
PURCHASE AGREEMENT

Dated as of February 1, 1997

by and between

**NEEDLES PUBLIC UTILITY AUTHORITY,
as Purchaser**

and the

**CITY OF NEEDLES, CALIFORNIA,
as Seller**

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PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT, dated as of February 1, 1997, is by and between the NEEDLES PUBLIC UTILITY AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and the CITY OF NEEDLES, a charter City and municipal corporation duly organized and existing under the laws of the State of California (the "City"),

WITNESSETH:

WHEREAS, the City owns, operates and controls the City'S Water, Sewer and Electrical Systems (the "Enterprises") and has further established certain funds and accounts which relate to the Enterprise; and

WHEREAS, the Authority wishes to purchase the Enterprises from the City, and the City wishes to sell the Enterprises to the Authority, and the Authority is authorized to issue bonds to finance a portion of the price of acquiring the Enterprises and to make Purchase Payments (as defined herein) to the City for the purpose of financing the remaining portion of the price of acquiring the Enterprises, and

WHEREAS, the Authority is authorized to own, operate and control the Enterprises; and

WHEREAS, in order to provide funds to pay a portion of the purchase price of the Enterprises (the "Initial Payment"), the Authority has authorized the issuance of its \$21,145,000 Needles Public Utility Authority Revenue Bonds, 1997 Series (the "Bonds"), pursuant to the Indenture of Trust (the "Indenture") of even date herewith, by and between the Authority and State Street Bonds and Trust Company of California, N.A., as trustee (the "Trustee"); and

WHEREAS, the Authority and the City desire to establish the terms and conditions of the sale of the Enterprises and to establish a schedule of Purchase Payments which represent the remaining purchase price for the Enterprises after payment of the Initial Payment; and

WHEREAS, the Authority and the City have duly authorized the execution and delivery of this Purchase Agreement;

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

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Purchase Agreement shall have the respective meanings

specified in the Indenture. In addition, the following terms defined in this Section 1.1 shall, for all purposes of this Purchase Agreement, have the respective meanings herein specified.

"Acquisition" means the acquisition of the Enterprises pursuant to this Agreement.

"Acquisition Costs" means, with respect to the Enterprises, all costs of the Acquisition thereof, including but not limited to all costs required to be paid to any person or entity under the terms of any agreement for or relating to the Acquisition of the Enterprises.

"Agreement" means this Purchase Agreement, together with any duly authorized and executed amendments hereto.

"Annual Debt Service " means, for any Bond Year, the sum of the interest payable on the Bonds in such Bond Year and the principal amount of such Bonds scheduled to be paid in such Bond Year (whether at maturity or through mandatory sinking fund payment redemption).

"Ballot Proposition" means Measure A placed before the qualified electors of the City of Needles at a special election held on January 14, 1997.

"Bonds " means the Needles Public Utility Authority Revenue Bonds, 1997 Series.

"Charter" means the Charter of the City of Needles and all Ordinances adopted by the City in connection therewith.

"Closing Date" means the date of delivery of the Bonds to the original purchaser thereof, which date is expected to be March 6, 1997.

"Enterprises " means the City's utility enterprises, consisting of the property and assets described in Exhibit A hereto, which Enterprises consist of an electric system (the "Electric System"), a water system (the "Water System") and a sewer system (the "Sewer System"). The Electric System component generally consists of the entire electric generation, transmission and distribution system owned or operated by the City, including, but not limited to all facilities, property and improvements currently owned by the City for the generation, transmission and distribution of electric power to residents served thereby, whether within or without the City, and any necessary land, rights, entitlement, power supply, contracts and other property owned by the City and useful in connection therewith. The Water System component consists of, collectively, the entire water treatment, production, storage and distribution system owned by the City, including, but not limited to all facilities, properties and improvements owned by the City for the collection, treatment and supply of water to residents served thereby, whether within or without the City, and any necessary lands, rights, entitlement, water rights and other property owned by the City and useful in connection therewith. The Sewer System component consists of, collectively, the entire sewer collection and treatment system owned by the City, including, but not limited to all facilities, properties and improvements owned by the City for the collection, treatment and disposal of sewage, whether within or without the City, and any necessary land, rights, entitlement and other property owned by the City and useful in connection therewith.

"Fiscal Consultant" means any consultant or firm of such consultants appointed by the Authority and who, or each of whom: (a) is judged by the Authority to have experience in matters relating to the financing of utility system enterprises; (b) is in fact independent and not under domination of the Authority or the City; (c) does not have any substantial interest, direct or indirect, with the Authority or the City other than as purchaser of the Bonds, and (d) is not connected with the Authority or the City as an officer or employee of the Authority or the City, but who may be regularly retained to make reports to the Authority or the City.

"Gross Revenues" means, for any Bond Year, the sum of all gross charges received for, and all other gross income and receipts derived by the Authority from the ownership and operation of the Enterprises or otherwise arising from the Enterprises, including, but not limited to, investment earnings thereon.

"Independent Accountant" means any certified public accountant or firm of certified public accountants appointed and paid by the Authority, and who, or each of whom, (a) is in fact independent and not under domination of the Authority; (b) does not have any substantial interest, direct or indirect, in the Authority, and (c) is not connected with the Authority as an officer or employee of the Authority but who may be regularly retained to make annual or other audits of the books of or reports to the Authority.

"Management Agreement" means the Management Agreement between the Authority and the City, dated as of February 1, 1997, pursuant to which the City agrees to manage and operate the Enterprises on behalf of the Authority.

"Material Contracts" means those electric supply and water rights contracts or agreements existing as of the date hereof relating to the Enterprises to which the City is a party, which are listed on exhibit C hereto.

"Operation and Maintenance Costs" means the reasonable and necessary costs and expenses paid for maintaining and operating the Enterprises, including but not limited to (a) costs of pumping, collection or other acquisition of water to be supplied by the Enterprises, (b) costs of electricity and other forms of energy supplied to the Enterprises, (c) the reasonable expenses of management (including amounts payable under the Management Agreement to the City) and repair and other costs and expenses necessary to maintain and preserve the Enterprises in good repair and working order and (d) the reasonable administrative costs of the Authority attributable to the operation and maintenance of the Enterprises, but in all cases excluding (i) debt service payable on obligations incurred by the Authority with respect to the Enterprises, (ii) depreciation replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Payment Date" means the first day of each month during the Term of this Purchase Agreement, commencing April 1, 1997.

"Purchase Payments" means the amounts payable by the Authority pursuant to Section 4.3, including any prepayments thereof pursuant to Article IX and which are set forth in Exhibit B hereto.

"Purchase Price" shall mean the amount described in Section 3.2 hereof.

"Surplus Revenues" means, for any Fiscal Year, an amount equal to all of the Gross Revenues received with respect to such Fiscal Year, plus the amount on deposit in the Rate Stabilization Fund with respect to such Fiscal Year minus the amount required to pay all Operation and Maintenance Costs becoming payable with respect to such Fiscal Year, and minus the amount required to pay Annual Debt Service on the Bonds for such Fiscal Year.

"Term of this Purchase Agreement" means the time during which this Purchase Agreement is in effect, as provided in Section 4.1.

"Termination Date" means the earlier of (i) February 1, 2065; or (ii) the date on which all amounts due from the Authority to the City under this Purchase Agreement have been paid in full.

"Utility Fund" means the Authority'S Utilities Enterprises Fund established pursuant to the Indenture.

ARTICLE II

COVENANTS AND REPRESENTATIONS

Section 2.1. Covenants and Representations of the City. The City makes the following covenants and representations to the Authority that as of the Closing Date:

(a) The City is a charter city and municipal corporation duly organized and validly existing under the laws of the State, has full legal right, power and authority to enter into this Purchase Agreement and to carry out and consummate all transactions contemplated hereby, and by proper action, including an approval of the Ballot Proposition by the voters of the City, has duly authorized the execution and delivery of this Purchase Agreement.

(b) The representatives of the City executing this Purchase Agreement are fully authorized to execute the same.

(c) This Purchase Agreement has been duly authorized, executed and delivered by the City, and constitutes the legal, valid and binding agreement of the City, enforceable against the City in accordance with its terms.

(d) The execution and delivery of this Purchase Agreement, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions hereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or the Enterprises are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach,

default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Purchase Agreement, or the financial condition, assets, property or operations of the Enterprises.

(e) No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City (other than a favorable vote on the Ballot Proposition, which has occurred), and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Purchase Agreement or the consummation of any transaction herein and therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or threatened against or affecting the City or the Enterprises which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Purchase Agreement or upon the financial condition or operation of the Enterprises, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Purchase Agreement, or the financial conditions or operations of the Enterprises.

(g) To the extent currently levied, the City will continue to levy water and sewer availability charges with respect to the Enterprises on an annual basis, and will transmit notice of the amount of such charge to the County of San Bernardino. The amount of such water and sewer availability charges shall be an amount requested by the Authority.

Section 2.2. Covenants and Representations of the Authority. The Authority makes the following covenants and representations as the basis for its undertakings herein contained:

(a) The Authority is a joint powers authority, duly organized and existing under the laws of the State. The Authority has the power to enter into the transactions contemplated by this Purchase Agreement and to carry out its obligations hereunder. By proper action of its governing body, the Authority has been duly authorized to execute, deliver and duly perform this Purchase Agreement.

(b) To finance the Acquisition Costs of the Enterprises, finance additional improvements to the Enterprises, fund a reserve fund and pay costs of issuance, the Authority will issue the Bonds, which will bear interest, mature and be subject to redemption as set forth in the Indenture, and will pay the Purchase Payments as provided herein.

(c) The Authority is not in default under any of the provisions of the laws of the State, which default would affect its existence or its powers referred to in subsection (a) of this Section 2.2.

ARTICLE III

ISSUANCE OF BONDS; ACQUISITION AND OPERATION OF ENTERPRISES

Section 3.1. Approval of Bonds. The Authority has authorized the issuance of and delivery of the Bonds pursuant to the Indenture in the aggregate principal amount of Twenty One Million One Hundred Forty-Five Dollars (\$21,145,000).

The Authority agrees that the proceeds of sale of the Bonds shall be paid to the Trustee on the Closing Date for deposit pursuant to the terms and conditions of the Indenture. The City hereby approves the Indenture, the assignment to the Trustee of the rights of the Authority assigned under and pursuant to the Indenture, and the issuance of the Bonds by the Authority under and pursuant to the Indenture and the use of the proceeds of the Bonds by the Authority as provided in the Indenture.

Section 3.2. Acquisition of the Enterprises. The Authority agrees to purchase the Enterprises from the City, and the City agrees to sell, and hereby does sell, such Enterprises to the Authority, for the Purchase Price of \$65,000,000.00. Such Purchase Price shall be paid by means of (a) the deposit by the Authority of a portion of the proceeds of the Bonds in the amount of \$17,941,091.87, as provided in the Indenture as a down payment to be paid on the date of issuance of the Bonds, and (b) the Authority's obligation to pay the balance of the Purchase Price by means of paying the Purchase Payments. The Purchase Payments are intended to amortize the balance of the Purchase Price over a term of 68 years at an amount of \$685,300.00 per annum on the unpaid balance of the Purchase Price. The parties hereto acknowledge that such Purchase Price represents the fair market value of the Enterprises as determined by Urban Logic, Inc., an independent consultant retained by the Authority and the City. The Purchase Price shall be (a) increased by an amount equal to any outstanding advances from the Enterprises to the City or any of its operating departments or enterprises (including, but not limited to, the Needles Hospital) (collectively, the "Advances"); and (b) decreased by an amount equal to the Advances, which Advances are hereby forgiven by the Authority, such forgiveness to extend to the City and to all departments and enterprises of the City (including the Needles Hospital) that benefited from the Advances.

Section 3.3. Availability of Rights of Way; Franchise Fee. The City hereby agrees to provide to the Authority all necessary rights of way and rights of access in and to all real property, electric, water and sewer rights or interests therein now or hereafter acquired and owned by the City, as may be necessary or convenient to enable the Authority to acquire, operate and control the Enterprises; provided that the City shall have the right to collect an annual franchise fee from the Authority with respect to the use of such rights of way and rights of access, in such amount as may be determined by the City. The City covenants that it will execute, deliver and record any and all additional documents as may be required to be executed, delivered and recorded to establish such rights of way and rights of access. The City agrees that any City franchise fee shall be payable on a subordinate basis to the Annual Debt Service on the Bonds and any Parity Obligations.

Section 3.4. Appointment of City as Manager of Enterprises Under Management Agreement. The Authority and the City are entering into a Management Agreement dated as of

February 1, 1997 (the "Management Agreement") under which the Authority will contract with the City to manage, operate and maintain the Enterprises. All contracts relating to the acquisition, operation and maintenance of the Enterprises shall be subject to all applicable provisions of law relating to like property owned and operated by joint powers authorities and by municipal corporations.

Section 3.5. Material Contracts; Electric and Water Supply. The City is a party to the Material Contracts listed in Exhibit C hereto, which provide for the supply of electric power and water and/or water rights, for use, distribution and sale by the Enterprises. The City hereby assigns to the Authority its rights under such Material Contracts. In connection with such assignment, the City further agrees to make such electric and water supply and sources available to the Authority for use, distribution and sale by the Enterprises at no cost or expense to the Authority other than the payment of any costs and expenses provided for in such Material Contracts to be paid by the City for such electric and water supply and sources.

ARTICLE IV

PURCHASE PAYMENTS

Section 4.1. Term. The Term of this Purchase Agreement shall commence on the Closing Date, and shall end on the date on which the Authority shall have paid all of the Purchase Payments and all other amounts due and payable hereunder. The provisions of this Section 4.1 are subject in all respects to any other provisions of this Purchase Agreement relating to the termination hereof.

Section 4.2. Title. Upon the sale of the Enterprises to the Authority pursuant to Section 3.2 hereof, title to the Enterprises shall be deemed conveyed to and vested in the Authority. The Authority and the City shall execute, deliver and cause to be recorded any and all documents, if any, necessary to convey such title to the Authority.

Section 4.3. Purchase Payments.

(a) **Obligation to Pay.** The Authority agrees to pay to the City, its successors and assigns, but solely from the Surplus Revenues and other funds pledged hereunder, the Purchase Price. The Purchase Payments shall be paid by the Authority to the City, on each Purchase Payment Date and shall be in the amounts set forth in Exhibit B hereto. Purchase Payments shall be applied first to accrued interest and second to principal.

(b) **Effect of Prepayment.** In the event that the Authority prepays all remaining Purchase Payments in full pursuant to Article IX, the Authority's obligations under this Purchase Agreement shall thereupon cease and terminate, including but not limited to the Authority's obligation to pay Purchase Payments therefor under this Section 4.3. In the event that the Authority prepays the Purchase Payments in part but not in whole pursuant to Section 9.2 or Section 9.3, the principal component of each succeeding Purchase Payment shall be reduced as provided in such Sections, and the interest component of each remaining Purchase Payment shall be reduced accordingly.

(c) Rate on Overdue Payments. The failure of the Authority to make any of the Purchase Payments required in this Section 4.3, shall not constitute an Event of Default under this Purchase Agreement; however, the payment in default shall continue as an obligation of the Authority until the amount in default shall have been fully paid, and the Authority agrees to pay the same with interest thereon, from the date of default to the date of payment, at the rate of ten percent (10%) per annum.

Section 4.4. Pledge and Application of Surplus Revenues.

(a) Pledge of Surplus Revenues. The Authority has covenanted in Section 4.6 hereof to maintain rates and charges with respect to the Enterprises sufficient to produce Surplus Revenues at least equal to the Purchase Payments due hereunder. Accordingly, all of the Surplus Revenues are hereby irrevocably pledged, charged and assigned to the punctual payment of the Purchase Payments, and except as otherwise provided in the Indenture or herein, the Surplus Revenues and such other funds shall not be used for any other purpose (except capital improvements to the Enterprises) so long as any then-due installment of the Purchase Payments remain unpaid. Such pledge, charge and assignment shall constitute a first lien on the Surplus Revenues and such other moneys for the payment of the Purchase Payments in accordance with the terms hereof.

(b) Deposits Into Utility Fund. All of the Gross Revenues shall be deposited by or for the account of the Authority immediately upon receipt in the applicable account or accounts of the Utility Fund, as provided in the Indenture. The Authority covenants and agrees that all Net Revenues produced by the Enterprises shall be transferred from such account or accounts to the Debt Payment Account of the Utility Fund, as required pursuant to the Indenture.

(c) Other Uses of Surplus Revenues Permitted. The Authority shall manage, conserve and apply the Net Revenues on deposit in the Debt Payment Account in such a manner that all deposits required to be made pursuant to the preceding subsection (b) will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default shall have occurred and be continuing hereunder, the Authority may use and apply moneys in the Utility Fund including moneys in the Debt Payment Account, as required pursuant to the Indenture.

(d) Budget and Appropriation of Purchase Payments. During the term of this Purchase Agreement, the Authority shall adopt and make all necessary budgets and appropriations of the Purchase Payments from the Surplus Revenues. In the event any Purchase Payment requires the adoption by the Authority of any supplemental budget or appropriation, the Authority shall promptly adopt the same. The covenants on the part of the Authority contained in this subsection (d) shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Authority to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Authority to carry out and perform the covenants and agreements in this subsection (d).

Section 4.5. Special Obligation of the Authority; Obligations Absolute. The Authority's obligation to pay the Purchase Payments hereunder shall be a special obligation of the Authority limited solely to the Surplus Revenues. Under no circumstances shall the Authority be required to advance moneys derived from any source of income other than the Surplus Revenues and other sources specifically identified herein for the payment of the Purchase Payments, nor shall any

other funds or property of the Authority be liable for the payment of the Purchase Payments and any other amounts coming due and payable hereunder (except for the use of proceeds of the Bonds as provided herein and in the Indenture).

The obligations of the Authority to make the Purchase Payments from the Surplus Revenues and to perform and observe the other agreements contained herein shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City of any obligation to the Authority or otherwise with respect to the Enterprises, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the Authority by the City. Until such time as all of the Purchase Payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the Authority (a) will not suspend or discontinue payment of any Purchase Payments or such other amounts, and (b) will perform and observe all other agreements contained in this Purchase Agreement.

In the event the City shall fail to perform any of its agreements contained herein, the Authority may institute such action against the City as the Authority may deem necessary to compel performance so long as such action does not abrogate the obligations of the Authority contained in the preceding paragraph. The Authority may, however, at the Authority's own cost and expense and in the Authority's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the Authority deems reasonably necessary in order to secure or protect the Authority's rights hereunder, and in such event the Authority hereby agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding, if the Authority shall so request.

Section 4.6. Rates and Charges. The Authority makes the covenants set forth in the Indenture at Section 5.03 regarding rates and charges as if fully set forth herein, for the benefit of the City hereunder. The Authority hereby ratifies and approves the rates and charges currently imposed by the City with respect to the Enterprises. The Authority further covenants to fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates, fees and charges for the services and improvements furnished by the Enterprises during each Fiscal Year during the Term of this Purchase Agreement which are sufficient to yield Surplus Revenues at least equal to the Purchase Payments due in such Fiscal Year pursuant to this Purchase Agreement.

Rates and charges for the Enterprises shall be reviewed annually as part of the Authority's budgetary process.

Each year, prior to June 1, the Executive Director shall submit to the Authority a proposed preliminary budget for the following fiscal year (commencing on the following July 1) with respect to the operating budget and for the following three years with respect to the capital budget. The proposed budgets shall take into account all expected expenditures (including both operating and capital expenses) and the expected revenue sources. The Authority shall comply with state law in adopting annually its budget for the next succeeding fiscal year, which preliminary budget shall be adopted prior to July 1 of each year.

Total expenditures from any fund in any fiscal year shall not exceed total appropriations for such fund for such fiscal year. The Authority may amend the budget for any fund for any fiscal year at such times and in such manner as may be lawfully determined by the Authority.

Section 4.7. Superior and Subordinate Obligations. Other than the Bonds and any refunding obligations relating to the Bonds, the Authority shall not issue or incur any additional bonds or other obligations during the term of this Purchase Agreement having any priority in payment of principal or interest out of the Surplus Revenues over the Purchase Payments. Nothing herein is intended or shall be construed to limit or affect the ability of the Authority to issue or incur obligations which are either unsecured or which are secured by an interest in the Surplus Revenues which is junior and subordinate to the pledge of and lien upon the Surplus Revenues established hereunder.

Section 4.8. Limitation on Excess Payments to City General Fund. The Authority and the City agree that in the event the Board of Public Utilities (the "Utilities Board") established pursuant to Section 4.12 of the Joint Exercise of Powers Agreement creating the Authority (the "JPA Agreement") disapproves any proposed payment from the revenues of the Enterprises to the City general fund in excess of the Purchase Payments due hereunder, no action shall be taken by either the Board of Commissioners of the Authority or the City Council of the City to affirm such payment pursuant to Section 6.04(c) of the JPA Agreement until a date at least seven (7) days after the date of such disapproval by the Utilities Board.

ARTICLE V

MAINTENANCE; TAXES, INSURANCE; AND OTHER MATTERS

Section 5.1. Maintenance, Utilities, Taxes and Assessments. Throughout the term of this Purchase Agreement, all improvement, repair and maintenance of the Enterprises shall be the responsibility of the Authority, and the Authority shall pay for or otherwise arrange for the payment of all utility services supplied to the Enterprises, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Enterprises resulting from ordinary wear and tear.

The Authority shall also pay or cause to be paid all taxes, in lieu taxes, assessments and franchise fees of any type or nature, if any, charged to the Authority affecting the Enterprises or its interest or estate therein as more fully set forth in Section 6.12 of the Indenture.

Section 5.2. Operation of Enterprises. The Authority covenants and agrees to be responsible for the operation of the Enterprises in an efficient and economical manner and to operate, maintain and preserve the Enterprises in good repair and working order. The Authority covenants that, in order to fully preserve and protect the priority and security of the Bonds and its Purchase Payments, the Authority shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Enterprises which, if unpaid, may become a lien or charge upon the Gross Revenues or the Surplus Revenues prior or superior to the

lien granted hereunder, or which may otherwise impair the ability of the Authority to pay the Purchase Payments in accordance herewith.

Section 5.3. Insurance. The Authority shall maintain or cause to be maintained, throughout the term of this Purchase Agreement, insurance of such types and in such amounts as set forth in Section 6.14 and 6.15 of the Indenture.

Section 5.4. Insurance Proceeds; Eminent Domain. Proceeds of insurance or of any eminent domain proceeding involving the Enterprises shall be applied as set forth in Sections 6.16 and 6.17 of the Indenture.

Section 5.5. Records and Accounts. The Authority shall keep proper books of record and accounts of the Enterprises, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprises. Said books shall, upon prior request, be subject to the reasonable inspection by the City or its representatives authorized in writing. The Authority shall cause the books and accounts of the Enterprises to be audited annually by an Independent Accountant, not more than one hundred eighty (180) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the City at the office of the Authority.

ARTICLE VI

DISCLAIMER OF WARRANTIES; ACCESS

Section 6.1. Disclaimer of Warranties. The City makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the Authority of the Enterprises, or any other representation or warranty with respect to the Enterprises. In no event shall the City be liable for incidental, indirect, special or consequential damages in connection with or arising out of this Purchase Agreement for the existence, furnishing, functioning or Authority'S use of the Enterprises.

Section 6.2. Release and Indemnification Covenants. The Authority shall and hereby agrees to indemnify and save the City and its officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Enterprises by the Authority, (b) any breach or default on the part of the Authority in the performance of any of its obligations under this Purchase Agreement, (c) any negligence or willful misconduct of the Authority or of any of its agents, contractors, servants, employees or licensees with respect to the Enterprises (d) any act or negligence of any sublessee of the Authority with respect to the Enterprises, (e) the acquisition of the Project by the Authority, (f) the presence on, under or about, or release from, the Enterprises of any substance, material or waste which is, or which becomes, regulated or classified as hazardous or toxic under State, federal or local law, (g) the performance by the trustee of its duties and obligations under the Indenture; or (h) the offer, sale and issuance of the Bonds. No indemnification is made under this Section 6.3 or elsewhere in this Purchase Agreement for adjudicated willful misconduct or negligence by the Authority, or their respective officers, employees,

successors or assigns. The obligations of the Authority under this Section 6.2 shall survive the termination of this Purchase Agreement.

Section 6.3. Non-Liability of City for Enterprises Obligations. The City and its successor and assigns shall have no obligation and shall incur no liabilities or debts whatsoever for the obligations, liabilities and debts of the Authority incurred in connection with the Enterprises.

ARTICLE VII

ASSIGNMENT, SALE AND AMENDMENT

Section 7.1. No Assignment. This Purchase Agreement may not be assigned by the Authority or the City.

Section 7.2. No Sale of Enterprises. Except as provided herein and subject to the provisions of the Authority'S Joint Powers Agreement, the Authority covenants that the Enterprises shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole. Neither the Surplus Revenues nor any other funds pledged or otherwise made available to secure payment of the Purchase Payments shall be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed or used except as authorized by the terms of this Purchase Agreement. The Authority shall not enter into any agreement which impairs the operation of the Enterprises or any part of it necessary to secure adequate Surplus Revenues to pay the Purchase Payments, or which otherwise would impair the rights of the City with respect to the Surplus Revenues. If any substantial part of the Enterprises shall be sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of Enterprises, or (b) to be applied to prepay the Purchase Payments.

Section 7.3. Amendment of Purchase Agreement. The City and the Authority shall have the right to modify or amend this Purchase Agreement without the consent of any of the Bond Owners, but only if such amendment or modification does not adversely affect the security for prepayment of the Bonds or cause interest represented by the Bonds to be includable in gross income for federal income tax purposes in the opinion of Bond Counsel.

ARTICLE VIII

EVENTS OF DEFAULT

Section 8.1. Events of Default Defined. The following events shall be Events of Default hereunder:

- (a) Failure by the Authority to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than failure to pay when due any Purchase Payment or other amount due under this Purchase Agreement, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the Authority by the City; provided, however, that if the Authority shall notify

the City that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure shall not constitute an event of default hereunder if the Authority shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(b) The filing by the Authority of a voluntary petition in bankruptcy, or failure by the Authority promptly to lift any execution, garnishment or attachment, or adjudication of the Authority as a bankrupt, or assignment by the Authority for the benefit of creditors, or the entry by the Authority into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Authority in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Section 8.2. Remedies on Default. Whenever any Event of Default shall have happened and be continuing the Authority, upon receipt of actual knowledge thereof, shall promptly give written notice thereof to the City, and the City shall have the right, at its option and without any further demand or notice, but subject in all respects to the provisions of Article VIII of the Indenture, to:

(a) take whatever action at law or in equity may appear necessary or desirable to collect the Purchase Payments then due or thereafter to become due during the term of this Purchase Agreement, or enforce performance and observance of any obligation, agreement or covenant of the Authority under this Purchase Agreement; and

(b) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings, to enforce the rights of the City hereunder, cause the appointment of a receiver or receivers of the Surplus Revenues and other amounts pledged hereunder, with such powers as the court making such appointment shall confer;

Provided, however, that the City shall not have the right to declare all principal components of the unpaid Purchase Payments, together with accrued interest thereon, to be immediately due and payable.

Section 8.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the City or the Authority is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Purchase Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City to exercise any remedy reserved to it in this Article VIII it shall not be necessary to give any notice, other than such notice as may be required in this Article VIII or by law.

Section 8.4. Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Purchase Agreement should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the

defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred.

Section 8.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Purchase Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE IX

PREPAYMENT OF PURCHASE PAYMENTS

Section 9.1. Security Deposit. Notwithstanding any other provision of this Purchase Agreement, the Authority may on any date secure the payment of Purchase Payments in whole or in part by irrevocably depositing with a fiduciary an amount of cash which is either (a) sufficient to pay all such Purchase Payments, including the principal and interest components thereof, in accordance with the Purchase Payment schedule set forth in Exhibit B hereto, or (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the written opinion of an Independent Accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Purchase Payments when due pursuant to Section 4.3(a) or when due on any optional prepayment date pursuant to Section 9.2, as the Authority shall instruct at the time of said deposit. In the event of a security deposit pursuant to this Section 9.1 with respect to all of the Purchase Payments, all obligations of the Authority under this Purchase Agreement, and all security provided by this Purchase Agreement for said obligations, shall cease and terminate, excepting only the obligation of the Authority to make, or cause to be made, all of such Purchase Payments from such security deposit. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Purchase Payments in accordance with the provisions of this Purchase Agreement.

Section 9.2. Optional Prepayment. The Authority may exercise its option to prepay the principal components of the Purchase Payments in whole or in part among Payment Dates, on any date, by paying a partial or full prepayment price equal to all or a portion of the aggregate principal components of the Purchase Payments to be prepaid, together with the interest component of the Purchase Payment required to be paid on or accrued to such date.

Section 9.3. Mandatory Prepayment From Proceeds of Insurance, Sale or Eminent Domain. Subject to the provisions of the Indenture, the Authority shall be obligated to prepay the Purchase Payments, in whole or in part among Payment Dates, on such basis as the Authority may determine, on any date from and to the extent of any proceeds of insurance award, sale of a substantial portion of the Enterprises or condemnation award with respect to the Enterprises theretofore paid to the Authority or its assigns for such purpose. The City and the Authority hereby agree that such proceeds, to the extent remaining after payment of any delinquent Purchase Payments, shall be credited towards the Authority'S obligations under this Section 9.3.

ARTICLE X

MISCELLANEOUS

Section 10.1. Further Assurances. The City agrees that it will execute and deliver any and all such further agreements, instruments, financing statements or other assurances as may be reasonably necessary or requested by the Authority or by the Trustee to carry out the intention or to facilitate the performance of this Purchase Agreement, including, without limitation, to perfect and continue the security interests herein intended to be created. The City further covenants that it will not encumber title in any manner whatsoever to any property, if any, held in the name of the City constituting a portion of the Enterprises, including, without limitation, easements, but will preserve and protect all such interest on behalf of the Authority.

Section 10.2. Amendment of Indenture. The Authority covenants that it shall take no action to amend or supplement the Indenture in any manner without obtaining the prior written consent of the City to such amendment or supplement.

Section 10.3. Notices. Any notice, request, complaint, demand or other communication under this Purchase Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon confirmed transmission by telecopy, telex or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority or the City may, by written notice to the other party, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority: Needles Public Utility Authority
 817 Third Street
 Needles, CA 92363
 Attention: Executive Director

If to the City: City of Needles, California
 817 Third Street
 Needles, CA 92363
 Attention: City Manager

Section 10.4. Governing Law. This Purchase Agreement shall be construed in accordance with and governed by the laws of the State of California.

Section 10.5. Binding Effect. This Purchase Agreement shall inure to the benefit of and shall be binding upon the Authority and the City, and their respective successors and assigns, subject, however, to the limitations contained herein.

Section 10.6. Severability of Invalid Provisions. If any one or more of the provisions contained in this Purchase Agreement shall for any reason be held to be invalid, illegal or

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

Section 10.7. Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Purchase Agreement. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Purchase Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Purchase Agreement as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 10.8. Execution of Counterparts. This Purchase Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 10.9. Waiver of Personal Liability. No member of the Authority, nor any member of the governing board of the Authority or its members, nor any officer, agent or employee of the Authority or its members shall be individually or personally liable for the payment of Purchase Payments or Additional Payments or be subject to any personal liability or accountability by reason of this Purchase Agreement; but nothing herein contained shall relieve any such member or person from the performance of any official duty provided by law or by this Purchase Agreement.

IN WITNESS WHEREOF, the Authority and the City have caused this Purchase Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

CITY OF NEEDLES, as Seller

By: 

Mayor

Attest:

By: 

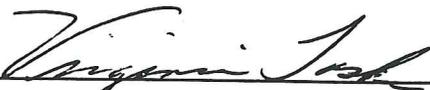
City Clerk

NEEDLES PUBLIC UTILITY AUTHORITY, as Purchaser

By: 

President

Attest:

By: 

Secretary

EXHIBIT A

DESCRIPTION OF THE ENTERPRISES

<u>ITEM</u>	<u>QTY.</u>	<u>UNITS</u>
<u>Wastewater Utility</u>		
Pipe (15" Main) V.C.P. (1.5 Miles)	7920	Lin.Ft.
Pipe (12" Main) V.C.P. (4 Miles)	21120	Lin.Ft.
Pipe (8" Main) 50% V.C.P., 50% C.I.	82839	Lin.Ft.
Pipe, 4" Laterals w/ Saddles	2200	Each
Manholes	230	Each
Lift Station (150 gpm)	2	Each
Lift Station (250 gpm)	2	Each
Lift Station (750 gpm)	1	Each
Force Main (10" Ductile Iron)	2800	Lin.Ft.
Force Main (6" PVC)	1000	Lin. Ft.
Force Mains (4" Ductile Iron)	1600	Lin. Ft.
WWTP (1.8 MGD, Trickling Filter)	1	L.S.
Land on WWTP & Surrounding	7.4	Acres
Land for New WWTP (complete 99)	51	Acres
Inventory & Supplies in Stock	1	L.S.
<u>Water Utility</u>		
Pipe (16" Main)	14081	Lin.Ft.
Pipe (12" Main)	7296	Lin.Ft.
Pipe (10" Main)	32620	Lin.Ft.
Pipe (8" Main)	50219	Lin.Ft.
Pipe (6" Main)	106973	Lin.Ft.
Pipe (4" Main)	500	Lin.Ft.
Pipe (2" Main)	300	Lin.Ft.
Valves	1050	Each
Fire Hydrants	163	Each
Booster Pump Stations	3	Each
Storage Tanks	4	Each
Well (2,500 GPM) @ Filter Plant	1	Each
Well (750 GPM) w/ appurtenances	1	Each
Well (1,000 GPM) w/ appurtenances	1	Each
Filtration Plant (3,500 GPM)	1	Each
Water Meters/Connections	1780	Each
Telemetry (Tanks-to-Filter-Wells)	1	L.S.
Inventory	1	L.S.
Topock Wells/ w/ appurtenances	2	Each

Topock Distribution System	1	L.S.
Topock Store Tank/Flow Cont.	1	L.S.
Topock Land	1	Acre
Perfected Water Rights from the Depart. of Interior (1967)	950	Acre-Ft/Yr.
Perfected Water Rights purchased from A.T. & S.F. (1995)	273	Acre-Ft/Yr.
Perfected Water Rights granted to City by property owners located within the City limits	100	Acre-Ft/Yr.
Water Allocation from Depart. of Interior for City's participation in All American Canal Project	4400	Acre-Ft./Yr.
Surplus Water Contract with the Bureau of Reclamation	Varies	Acre-Ft/Yr.

Real Estate

Clary Dr. Water Tanks (500x500)	5.74	Acres
Lillyhill Booster Station (120x70)	0.24	Acres
Parkway Water Tanks	10.00	Acres
Filtration Plant & Well #11	1.67	Acres
Well # 6&7 (inactive), #8 (active)	0.83	Acres
Well # 10	0.14	Acres

Electric Utility

Underground Electrical	14081	Lin.Ft.
Poles & Wire (Circuits)	206000	Lin.Ft.
Power Feeds (to meters)	3350	Each
Old Hoover Line (69Kv)	15	Miles
Other Main Feed (69Kv)	14	Miles
Transformers (Pad Mount)	101	Each
Transformers (Pole Mount)	534	Each
Lighting Circuits	31680	Lin.Ft.
Antique Street Lights	55	Each
Regular Street Lights	817	Each
Main Swith Gear & Disc.	22	Each
Misc. Regulators, Brakes, etc.	1	LS
Eagle Pass Sub Station	1	Each
Bush Sub Station	1	Each
Electric Meters	3350	Each
Inventory	1	LS

EXHIBIT B

SCHEDULE OF PURCHASE PAYMENTS

Purchase Payment Date	Purchase Payment
March 6, 1997	\$17,941,091.87
February 1, 1998	685,300.00
February 1, 1999	685,300.00
February 1, 2000	685,300.00
February 1, 2001	685,300.00
February 1, 2002	685,300.00
February 1, 2003	685,300.00
February 1, 2004	685,300.00
February 1, 2005	685,300.00
February 1, 2006	685,300.00
February 1, 2007	685,300.00
February 1, 2008	685,300.00
February 1, 2009	685,300.00
February 1, 2010	685,300.00
February 1, 2011	685,300.00
February 1, 2012	685,300.00
February 1, 2013	685,300.00
February 1, 2014	685,300.00
February 1, 2015	685,300.00
February 1, 2016	685,300.00
February 1, 2017	685,300.00
February 1, 2018	685,300.00
February 1, 2019	685,300.00
February 1, 2020	685,300.00
February 1, 2021	685,300.00
February 1, 2022	685,300.00
February 1, 2023	685,300.00
February 1, 2024	685,300.00
February 1, 2025	685,300.00
February 1, 2026	685,300.00
February 1, 2027	685,300.00
February 1, 2028	685,300.00
February 1, 2029	685,300.00
February 1, 2030	685,300.00
February 1, 2031	685,300.00
February 1, 2032	685,300.00
February 1, 2033	685,300.00
February 1, 2034	685,300.00

February 1, 2035	685,300.00
February 1, 2036	685,300.00
February 1, 2037	685,300.00
February 1, 2038	685,300.00
February 1, 2039	685,300.00
February 1, 2040	685,300.00
February 1, 2041	685,300.00
February 1, 2042	685,300.00
February 1, 2043	685,300.00
February 1, 2044	685,300.00
February 1, 2045	685,300.00
February 1, 2046	685,300.00
February 1, 2047	685,300.00
February 1, 2048	685,300.00
February 1, 2049	685,300.00
February 1, 2050	685,300.00
February 1, 2051	685,300.00
February 1, 2052	685,300.00
February 1, 2053	685,300.00
February 1, 2054	685,300.00
February 1, 2055	685,300.00
February 1, 2056	685,300.00
February 1, 2057	685,300.00
February 1, 2058	685,300.00
February 1, 2059	685,300.00
February 1, 2060	685,300.00
February 1, 2061	685,300.00
February 1, 2062	685,300.00
February 1, 2063	685,300.00
February 1, 2064	685,300.00
February 1, 2065	685,300.00

EXHIBIT C

EXISTING MATERIAL CONTRACTS

Water System

1. Rever Agreement by and between the City and the United States of America (Contract 2-07-30-W0280).

Wastewater System

1. Ceast and Desist Order No. 90-071
2. Ceast and Desist Order No. 94-025

Electrical System

1. Interchange Agreement with Salt River Project dated September 29, 1995.
2. Coordination Tariff of Tucson Electric Power Company, dated October 6, 1995.
3. Agreement with Ulinova Power Marketing, Inc. dated November 22, 1995.
4. Power Purchase Sale Agreement with Enron Power Marketing, Inc., dated October 24, 1995.
5. Service Agreement with Louis Dreyfus Electric Power, Inc., dated January 25, 1996.
6. Interchange Agreement with Department of Water Resources of the State of California, dated February 29, 1996.
7. San Diego Gas and Electric Company Interchange Agreement, dated September 29, 1995.
8. Service Agreement with Washington Water Power Company, dated August 21, 1995.
9. Interchange Agreement with Glendale, California, dated August 16, 1995.
10. Arizona Public Service Company Service Agreement, dated September 26, 1995.
11. Interchange Agreement with the City of Colton, California, dated September 19, 1995.