shall be equal to the Auction Rate; provided that:

(a) if a notice of Fixed Rate Conversion of the Auction Rate Securities shall have been given by the District in accordance with Section 2.02 of this Appendix F and because of the failure to satisfy one or more of the conditions set forth in the applicable Section, such Conversion shall not have taken effect, the rate of interest for the next succeeding Subsequent Auction Rate Period shall equal the Maximum Auction Rate on the proposed effective Fixed Rate Conversion Date and the length of such Subsequent Auction Rate Period shall be 7 Rate Period Days;

(b) if on any Auction Date, an Auction is not held due to a Catastrophic Event, the rate of interest for the next succeeding Subsequent Auction Rate Period shall equal the most recent Auction Rate plus or minus the change in LIBOR since the most recent Auction;

(c) if on any Auction Date, an Auction is not held for any other reason, the rate of interest for the next succeeding Subsequent Auction Rate Period shall equal the Maximum Auction Rate on such Auction Date, and the length of such Subsequent Auction Rate Period shall be 7 Rate Period Days, provided, that if such Maximum Auction Rate shall be in effect for the lesser of (a) three successive Auction Rate Periods or (b) 35 days, the District shall initiate proceedings to convert such Auction Rate Securities to a Fixed Rate; and

(d) if a notice of a change in the length of a Standard Auction Rate Period shall have been given by the District in accordance with Section 2.09 of this Appendix F and because of a failure to satisfy the condition set forth in clause (c) of Section 2.09 of this Appendix F, such change in length of the Standard Auction Rate Period shall not have taken effect, the rate of interest for the next succeeding Subsequent Auction Rate Period shall equal the Maximum Auction Rate on the proposed date of such change in length of the Standard Auction Rate Period, and the length of such Subsequent Auction Rate Period will be 7 Rate Period Days.

(e) Notwithstanding the foregoing, if:

(i) the ownership of Auction Rate Securities is no longer maintained in book-entry form by the Securities Depository, no further Auctions will be held and the Applicable Auction Rate for any Subsequent Auction Rate Period commencing after the delivery of certificated securities representing the Auction Rate Securities shall equal the Maximum Auction Rate;

(ii) a Payment Default shall have occurred during any Auction Rate Period (other than an Auction Rate Period consisting of more than 364 Rate Period Days) no further Auctions will be held and the rate of interest for the Subsequent Auction Rate Period commencing thereafter to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after all such Payment Defaults are cured, shall equal the Overdue Rate; or

(iii) a Payment Default shall have occurred during a Special Auction Rate Period consisting of more than 364 Rate Period Days, (i) the rate of interest for the portion of such Special Auction Rate Period during which such Payment Default shall not have been cured shall equal the Overdue Rate for such Special Auction Rate Period on the day of the occurrence of such Payment Default and (ii) if such Payment Default shall have not been cured at least two Business Days prior to the next succeeding Subsequent Auction Rate Period, the rate of interest for such Subsequent Auction Rate Period and for each Subsequent Auction Rate Period commencing thereafter, to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured, shall equal the Overdue Rate for such Special Auction Rate Period on the first day of each such Subsequent Auction Rate Period.

Following the Trustee's delivery of a Notice of Cure of Payment Default to the Auction Agent, the restrictions set forth in clauses (ii) and (iii) above shall be suspended and the interest rate shall be established pursuant to the Auction Procedures.

SECTION 2.05. Auction Procedures. Subject to the provisions of subsection (b) of this section, Auctions shall be conducted on each Auction Date in the following manner:

- (a) (i) Prior to the Submission Deadline on each Auction Date:
 - (A) each Beneficial Owner of Auction Rate Securities may submit to a Broker-Dealer by telephone or facsimile transmission information as to:
 - (I) the Principal Amount of Outstanding Auction Rate Securities, if any, held by such Beneficial Owner which such Beneficial Owner desires to continue to hold, without regard to the Auction Rate for the next succeeding Auction Rate Period;
 - (II) the Principal Amount of Outstanding Auction Rate Securities, if any, which such Beneficial Owner offers to sell, if the Auction Rate for the next succeeding Auction Rate Period shall be less than the rate per annum specified by such Beneficial Owner; and/or
 - (III) the Principal Amount of Outstanding Auction Rate Securities, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell, without regard to the Auction Rate that may be set for the next succeeding Auction Rate Period; and
 - (B) one or more Broker-Dealers may contact Potential Beneficial Owners to determine the Principal Amount of Auction Rate Securities which each such Potential Beneficial Owner offers to purchase if the Auction Rate for the next succeeding Auction Rate Period shall not be less than the rate per annum specified by such Potential Beneficial Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in paragraphs (A) or (B) of this clause is hereinafter referred to as an "Order" and each

Beneficial Owner and each Potential Beneficial Owner placing an Order is hereinafter referred to as a "Bidder;" an Order containing the information referred to (x) in paragraph (A)(I) hereof is hereinafter referred to as a "Hold Order," (y) in paragraph (A)(II) or (B) hereof is hereinafter referred to as a "Bid," and (z) in paragraph (A)(III) hereof is hereinafter referred to as a "Sell Order." The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order," and an Existing Owner or Potential Owner who places an Order with the Auction Agent or on whose behalf an Order is Placed with the Auction Agent shall likewise be referred to herein as a "Bidder."

(ii) (A) Subject to the provisions of subsection (b) of this section, a Bid by a Beneficial Owner or an Existing Owner shall constitute an irrevocable offer to sell:

(I) the Principal Amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate determined as provided in this section shall be less than the rate specified therein; or

(II) such Principal Amount or a lesser Principal Amount of Outstanding Auction Rate Securities to be determined as set forth in subsection (d)(i)(D) of this section if the Auction Rate determined as provided in this section shall be equal to the rate specified therein; or

(III) such Principal Amount of Outstanding Auction Rate Securities if the rate specified therein shall be higher than the Maximum Auction Rate, or such Principal Amount or a lesser Principal Amount of Outstanding Auction Rate Securities to be determined as set forth in subsection (d)(ii)(C) of this section if the rate specified therein shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(B) Subject to the provisions of subsection (b) of this section, a Sell Order by a Beneficial Owner shall constitute an irrevocable offer to sell:

(I) the Principal Amount of Outstanding Auction Rate Securities specified in such Sell Order if Sufficient Clearing Bids exist; or

(II) such Principal Amount or a lesser Principal Amount of Outstanding Auction Rate Securities as set forth in subsection (d)(ii)(C) of this section if Sufficient Clearing Bids do not exist.

(C) Subject to the provisions of subsection (b) of this section, a Bid by a Potential Beneficial Owner or a Potential Owner shall constitute an irrevocable offer to purchase:

(I) the Principal Amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate determined as provided in this section shall be higher than the rate specified therein; or

(II) such Principal Amount or a lesser Principal Amount of Outstanding Auction Rate Securities as set forth in subsection (d)(i)(E) of this

section if the Auction Rate determined as provided in this section shall be equal to the rate specified therein.

(b) (i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer, designating itself (unless otherwise permitted by the District) as an Existing Owner in respect of the Principal Amount of Auction Rate Securities subject to Orders submitted or deemed submitted to it by Beneficial Owners or by Potential Beneficial Owners, and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order (which shall be the Broker-Dealer, unless otherwise permitted by the District);

(B) the aggregate Principal Amount of Auction Rate Securities that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Owner:

(I) the Principal Amount of Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Owner;

(II) the Principal Amount of Auction Rate Securities, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(III) the Principal Amount of Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate specified in such Potential Owner Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding Auction Rate Securities held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the Principal Amount of Outstanding Auction Rate Securities held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) None of the District, the Trustee or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner, Beneficial Owner, Potential Owner or Potential Beneficial Owner, nor shall any such party be responsible for failure by a Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.

(v) If any Existing Owner submits to the Auction Agent, through a Broker-Dealer, one or more Orders covering in the aggregate more than the Principal Amount of Outstanding Auction Rate Securities held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the Principal Amount of Auction Rate Securities held by such Existing Owner, and if the aggregate Principal Amount of Auction Rate Securities subject to such Hold Orders exceeds the aggregate Principal Amount of Outstanding Auction Rate Securities held by such Existing Owner, the aggregate Principal Amount of Auction Rate Securities subject to each such Hold Order shall be reduced pro rata to cover the aggregate Principal Amount of Outstanding Auction Rate Securities held by such Existing Owner;

(B) (I) any Bid shall be considered valid up to and including the excess of the Principal Amount of Outstanding Auction Rate Securities held by such Existing Owner over the aggregate Principal Amount of Auction Rate Securities subject to any Hold Orders referred to in clause (A) of this paragraph (v);

(II) subject to subclause (I) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate Principal Amount of Outstanding Auction Rate Securities subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the Principal Amount of Auction Rate Securities subject to each Bid with the same rate shall be reduced pro rata to cover the Principal Amount of Auction Rate Securities equal to such excess;

(III) subject to subclause (I) and (II) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(IV) in any such event, the aggregate Principal Amount of Outstanding Auction Rate Securities, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the Principal Amount of Outstanding Auction Rate Securities held by such Existing Owner over the aggregate Principal Amount of Auction Rate Securities subject to Hold Orders referred to in clause (A) of this paragraph and valid Bids referred to in clause (B) of this paragraph.

(vi) If more than one Bid for Auction Rate Securities is submitted by or

on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and Principal Amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate Principal Amount of Auction Rate Securities not equal to \$25,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate Principal Amount of Auction Rate Securities not equal to \$25,000 or an integral multiple thereof shall be rejected.

(viii) Any Bid specifying a rate higher than the Maximum Auction Rate will be treated as a Sell Order if submitted by an Existing Owner and will not be accepted if submitted by a Potential Owner. Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the Minimum Auction Rate shall be treated as a Bid specifying the Minimum Auction Rate.

(c) (i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and shall determine:

(A) the excess of the total Principal Amount of Outstanding Auction Rate Securities over the sum of the aggregate Principal Amount of Outstanding Auction Rate Securities subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Rate Securities"); and

(B) from the Submitted Orders whether:

(I) the aggregate Principal Amount of Outstanding Auction Rate Securities subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Auction Rate Securities Maximum Auction Rate;

exceeds or is equal to the sum of:

(II) the aggregate Principal Amount of Outstanding Auction Rate Securities subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Auction Rate; and

(III) the aggregate Principal Amount of Outstanding Auction Rate Securities subject to Submitted Sell Orders

(in the event such excess or such equality exists (other than because the sum of the Principal Amounts of Auction Rate Securities in subclauses (II) and (III) above is zero because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), such Submitted Bids in subclause (I) above being hereinafter referred to collectively as "Sufficient

Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (the "Winning Bid Rate") which if:

(I) (aa) each such Submitted Bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the Principal Amount of Auction Rate Securities subject to such Submitted Bids; and

(II) (aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted,

would result in such Existing Owners described in clause (C)(I) above continuing to hold an aggregate Principal Amount of Outstanding Auction Rate Securities which, when added to the aggregate Principal Amount of Outstanding Auction Rate Securities to be purchased by such Potential Owners described in clause (C)(II) above, would equal not less than the Available Auction Rate Securities.

(ii) Promptly after the Auction Agent has made the determinations pursuant to subsection (c)(i) hereof, the Auction Agent, by telecopy confirmed in writing, shall advise the District and the Trustee of the Maximum Auction Rate, the Minimum Auction Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Auction Rate Period as follows:

(A) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Auction Rate Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Auction Rate Period shall be equal to the Maximum Auction Rate, which succeeding Auction Rate Period shall be 7 Rate Period Days; or

(C) if all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Auction Rate Period shall be equal to the All-Hold Rate on such Auction Date.

(d) Existing Owners shall continue to hold the Principal Amount of Auction Rate Securities that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to subsection (c)(i) of this section, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell

Orders shall be accepted and, subject to the provisions of subsection (d)(iv) and (v) hereof, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Any Existing Owner's Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate Principal Amount of Auction Rate Securities subject to such Submitted Bids;

(B) Any Existing Owner's Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate Principal Amount of Auction Rate Securities subject to such Submitted Bids;

(C) Any Potential Owner's Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the aggregate Principal Amount of Auction Rate Securities subject to such Submitted Bids;

(D) Any Existing Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate Principal Amount of Auction Rate Securities subject to such Submitted Bid, unless the aggregate Principal Amount of Outstanding Auction Rate Securities subject to all such Submitted Bids shall be greater than the Principal Amount of Auction Rate Securities (the "remaining Principal Amount") equal to the excess of the Available Auction Rate Securities over the aggregate Principal Amount of Auction Rate Securities subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the Principal Amount of Auction Rate Securities subject to such Submitted Bid, but only in an amount equal to the aggregate Principal Amount of Auction Rate Securities obtained by multiplying the remaining Principal Amount by a fraction, the numerator of which shall be the Principal Amount of Outstanding Auction Rate Securities held by such Existing Owners subject to such Submitted Bid and the denominator of which shall be the sum of the Principal Amount of Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) Each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the Principal Amount of Auction Rate Securities obtained by multiplying the excess of the aggregate Principal Amount of Available Auction Rate Securities over the aggregate Principal Amount of Auction Rate Securities subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph by a fraction, the numerator of which shall be the aggregate Principal Amount of Outstanding Auction Rate Securities subject to such Submitted Bids and the

denominator of which shall be the sum of the Principal Amount of Outstanding Auction Rate Securities subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Any Existing Owner's Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be rejected, thus entitling such Existing Owners to continue to hold the aggregate Principal Amount of Auction Rate Securities subject to such Submitted Bids;

(B) Any Potential Owner's Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted and any rate that is higher than the Maximum Auction Rate shall be rejected, thus requiring such Potential Owners to purchase the aggregate Principal Amount of Auction Rate Securities subject to such Submitted Bids; and

(C) Each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Securities subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate Principal Amount of Auction Rate Securities obtained by multiplying the aggregate Principal Amount of Auction Rate Securities subject to Submitted Bids described in clause (B) of this paragraph by a fraction, the numerator of which shall be the aggregate Principal Amount of Outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate Principal Amount of Outstanding Auction Rate Securities subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in paragraphs (i) or (ii) of this subsection, any Existing Owner would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a Principal Amount of Auction Rate Securities that is not equal to \$25,000 or an integral multiple thereof the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the Principal Amount of Auction Rate Securities to be purchased or sold by any Existing Owner or Potential Owner so that the Principal Amount of Auction Rate Securities purchased or sold by each Existing Owner or Potential Owner shall be equal to \$25,000 or an integral multiple thereof.

(v) If, as a result of the procedures described in paragraph (ii) of this subsection, any Potential Owner would be entitled or required to purchase less than \$25,000 Principal Amount or an integral multiple thereof of Auction Rate Securities, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate Auction Rate Securities for purchase among Potential Owners so that only Auction Rate Securities in Principal Amounts of \$25,000 or an integral multiple thereof are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any Auction Rate Securities.

(e) Based on the results of each Auction, and in accordance with the Settlement Procedures set forth in the applicable Auction Agent Agreement, the Auction Agent shall determine the aggregate Principal Amount of Auction Rate Securities to be purchased and the aggregate Principal Amount of Auction Rate Securities to be sold by Potential Owners and Existing Owners and, with respect to each Potential Owner and Existing Owner, to the extent that such aggregate Principal Amount of Auction Rate Securities to be sold differs from such aggregate Principal Amount of Auction Rate Securities to be purchased, determine to which other Potential Owner(s) or Existing Owner(s) they shall deliver, or from which other Potential Owner(s) or Existing Owner(s) they shall receive, as the case may be, Auction Rate Securities.

SECTION 2.06. Deposit and Application of Interest Payments.

(a) The Trustee shall calculate the amount of interest due and payable on each Interest Payment Date by 10:00 A.M., New York time, on the third Business Day next preceding such Interest Payment Date or date set for purchase, as the case may be and shall immediately notify the District of such amount. In preparing such calculation, the Trustee may rely on calculations or other services provided by the Auction Agent, the District or any person or persons selected by the Trustee in its discretion, including, without limitation, the information set forth in Schedule I to the Indenture.

(b) During any period while Auction Rate Securities are Outstanding, the District shall pay to the Trustee not later than 5:00 P.M., New York time, on the Business Day next preceding each Interest Payment Date an aggregate amount of funds available on such Interest Payment Date in New York equal to the aggregate amount of interest payable on the Auction Rate Securities on such Interest Payment Date.

(c) Not later than 12:15 P.M., New York time, on each Interest Payment Date that is immediately preceded by an Auction Date, the Trustee shall determine the payment (or nonpayment, as the case may be) of the aggregate amount of interest payable on the Auction Rate Securities on such Interest Payment Date. So long as no Payment Default with respect to the Auction Rate Securities has previously occurred and is continuing and the ownership of the Auction Rate Securities is maintained in book-entry form by the Securities Depository, (i) if the Trustee determines that a Payment Default has occurred, the Trustee shall immediately send a Notice of Payment Default to the Auction Agent and to the Holders of the Auction Rate Securities by telecopy or similar means, and (ii) if all such nonpayments are cured prior to 1:00 P.M., New York time, on such Interest Payment Date, the Trustee shall immediately send a Notice of Cure of Payment Default to the Auction Agent and to the Holders of the Auction Rate Securities by telecopy or similar means.

(d) The Trustee shall notify the District, the Broker-Dealer and the Financial Advisor not less than 180 days prior to the last day of any Auction Rate Period 360 days or longer of the date such Auction Rate Period ends.

SECTION 2.07. Calculation of Maximum Auction Rate, Minimum Auction Rate, All-Hold Rate and Overdue Rate During Auction Rate Period. The Auction Agent shall calculate the Maximum Auction Rate, the All-Hold Rate and the Minimum Auction Rate on each Auction Date. If a Payment Default shall have occurred, the Auction Agent shall calculate the Overdue Rate (i) as of the first day of the Subsequent Auction Rate Period commencing after the occurrence of and during the continuance of such Payment Default, (ii) on the date of the occurrence of a Payment Default during a Special Auction Rate Period consisting of more than 364 Rate Period Days and (iii) as of the first day of any Subsequent Auction Rate Period commencing after the occurrence of a Payment Default to and including the Subsequent Auction Rate Period, if any, commencing less than two Business Days after all such Payment Defaults are cured.

SECTION 2.08. Notification of Payment Dates. Promptly after the Date of Interest Accrual and each Interest Payment Date and in any event at least 10 Business Days prior (unless the then current Auction Rate Period is a Standard Auction Rate Period of 7 Rate Period Days, in which case, at least 6 days prior) to the next Interest Payment Date following the Date of Interest Accrual or such Interest Payment Date, as the case may be, the Auction Agent shall advise the Trustee and any Paying Agent, so long as no Payment Default has occurred and is continuing and the ownership of the Auction Rate Securities is maintained in book-entry form by DTC, of such next succeeding Interest Payment Date. In the event that any day that is scheduled to be an Interest Payment Date shall be changed after the Auction Agent shall have given the notice referred to in the preceding sentence, not later than 9:15 A.M., New York time, on the Business Day next preceding the earlier of the new Interest Payment Date or the previous Interest Payment Date, the Auction Agent will, by such means as the Auction Agent deems practicable, give notice of such change to the Trustee and to any Paying Agent, so long as no Payment Default has occurred and is continuing and the ownership of the Auction Rate Securities is maintained in book-entry form by DTC.

SECTION 2.09. Change in Standard Auction Rate Period.

(a) While any Auction Rate Securities are Outstanding, the District, at its option, may from time to time on the Business Day immediately following the end of the Auction Rate Period for such Bonds, change the length of the Standard Auction Rate Period on all or a portion of any Auction Rate Securities from one period to another in order to accommodate economic and financial factors that may affect or be relevant to the length of the Standard Auction Rate Period and the interest rate borne by such Auction Rate Securities. The District shall initiate the change in the length of a Standard Auction Rate Period by giving written notice to the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository, at least ten Business Days prior to the Auction Date for such Standard Auction Rate Period, that the Standard Auction Rate Period will change if the conditions described below are satisfied, the proposed effective date of the change, and that such Auction Rate Securities are subject to mandatory tender for purchase on the Business Day immediately following the Auction Date on which there has been a successful Auction of such Auction Rate Securities.

(b) The change in the length of a Standard Auction Rate Period shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date which the notice of the proposed change was given as provided in (a) above and the Auction immediately preceding the proposed change.

(c) The change in length of a Standard Auction Rate Period shall take effect only if (A) the Trustee and the Auction Agent receive by 11:00 a.m., New York time, on the Business Day before the Auction Date for the first such Standard Auction Rate Period, a certificate from the District Representative, authorizing the change in the length of the Standard Auction Rate Period specified in such certificate, and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Standard Auction Rate Period. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Rate Period shall be determined pursuant to the Auction Procedures and the Auction Rate Period shall be the Auction Rate Period determined without reference to the proposed change. If the condition referred to in (B) above is not met, the Auction Rate for the next Auction Rate Period shall equal the Maximum Auction Rate on the proposed date of such change in length of the Standard Auction Rate Period, and the Standard Auction Rate Period shall be 7 Rate Period Days.

(d) Any Auction Rate Securities for which the Standard Auction Rate Period is changed shall be subject to mandatory tender for purchase on the Business Day immediately following the Auction Date on which there has been a successful Auction of such Auction Rate Securities (subject to the availability of funds sufficient to pay the Tender Price of such Auction Rate Securities having been provided to the Trustee through the remarketing of such Auction Rate Securities) at a price equal to the Principal Amount being tendered and accrued interest thereon.

SECTION 2.10. Designation of Special Auction Rate Periods.

(a) The District, at its option, may designate any succeeding Subsequent Auction Rate Period as a Special Auction Rate Period. A designation of a Special Auction Rate Period shall be effective only if (i) notice thereof shall have been given in accordance with

subsection (c) and subsection (d)(i) of this section, (ii) an Auction shall have been held on the Auction Date for such Special Auction Rate Period and Sufficient Clearing Bids shall have existed in such Auction, and (iii) if any notice of redemption shall have been mailed by the Trustee, the related redemption price shall be on deposit with the Trustee.

(b) In the event the District wishes to designate a Subsequent Auction Rate Period as a Special Auction Rate Period, the last day of any such Special Auction Rate Period must be followed by a Thursday that is a Business Day.

(c) If the District proposes to designate any succeeding Subsequent Auction Rate Period as a Special Auction Rate Period pursuant to subsection (a) of this section, not less than 20 (or such lesser number of days as may be agreed to from time to time by the Auction Agent and the Broker-Dealer) nor more than 30 days prior to the date the District proposes to designate as the first day of such Special Auction Rate Period (which shall be the day that would otherwise be the first day of the next succeeding Auction Rate Period), the District shall give written notice thereof to the Trustee, the Auction Agent and the Securities Depository. Each such notice shall state (i) that the District may exercise its option to designate a succeeding Subsequent Auction Rate Period as a Special Auction Rate Period, specifying the first and last days thereof, and the conditions thereto and (ii) that the District will, by 11:00 A.M., New York time, on the second Business Day next preceding the first day of such proposed Special Auction Rate Period (or by such later time or date, or both, as may be agreed to by the Auction Agent) notify the Auction Agent of either (x) its determination, to exercise such option, in which case, the District Representative shall specify the Special Auction Rate Period designated, or (y) its determination not to exercise such option.

(d) No later than 11:00 A.M., New York time, on the second Business Day next preceding the first day of any proposed Special Auction Rate Period as to which notice has been given as set forth in subsection (c) of this section (or such later time or date, or both, as may be agreed to by the Auction Agent), the District Representative shall deliver to the Auction Agent either:

(i) (A) a notice stating (1) that the District has determined to designate the next succeeding Auction Rate Period as a Special Auction Rate Period, specifying the same and the first day thereof, (2) the Auction Date immediately prior to the first day of such Special Auction Rate Period, (3) that such Special Auction Rate Period shall not commence if (x) an Auction shall not be held on such Auction Date for any reason or (y) an Auction shall be held on such Auction Date but Sufficient Clearing Bids shall not exist in such Auction, and (4) the Interest Payment Dates during such Special Auction Rate Period and (B) an opinion of Bond Counsel to the effect that such designation of a Special Auction Rate Period is authorized by the Indenture; or

(ii) a notice stating that the District has determined not to exercise its option to designate a Special Auction Rate Period and that the next succeeding Auction Rate Period shall be a Standard Auction Rate Period.

(e) If the District fails to deliver either of the notices or the opinion described in subsection (d)(i) or (ii) of this section with respect to any designation of any proposed Special

Auction Rate Period to the Auction Agent by 11:00 A.M., New York time, on the second Business Day next preceding the first day of such proposed Special Auction Rate Period (or by such later time or date, or both, as may be agreed to by the Auction Agent), the District shall be deemed to have delivered a notice to the Auction Agent with respect to such Special Auction Rate Period to the effect set forth in paragraph (ii) of subsection (d) of this section.

SECTION 2.11. Conversion of Auction Rate Securities to Fixed Interest Rate Bonds. (a) At the option of the District, with the prior written consent of the Qualified Swap Provider (if the affected Auction Rate Securities are covered by a Qualified Swap Agreement), all but not less than all of any Series of Bonds may be converted from Auction Rate Securities to Fixed Rate Bonds as follows:

(i) The Fixed Rate Conversion Date for a Series of Auction Rate Securities shall be the Business Day immediately following the end of the Auction Rate Period for such Bonds

(ii) The District shall give written notice of any such conversion to the Trustee, the applicable Auction Agent, the Qualified Swap Provider (if applicable) and the applicable Broker-Dealer not less than fifteen (15) days nor more than thirty (30) days prior to the date on which the Trustee is required to notify the affected Holders of the conversion of the applicable Sub-Series or Series pursuant to subparagraph (iii) immediately below. Such notice shall specify the proposed Fixed Rate Conversion Date of the applicable Sub-Series and the Principal Amount of Auction Rate Securities to be converted to Fixed Rate Bonds. Together with such notice, the District shall file with the applicable Broker-Dealer and the Trustee a form of Opinion of Counsel addressed to the Broker-Dealer, the Trustee and the District to the effect that the conversion of the Auction Rate Securities of the applicable Sub-Series to fixed interest rates will not adversely affect the validity of the Fixed Rate Bonds under State law. No conversion shall become effective unless on or before the proposed Fixed Rate Conversion Date, the District shall also file with the Trustee an Opinion of Counsel addressed to the Trustee and the District substantially in the form described in the immediately preceding sentence, dated the Fixed Rate Conversion Date, and subject to the availability of funds sufficient to pay the Tender Price of such Auction Rate Securities having been provided to the Trustee through the remarketing of such Auction Rate Securities.

(iii) Not fewer than forty (40) days prior to the Fixed Rate Conversion Date established for the applicable Series or Sub-Series, the Trustee shall mail a written notice of the conversion to the Holders of all Auction Rate Securities (with a copy to the Auction Agent) of the applicable Series or Sub-Series to be converted, which notice shall:

(1) specify the Fixed Rate Conversion Date established for the applicable Bonds;

(2) notify such Holders that the Auction Rate Securities of the applicable Series or Sub-Series to be converted will be subject to mandatory tender for purchase on such Fixed Rate Conversion Date at a price equal to 100% of the Principal Amount of such Auction Rate Securities, plus interest accrued

and unpaid with respect thereto, if any, to but not including the Fixed Rate Conversion Date;

(3) notify such Holders that in the event of a failed conversion, or in the event the District exercises its right of election to revoke the conversion pursuant to subparagraph (v) below, such Auction Rate Securities will not be subject to mandatory tender, will be returned to their Holders, will automatically convert to the Auction Rate Period in effect immediately prior to the Fixed Rate Conversion Date and will bear interest at the Maximum Auction Rate;

(4) set forth the time, the place and the manner for tendering such Auction Rate Securities for purchase; and

(5) set forth any other matters required to be stated pursuant to this paragraph.

(iv) Not later than 12:00 noon, New York time, on the Business Day immediately preceding the Fixed Rate Conversion Date established for the applicable Series or Sub-Series, at the direction of the District, the applicable Broker-Dealer shall determine, by offering for sale and using at least its best efforts to find purchasers for the Sub-Series of Auction Rate Securities which are to be converted to Fixed Rate Bonds:

(1) the Fixed Rate(s) applicable to such Bonds after such Fixed Rate Conversion Date;

(2) the allocation of such Bonds between Serial Bonds and Term Bonds, which allocation shall be made in such manner as shall:

A. produce the lowest aggregate interest payable with respect to the Auction Rate Securities to be converted to Fixed Rate Bonds;

B. establish mandatory Redemption Dates and related Principal Amounts for Serial Bonds, if any, and establish mandatory redemption dates and related Principal Amounts for Term Bonds other than Serial Bonds, if any, which are consistent, on a pro rata basis, with the principal of such Bonds prior to such Fixed Rate Conversion Date;

C. permit Bond Counsel to render the opinion described in subparagraph (ii) above;

provided, that if Bond Counsel is unable to render such opinion because of the allocation procedures set forth in this subparagraph (iv), all such converted Bonds shall be redesignated as Serial Bonds with mandatory redemption dates and related Principal Amounts which are consistent, on a pro rata basis, with the applicable principal of such Bonds prior to the Fixed Rate Conversion Date.

Such determination shall be conclusive and binding upon the District, the Trustee and the Holders of the Auction Rate Securities of the applicable Series or Sub-Series to be converted to which such rate or rates will be applicable. Not later than 5:00 p.m., New York time, on the date of determination of the fixed interest rate(s), as provided in the first sentence of this subparagraph, the applicable Broker-Dealer shall notify the District and the Trustee of the following by facsimile notice:

- (3) the aggregate Principal Amount of the Bonds bearing interest at Fixed Rates as a result of such Fixed Rate Conversion;
- (4) a schedule of the mandatory redemption dates and related Principal Amounts of converted Bonds which the District has redesignated as Serial Bonds; and
- (5) a schedule of the mandatory redemption dates and related Principal Amounts of converted Bonds which are to be Term Bonds, if any.

If necessary or appropriate in the Opinion of Counsel, the District shall execute and deliver a supplement to the Indenture setting forth, among other things, the terms of the Fixed Rate Bonds;

(v) The District may revoke its election to effect a conversion of the applicable Series or Sub-Series of the Auction Rate Securities to Fixed Rate Bonds by giving written notice of such revocation to the Trustee, the Auction Agent, the Qualified Swap Provider (if applicable), the Swap Policy Provider (if applicable), and the applicable Broker-Dealer and at any time prior to the Business Day immediately preceding the Fixed Rate Conversion Date.

(vi) Auction Rate Securities of the applicable Series or Sub-Series which are to be converted to Fixed Rate Bonds shall be subject to mandatory tender for purchase on a proposed Fixed Rate Conversion Date (subject to the availability of funds sufficient to pay the Tender Price of such Auction Rate Securities having been provided to the Trustee through the remarketing of such Bonds) at a price equal to 100% of the Principal Amount of such Auction Rate Securities plus interest accrued and unpaid with respect thereto, if any, to, but not including, the Fixed Rate Conversion Date.

(vii) If on a proposed Fixed Rate Conversion Date, any condition precedent to such conversion required under this paragraph shall not be satisfied, the Trustee shall give written notice by first-class mail, postage prepaid, or by facsimile or overnight delivery, as soon as practicable and in any event not later than the next succeeding Business Day to the Holders of the applicable Series or Sub-Series to be converted that such conversion has not occurred, that the particular Auction Rate Securities to be converted shall not be purchased on the failed Fixed Rate Conversion Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to the

Auction Rate Securities which otherwise would have been converted, excluding, however, the Auction Date falling on the Business Day next preceding the failed Fixed Rate Conversion Date, and that the interest rate with respect to the affected Bonds shall continue to be the Applicable Auction Rate; provided, that the interest rate on the Auction Rate Securities during the Auction Rate Period commencing on such failed Fixed Rate Conversion Date shall be the Maximum Auction Rate for a Rate Period of 7 Rate Period Days.

(b) Purchase of Auction Rate Securities.

(1) Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rates. The Auction Rate Securities shall be subject to mandatory tender for purchase if at any time the Trustee gives written notice mailed to the Holders of the affected Auction Rate Securities, in accordance with the procedures set forth in subsection (2) immediately below, that, at the option of the District, particular Auction Rate Securities are to be converted to a Fixed Rate pursuant to the provisions of Section 2.11(a) above; subject to the availability of funds sufficient to pay the Tender Price of such Auction Rate Securities having been provided to the Trustee through the remarketing of such Auction Rate Securities. The Auction Rate Securities of such Series or Sub-Series subject to mandatory tender shall be purchased or deemed purchased at the Tender Price.

(2) Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of any Auction Rate Securities of any Series or Sub-Series in accordance with the immediately preceding paragraphs, the Trustee shall give written notice to the affected Holders and to the Auction Agent by facsimile transmission, to be received no later than 2:00 p.m. New York time, on the day the notice is sent:

A. that the Tender Price of any Auction Rate Security subject to mandatory tender for purchase shall be payable only upon surrender of that Auction Rate Security to the Trustee, accompanied by an instrument of transfer, in form satisfactory to the Trustee, executed in blank by the duly authorized attorney for such Holder or Holders, with such signature guaranteed in the manner set forth in the form attached to the Auction Rate Securities;

B. that, provided that moneys sufficient to effect such purchase have been provided to the Trustee through the remarketing of such Auction Rate Securities by the applicable Broker-Dealer, and provided that the District has not exercised its right of election to revoke the conversion pursuant to paragraph (a)(v) of this section, Auction Rate Securities subject to mandatory tender for purchase shall be purchased on the proposed Fixed Rate Conversion Date;

C. that if any Holder of an Auction Rate Security subject to mandatory tender for purchase does not in fact surrender such Auction Rate Security to the Trustee for purchase on the proposed Fixed Rate Conversion Date, then such Auction Rate Security, on and after such date, shall be deemed to be an Undelivered Auction Rate Security, that no interest shall accrue with respect to such Auction Rate Security on and after such date and that the Auction Rate Security shall have no rights under the Indenture other than to receive payment of the Tender Price; and

D. that, in the event moneys sufficient to pay the Tender Price of such Auction Rate Securities have not been provided to the Trustee through the remarketing of such Auction Rate Securities, such Auction Rate Securities shall not be purchased or deemed purchased and shall continue to have interest accrue with respect thereto as if such failed purchase had not occurred.

If the circumstances described in subparagraph D above should occur, then the affected Auction Rate Securities shall not be purchased or deemed purchased and shall continue to have interest accrue thereon as described in subparagraph D above.

(3) Undelivered Auction Rate Securities. The following provisions shall apply to an Auction Rate Security not delivered by a date established for its surrender, properly endorsed by its Holder (each, an "Undelivered Auction Rate Security"):

A. The Trustee may refuse to accept delivery of any Undelivered Auction Rate Security for which a proper instrument of transfer has not been provided; provided, that such refusal shall not affect the validity of the purchase of such Undelivered Auction Rate Security.

B. If funds in the amount of the purchase price of the Undelivered Auction Rate Security are available for payment to the Holders thereof on the Proposed Fixed Rate Conversion Date and at the time specified, then, from and after such date and time of such required delivery:

(1) such Undelivered Auction Rate Security shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Indenture;

(2) interest shall no longer accrue with respect to such Undelivered Auction Rate Security; and

(3) funds in the amount of the purchase price of the Undelivered Auction Rate Security shall be held uninvested by the Trustee for the benefit of the Holder thereof

(provided that such Auction Rate Security shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Auction Rate Security to the Trustee. Any money which the Trustee segregates and holds in trust for the payment of the Tender Price of any Auction Rate Security which remains unclaimed for two years after the date of purchase shall be paid to the District. After the payment of such unclaimed money to the District, the former Holder of such Auction Rate Security shall look only to the District for the payment of the Tender Price. The District shall not be liable for any interest on unclaimed money and shall not be regarded as a trustee of such money.

(c) Determination by Trustee; Notice of Tender. For purposes of this section, the Trustee shall determine timely and proper delivery of Auction Rate Securities and the proper endorsement of Auction Rate Securities delivered. Such determination shall be binding on the Holders of such Auction Rate Securities, the District, and the Broker-Dealer, absent manifest error.

SECTION 2.12. Transfer and Exchange of Auction Rate Securities.

(a) The registration of any Auction Rate Security may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in Person or by his attorney duly authorized in writing upon surrender of such Auction Rate Security for cancellation at the office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Auction Rate Security shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Auction Rate Security or Auction Rate Securities for a like aggregate Principal Amount in authorized denominations. The Trustee shall require the payment by the Auction Rate Security Holders requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing any Auction Rate Securities and any services rendered or any expenses incurred by the Trustee in connection with any transfer shall be paid by the District. The Trustee shall not be required to transfer:

(i) any Auction Rate Securities during the period between the date fifteen (15) days prior to the date of selection of Auction Rate Securities for redemption and such date of selection, or

(ii) any Auction Rate Securities selected for redemption.

(b) Auction Rate Securities may be exchanged, upon surrender thereof, at the Office of the Trustee for a like aggregate Principal Amount of Auction Rate Securities of other Authorized Denominations of the same maturity. Whenever any Auction Rate Security or Auction Rate Securities shall be surrendered for exchange, the Trustee shall execute and deliver a new Auction Rate Security or Auction Rate Securities for like aggregate Principal Amount in

Authorized Denominations. The Trustee shall require the payment by the Auction Rate Security Holders requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing any Auction Rate Securities and any services rendered or any expenses incurred by the Trustee in connection with any exchange shall be paid by the District. The Trustee shall not be required to exchange:

(i) any Auction Rate Securities during the period between the date fifteen (15) days prior to the date of selection of Auction Rate Securities for redemption and such date of selection, or

(ii) any Auction Rate Securities selected for redemption.

SECTION 2.13. Auction Agent.

(a) The District authorizes and expressly directs the Trustee, as agent for the Beneficial Owners of the Auction Rate Securities, to enter into an Auction Agent Agreement relating to Auction Rate Securities with a designated Auction Agent, including any Auction Agent for Auction Rate Securities as may be appointed on Schedule I to the Indenture. Any Auction Agent shall be:

(i) subject to the written approval of the applicable Broker-Dealer; and either:

(A) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in New York, New York, or such other location as approved by the Trustee in writing and having a combined capital stock or surplus of at least \$15,000,000; or

(B) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$15,000,000, and, in either case, authorized by law to perform all the duties imposed upon it under the applicable Auction Agent Agreement and Section 2.05 of this Appendix F.

(b) The Auction Agent may at any time resign and be discharged of its duties as Auction Agent and obligations under the Auction Agent Agreement by giving at least 90 days' prior notice to the Trustee, the District and any Qualified Swap Provider. The Auction Agent may be removed at any time by a request of the Trustee (with a copy to the Trustee and the District) and upon 30 days' notice to the Auction Agent or upon the written direction of the District or any Qualified Swap Provider (if applicable), the Beneficial Owners of at least two-thirds of the aggregate Principal Amount of the Auction Rate Securities then Outstanding, by an instrument signed by such Beneficial Owners or their attorneys and filed with the Auction Agent, the applicable Broker-Dealer, the Trustee, and any Qualified Swap Provider (if applicable) upon at least 30 days' prior notice. Neither resignation nor removal of the Auction Agent pursuant to the provisions of the preceding two sentences shall be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment. A substitute Auction Agent Agreement shall be entered into with any substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 45 days

after notifying the Trustee, the applicable Broker-Dealer and the District in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment. The Trustee shall not be liable for any action taken, suffered or omitted by the Auction Agent.

(c) The periodic fees of the Auction Agent shall be invoiced to the Trustee, with a copy to the District, and paid from the Administrative Expense Account.

(d) If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of the District, with the consent of the Qualified Swap Provider (if applicable), shall use its best efforts to appoint a substitute Auction Agent for such Series of Bonds.

(e) The Auction Agent is acting solely as a non-fiduciary agent of the Trustee, at the direction of the District for the benefit of the Holders in connection with Auctions. In the absence of bad faith, negligent failure to act or negligence on its part, the applicable Auction Agent shall not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been guilty of negligence in ascertaining (or failing to ascertain) the pertinent facts.

(f) Notwithstanding the provisions of paragraph (a) of this section, the Auction Agent may be removed at any time, at the request of the District, with the consent of the Qualified Swap Provider (if applicable), for any breach of its obligations under the Indenture or under the related Auction Agent Agreement.

SECTION 2.14. Broker-Dealers.

(a) The Auction Agent will enter into a Broker-Dealer Agreement with a Broker-Dealer for the Auction Rate Securities, including any Broker-Dealer Agreement with a Broker-Dealer appointed on Schedule I to the Indenture. The District may, from time to time, approve one or more additional Persons to serve as Broker-Dealers under Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Trustee and the applicable Auction Agent, promptly following the execution thereof.

(b) The periodic fees of the Broker-Dealer shall be invoiced to the Trustee, with a copy to the District, and paid from the Administrative Expense Account.

(c) Any Broker-Dealer may be removed at any time, at the request of the District, for any breach of its obligations hereunder or under the Broker-Dealer Agreement and any Broker-Dealer may at any time resign and be discharged of the duties and obligations hereunder and under the Broker-Dealer Agreement by giving at least ninety (90) days written notice to the District and the Trustee provided that, in each case, at least one Broker-Dealer Agreement must be in effect immediately following such removal.

SECTION 2.15. No District or Trustee Liability for Auction Failures. Neither the

District, the Trustee or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Holders or prospective Holders, nor shall the District nor the Trustee be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers. The District shall have no liability if there are not Sufficient Clearing Bids (as such term is defined in the applicable Auction Agent Agreement) from time to time pursuant to the Auction Procedures.

APPENDIX G

FORM OF CONVERTIBLE AUCTION RATE SECURITY

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

SACRAMENTO METROPOLITAN FIRE DISTRICT
TAXABLE PENSION FUNDING BONDS, SERIES 2004__

No. R-_____ \$ _____

<u>Initial Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue Date</u>	<u>CUSIP</u>	<u>ISIN</u>
_____ %	May 15, _____	_____, 2004		

REGISTERED OWNER: CEDE & CO.

INITIAL PRINCIPAL AMOUNT: _____ DOLLARS

ACCRETED VALUE AT MATURITY: _____ DOLLARS

THE OBLIGATIONS OF THE DISTRICT HEREUNDER, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS WHEN DUE, ARE OBLIGATIONS OF THE DISTRICT IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL, WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION, AND NEITHER THE BONDS NOR THE OBLIGATION OF THE DISTRICT TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Sacramento Metropolitan Fire District, a fire protection district duly organized and existing under the laws of the State of California (the "District"), for value received hereby promises to pay in lawful money of the United States of America to the registered owner specified above, or registered assigns, the Accreted Value at Maturity specified above on the Maturity Date specified above, or upon earlier redemption thereof, calculated as set forth in the Indenture (as hereinafter defined), in each case, in lawful money of the United States of America, and interest on such Accreted Value after November 15, 2018 (the "Full Accretion Date") payable in like money from the next succeeding Rate Adjustment Date at the Applicable Auction Rate established pursuant to the Auction and Settlement Procedures set forth in the Indenture. While this Bond is an Auction Rate Security, except as otherwise specifically provided in the

Indenture, the provisions of the Indenture and the Auction and Settlement Procedures set forth in the Auction Agent Agreement shall govern the interest rates per annum and the payment terms of this Bond. Interest due on or before the maturity or prior redemption of this Bond shall be payable only by check mailed on the Interest Payment Date by first-class mail to the registered owner hereof by Deutsche Bank National Trust Company, as trustee (the "Trustee") provided that upon the written request of an Holder of \$1,000,000 or more in aggregate initial principal amount of Bonds received by the Trustee prior to the applicable record date, interest shall be paid to such Holder by wire transfer in immediately available funds. The Accreted Value hereof is payable in lawful money of the United States of America at the Corporate Trust Office of the Trustee.

This Bond is one of a duly authorized issue of bonds of the District designated as its "Taxable Pension Funding Bonds, Series 2004," further designated "Series 2004_" and issued in the form of Convertible Auction Rate Securities (the "Bonds") in the aggregate initial principal amount of _____ dollars (\$ _____), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates and modes), and is issued under and pursuant to the provisions of the Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California, and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of the Indenture, dated as of October 1, 2004, by and between the Trustee and the District (the "Indenture"), copies of which are on file at the Corporate Trust Office of the Trustee. The Bonds are issued on a parity under the Indenture with \$ _____ aggregate principal amount of the District's Taxable Pension Funding Bonds, Series 2004_ and Series 2004_ (collectively with the Bonds, the "2004 Bonds").

Under the Indenture, the obligation of the District under the 2004 Bonds, including the obligation to make all payments of the principal, Accreted Value or redemption price of and the interest on the 2004 Bonds on their respective Payment Dates (as that term is defined in the Indenture), is not subject to the debt limitations of the California Constitution. The District is obligated to satisfy its obligations under the 2004 Bonds from any money lawfully available in any fund of the District (whether held by the District or in the County treasury) and the Director Treasurer of the District is obligated, to the extent permitted by law, to transfer from any money lawfully available in any such fund amounts necessary to make such payments. Reference is hereby made to the Act and to the Indenture and to any and all amendments thereof for a description of the terms on which the 2004 Bonds are issued, for the rights of the registered owners of the 2004 Bonds, for the security for payment of the 2004 Bonds, for the remedies upon default and the limitations thereon and for the provisions for the amendment of the Indenture (with or without consent of the registered owners of the 2004 Bonds); and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the District and the registered owner of this Bond, to all the provisions of which the registered owner of this Bond, by acceptance hereof, agrees and consents. Under the Indenture, additional bonds may be issued on a parity with the 2004 Bonds, but only subject to the conditions and upon compliance with the procedures set forth in the Indenture.

This Bond is issued as a Convertible Auction Rate Security. During the Initial Auction Rate Period, this Bond shall not bear current interest but shall accumulate earned interest at a rate of _____% in equal daily amounts on the basis of a 360-day year of twelve 30-day months,

compounded on May 15 and November 15 of each year commencing _____ 15, 20__, until the Full Accretion Date. For each Auction Rate Period following the Initial Auction Rate Period (each, a "Subsequent Auction Rate Period") or portion thereof, interest on the Accreted Value of Convertible Auction Rate Securities will accrue and will be payable in arrears on each succeeding Interest Payment Date (computed for the actual number of days elapsed on the basis of a 360-day year). The Trustee shall make the calculation described above not later than the close of business of each Auction Date.

If an Auction is not held on the initial Auction Date for a reason other than a Catastrophic Event, the Convertible Auction Rate Securities shall bear interest at the Maximum Auction Rate and the length of such Subsequent Auction Rate Period shall be 7 Rate Period Days, provided, that if such Maximum Auction Rate shall be in effect for the lesser of (a) three successive Auction Rate Periods or (b) 35 days, the District shall initiate proceedings to convert such Auction Rate Securities to a Fixed Rate.

An "Interest Payment Date" for the Bonds means, (i) for each Auction Rate Period of 360 days or less, the next Business Day after an Auction Date; (iii) for any other Auction Rate Period (excluding the Initial Auction Rate Period), each May 15 and November 15 (or if such May 15 or November 15 is not a Business Day, the next Business Day following such May 15 or November 15); and (iv) each Maturity Date for the Convertible Auction Rate Securities. An "Auction Rate Period" means the Initial Auction Rate Period and any Subsequent Auction Rate Period and, more specifically, means, as to the applicable Convertible Auction Rate Securities of a Sub-Series, each period during which a specific Auction Rate is in effect, as a result of an Auction, for such Sub-Series of Convertible Auction Rate Securities, which Auction Rate Period may be a Standard Auction Rate Period or a Special Auction Rate Period as may be designated from time to time by the District pursuant to an Auction Period Adjustment for a Sub-Series of Convertible Auction Rate Securities, each Auction Rate Period running from, and including, the Rate Adjustment Date and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date.

The rate of interest on Convertible Auction Rate Securities for each Subsequent Auction Rate Period, shall be equal to the per annum rate of interest that results from implementation of the Auction Procedures described in the Indenture; provided that the Auction Rate shall not exceed the Maximum Auction Rate; and provided further that if on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Auction Rate Period shall equal the Maximum Auction Rate on such Auction Date. Notwithstanding the foregoing, (i) if the ownership of Convertible Auction Rate Securities is no longer maintained in book-entry form by DTC, the rate of interest on Convertible Auction Rate Securities for any Auction Period commencing after the delivery of certificates representing Convertible Auction Rate Securities shall equal the Maximum Auction Rate on the Business Day immediately preceding the first day of such Auction Rate Period or (ii) if a Payment Default occurs, Auctions will be suspended and the interest rate for the Auction Rate Period commencing on or after such Payment Default and for each Auction Rate Period thereafter to and including the Auction Rate Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate. Notwithstanding anything herein to the contrary, no Auction Rate shall exceed the Maximum Auction Rate.

Following the Initial Auction Rate Period, Convertible Auction Rate Securities will bear interest at the applicable Auction Rate, which will be established for each Subsequent Auction Rate Period in accordance with the Auction Procedures described in the Indenture; provided, that as of the initial Auction Date, each Existing Owner of Convertible Auction Rate Securities will be automatically deemed by the Auction Agent to have submitted a Sell Order for all of the Convertible Auction Rate Securities then owned by such Existing Owner unless such Existing Owner, prior to the Submission Deadline, submits a Hold Order to a Broker-Dealer indicating the principal amount of Convertible Auction Rate Securities which such Existing Owner desires to continue to hold regardless of the Auction Rate for the next succeeding Auction Rate Period.

By purchasing Convertible Auction Rate Securities, whether in an Auction or otherwise, each prospective purchaser or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms set forth in the Indenture; (ii) so long as the beneficial ownership of the Convertible Auction Rate Securities is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Convertible Auction Rate Securities only pursuant to a Bid or a Sell Order in an Auction, or to or through a Broker-Dealer, provided that in the Convertible Auction Rate Securities so transferred, its Participant or its Broker-Dealer advises the Auction Agent of such transfer; and (iii) to have its beneficial ownership of Bonds maintained at all times in book-entry form by the purchaser for the account of its Participants, which in turn will maintain records of such beneficial ownership, and to authorize such Participants to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

During the Initial Auction Rate Period, this Bond is transferable as provided in the Indenture, only upon the books of the Trustee kept for the purpose at the principal corporate trust office of the Trustee, by the registered owner hereof in person, or by his or her duly authorized attorney, upon surrender of this Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his or her duly authorized attorney, and thereupon a new registered Bond or Bonds, of the same Accreted Value, Mode and maturity, in the same denomination, or in different authorized denominations equal in the aggregate to the Accreted Value of this Bond, shall be issued to the transferee in exchange therefor as provided in the Indenture, and upon payment of the charges therein prescribed. During the Initial Auction Rate Period, the Trustee shall not be required to register the transfer or exchange of any Bond during the 15 day period next preceding selection of Bonds for redemption (if applicable) or as to any Bond selected for any redemption.

Following the Initial Auction Rate Period and so long as the ownership of the Convertible Auction Rate Securities is maintained in book-entry form by DTC, an Existing Owner may sell, transfer or otherwise dispose of the Bonds only pursuant to a Bid or Sell Order (as defined in the Indenture) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. An Auction shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in the Indenture.

Following the Initial Auction Rate Period, the District may change from time to time the length of one or more Auction Periods (an "Auction Period Adjustment") for the Convertible

Auction Rate Securities of a Sub-Series. The District shall initiate the Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent and DTC at least 10 Business Days prior to the Auction Date for such Auction Period. Any such changed Auction Period shall not be less than seven days.

At the option of the District, all, but not less than all, of the Bonds of a Sub-Series may be converted from Convertible Auction Rate Securities to Bonds bearing interest at fixed interest rates on the Full Accretion Date and on any Business Day immediately following the end of an Auction Rate Period for such Bonds (the "Fixed Rate Conversion Date"). The Convertible Auction Rate Securities of such Sub-Series will be subject to mandatory tender for purchase at a price of par, plus accrued but unpaid interest (the "Tender Price"). Upon satisfaction of certain conditions set forth in the Indenture, the affected Convertible Auction Rate Securities shall be purchased or deemed purchased at their Tender Price.

This Bond is not subject to redemption prior to the Full Accretion Date nor during any Subsequent Auction Rate Period.

This Bond is subject to redemption on the Full Accretion Date, from any available moneys, at the option of the District, in whole, or in part, pro rata among the Holders, at a Redemption Price equal to the Accreted Value at Maturity thereof, without premium.

Notice of redemption of any Bonds or any portions thereof shall be given as set forth in the Indenture. Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the Information Services, or the insufficiency of any such notice or the failure of any registered owner to receive any redemption notice mailed to such registered owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds; provided that any such notice of redemption may be cancelled and annulled by a Written Request of the District (as that term is defined in the Indenture) given to the Trustee at least five (5) days prior to the date fixed for redemption, whereupon the Trustee shall forthwith give appropriate notice of such cancellation and annulment to all the recipients of such notice of redemption.

If an Event of Default, as defined in the Indenture, shall occur, the principal or Maturity Value of all Bonds (and any additional bonds authorized by the Indenture) may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture; except that the Indenture provides that in certain events such declaration and its consequences may be rescinded under the circumstances as provided therein.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been executed and dated by the Trustee.

It is hereby certified that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Constitution or laws of the State of California and is not in excess of

the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, the Sacramento Metropolitan Fire District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the Authorized Representative of the District and the seal of the District to be affixed and attested by the facsimile signature of the Clerk of the Board of Directors of the District, and has caused this Bond to be dated as of the original issue date specified above.

SACRAMENTO METROPOLITAN FIRE
DISTRICT

By: _____
Authorized Representative

[SEAL]

ATTESTED:

By: _____
Clerk of the Board of Directors

DTC ENDORSEMENT

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

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture which has been authenticated on _____.

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Trustee

By _____
Authorized Signatory

ASSIGNMENT

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

Dated: _____

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

Signature Guaranteed: _____
Signature(s) guarantee should be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program.

[FORM OF NOTICE OF PAYMENT DEFAULT]

VIA FACSIMILE OR E-MAIL

To: Auction Agent

Broker Dealer(s)

NOTICE IS HEREBY GIVEN that a Payment Default has occurred in connection with the above-referenced Bonds of the Sacramento Metropolitan Fire District (the "District") as specified in the Indenture, dated as of October 1, 2004, between the District and Deutsche Bank National Trust Company, as trustee (the "Trustee"), and has not been cured.

Determination of the interest rate on the Convertible Auction Rate Securities pursuant to the Auction Procedures will be suspended. The interest rate on the Convertible Auction Rate Securities for each Auction Rate Period commencing after _____, _____ will equal the Non-Payment Rate as it is determined by the Trustee on the first day of such Auction Rate Period. All terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture.

Dated: _____

DEUTSCHE BANK NATIONAL TRUST COMPANY, as Trustee

By _____
Authorized Signatory

cc: Sacramento Metropolitan Fire District

[NOTICE OF CURE OF PAYMENT DEFAULT]

VIA FACSIMILE OR E-MAIL

To: Auction Agent

Broker Dealer(s)

NOTICE IS HEREBY GIVEN that the Payment Default previously reported in connection with the above-referenced Bonds of the Sacramento Metropolitan Fire District (the "District") as specified in the Indenture, dated as of October 1, 2004, between the District and Deutsche Bank National Trust Company, as trustee (the "Trustee"), has been cured.

Dated:

DEUTSCHE BANK NATIONAL TRUST COMPANY, as Trustee

By _____
Authorized Signatory

cc: Sacramento Metropolitan Fire District

SCHEDULE I

INITIAL INTEREST PAYMENT DATES AND PERIODS, PRINCIPAL PAYMENT DATES,
MANDATORY AND OPTIONAL REDEMPTION PROVISIONS AND ACCRETED VALUE
TABLE FOR 2004 BONDS

SACRAMENTO METROPOLITAN FIRE DISTRICT
TAXABLE PENSION FUNDING BONDS
\$37,930,000 SERIES 2004A
\$20,200,000 SERIES 2004B
\$11,868,975 SERIES 2004C

Series 2004A Bonds

Maturity Schedule

\$37,930,000 Standard Bonds, Series 2004A, Dated as of October 20, 2004

<u>Maturity Date</u> (May 15)	<u>Principal</u> <u>Amount</u>	<u>Rate</u>
2019	\$23,040,000	4.790%
2025	\$14,890,000	5.320%

Interest Payment Dates

Interest Payment Dates for Series 2004A Bonds shall be May 15 and November 15, commencing on November 15, 2004.

Redemption Provisions

Optional Redemption. Series 2004A Bonds will be subject to optional redemption prior to their maturity at the option of the District, in whole or in part (and if in part, pro rata as described below) on any date, at a redemption price equal to the greater of:

- 100 percent of the principal amount of the Series 2004A Bonds to be redeemed;
or
- the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2004A Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 12.5 basis points, as calculated by the District,

plus in each case, accrued and unpaid interest on the Series 2004A Bonds being redeemed to the date fixed for redemption.

The following definitions will apply to this "Redemption Provisions" section only:

"Comparable Treasury Issue" means the United States Treasury security or securities selected by Lehman Brothers Inc. which has an actual or interpolated maturity comparable to the remaining average life of the Fixed Rate Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Fixed Rate Bonds.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Reference Treasury Dealer" means Lehman Brothers, Inc. and its successors and three other firms, specified by the District from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the District will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price.

Mandatory Redemption. The Series 2004A Bonds maturing on May 15, 2019 are subject to mandatory redemption in part from mandatory sinking account payments on May 15, 2005 and on each May 15 thereafter up to and including May 15, 2019, pro rata among the Holders, at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date without premium, as follows:

<u>May 15</u>	<u>Mandatory Sinking Account Payment</u>
2005	\$ 810,000
2006	415,000
2007	555,000
2008	705,000
2009	865,000
2010	1,035,000
2011	1,225,000
2012	1,420,000
2013	1,635,000
2014	1,860,000
2015	2,105,000
2016	2,365,000
2017	2,640,000
2018	2,940,000
2019*	2,465,000

* Final Maturity.

The Series 2004A Bonds maturing on May 15, 2025 are subject to mandatory redemption in part from mandatory sinking account payments on May 15, 2020 and on each May 15 thereafter up to and including May 15, 2025, pro rata among the Holders, at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date without premium, as follows:

<u>May 15</u>	<u>Mandatory Sinking Account Payment</u>
2020	\$2,250,000
2021	2,430,000
2022	2,880,000
2023	2,075,000
2024	2,520,000
2025*	2,735,000

* Final Maturity.

Series 2004B Bonds

Maturity Schedule and Initial Interest Payment Dates

\$20,200,000 Auction Rate Securities, Series 2004B, Dated as of October 20, 2004

<u>Maturity Date (May 15)</u>	<u>Principal Amount</u>	<u>Length of Initial Auction Rate Period</u>	<u>Initial Interest Rate</u>	<u>Initial Interest Payment Date</u>	<u>Initial Auction Date</u>
2030	\$20,200,000	Date of Issuance to November 19, 2025	5.370%	November 15, 2004	November 19, 2025

The Initial Interest Payment Dates for the Series 2004B Bonds during the Initial Auction Rate Period for the Series 2004B Bonds will be each May 15 and November 15 (or if such May 15 or November 15 is not a Business Day, the next Business Day following such May 15 or November 15) in arrears, commencing on November 15, 2004, and on the Business Day following the first Auction Date for the Series 2004B Bonds.

Optional Redemption. The Series 2004B Bonds will not be subject to optional redemption during its Initial Interest Rate Period. Beginning November 19, 2025, prior to their Fixed Rate Conversion Date, if any, the Series 2004B Bonds are subject to redemption at the option of the District on any Interest Payment Date, unless specified otherwise by the District during Subsequent Auction Rate Periods, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest with respect thereto, prior to their respective maturities in any order of maturity from any moneys available therefor, in whole or in part in any Authorized Denomination of \$25,000 or any integral multiple thereof.

2004B Sinking Fund Payment. The Series 2004B Bonds are subject to mandatory redemption in part from mandatory sinking account payments on May 15, 2026 and on each May 15 thereafter up to and including May 15, 2030, pro rata among the Holders, at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date without premium, as follows:

<u>May 15</u>	<u>Mandatory Sinking Account Payment</u>
2026	\$3,150,000
2027	3,675,000
2028	3,925,000
2029	4,550,000
2030*	4,900,000

* Final Maturity.

Series 2004C Bonds

(A) Interest Accrual Dates means each May 15 and November 15 commencing November 15, 2004 and ending November 15, 2018.

(B) Terms of the Series 2004C Bonds. The Series 2004C Bonds in the initial principal amount of \$11,868,975 shall be issued as Convertible Auction Rate Securities, in the form of fully registered Bonds in Authorized Denominations, shall mature on May 15, 2034, shall be dated as of October 20, 2004, and shall not bear interest during the Initial Auction Rate Period but shall accrue interest at an initial interest rate of 5.510% from the date of delivery thereof to and including November 15, 2018 (the "Full Accretion Date"). As of the Full Accretion Date, the Maturity Value of the Series 2004C Bonds shall be \$25,500,000. Thereafter the Series 2004C Bonds shall bear interest at Auction Rates determined as provided in the Auction Procedures with the first Auction Date occurring on November 15, 2018. The Series 2004C Bonds shall bear interest on the Maturity Value thereof payable on the Interest Payment Date applicable to each Subsequent Auction Rate Period.

Series 2004C Sinking Fund Account Payment. The Series 2004C Bonds are subject to mandatory redemption by the District prior to their stated maturity. The Series 2004C Bonds shall be redeemed, pro rata among the Holders, solely from Sinking Fund Account Payments in the amounts and on the dates set forth below, upon mailed notice as provided in the Indenture, at a redemption price equal to the sum of the Maturity Amount thereof plus accrued interest thereon to the redemption date, without premium:

<u>Series 2004C Bonds</u>	
<u>Sinking Fund Account Redemption Date (May 15)*</u>	<u>Sinking Fund Account Payment</u>
2031	\$5,500,000
2032	6,000,000
2033	6,675,000
2034**	7,275,000

* If May 15 falls during any Auction Rate Period, such Bonds will be redeemed on the Business Day immediately succeeding the end of the Auction Rate Period during which such Sinking Fund Account Payment Date falls.

** Final Maturity.

(C) Optional Redemption. The Series 2004C Bonds are not subject to redemption prior to the Full Accretion Date.

The Series 2004C Bonds are subject to optional redemption on the Full Accretion Date and thereafter on any Business Day immediately following the end of an Auction Rate Period, from any available moneys, at the option of the District, in whole, or in part, pro rata among the Holders, at a redemption price equal to the Accreted Value thereof, without premium plus accrued interest thereon to the date fixed for redemption.