

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2005 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2005 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds. See "TAX MATTERS" herein.



**\$38,850,000**  
**CITY OF PITTSBURG PUBLIC FINANCING AUTHORITY**  
**WATER REVENUE BONDS**  
**SERIES 2005**

Dated: Date of Delivery

Due: June 1, 2035

The City of Pittsburg Public Financing Authority Water Revenue Bonds, Series 2005 (the "2005 Bonds") are being issued by the City of Pittsburg Public Financing Authority (the "Authority") pursuant to a Indenture of Trust, dated as of December 1, 2005 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), to finance and refinance the acquisition, construction and installation of various extensions, betterments and improvements to the water system (the "2005 Project" as described herein) within the City of Pittsburg (the "City"). See "FINANCING PLAN" herein.

The 2005 Bonds are payable from and secured by certain payments (the "2005 Installment Payments") received by the Authority from the City under the 2005 Installment Purchase Contract (the "2005 Contract"), all receipts and payments made to the City pursuant to any Qualified Swap Agreement (including the 2005 Swap, as defined below) and assigned to the Authority pursuant to the 2005 Contract and all interest and other income derived from the investment of money in any fund and account held under the Indenture, except the 2005 Project Fund and the Rebate Fund (collectively, the "Revenues," as more fully described herein). See "SECURITY FOR THE 2005 Bonds - Revenues; Pledge of Revenues."

**The 2005 Bonds are being issued as auction rate bonds ("ARBs"), as described herein. The 2005 Bonds will be auctioned periodically (initially, every 7 days) and the rate set as described in this Official Statement. Interest on 2005 Bonds will be computed as provided herein. See "THE BONDS - Calculation of Auction Rate" herein. The inside front cover of this Official Statement sets forth certain information regarding the initial Auction Period for the 2005 Bonds. This Official Statement only describes the terms of the 2005 Bonds when they bear interest at an ARB Interest Rate.**

The obligation of the City to make the 2005 Installment Payments is a special obligation of the City payable primarily from Net Revenues (as defined herein) of the City's Water System and certain funds and accounts created under the 2005 Contract and the Indenture. The City has covenanted in the 2005 Contract that it will not issue any additional bonds, notes or other obligations that are secured by a pledge and lien on Net Revenues that is senior to the pledge and lien on Net Revenues contained in the 2005 Contract. However, under the 2005 Contract, the City may issue additional bonds, notes or other obligations payable from Net Revenues on parity with the 2005 Installment Payments. See "SECURITY FOR THE 2005 BONDS - Issuance of Parity Debt."

The 2005 Bonds are subject to redemption and mandatory tender for purchase prior to maturity as described herein. See "THE 2005 BONDS."

In connection with the execution and delivery of the 2005 Bonds, the City is entering into an interest rate swap agreement (the "2005 Swap"), for the purpose of receiving amounts expected to be approximately equal to the variable rate interest payments the Authority is obligated to pay on the 2005 Bonds in exchange for making fixed rate payments to the 2005 Swap Provider (as defined herein). The obligation of the City to make such fixed rate payments are on a parity with the 2005 Installment Payments. See "THE REFUNDING PLAN — 2005 Swap."

The 2005 Bonds will be initially delivered in denominations of \$25,000 or any integral multiple thereof only in book-entry form, registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository of the 2005 Bonds. Interest and principal represented by the 2005 Bonds are payable by the Trustee, to DTC, which remits such payments to its Participants for subsequent distribution to the beneficial owners of the 2005 Bonds. See "APPENDIX G — DTC and the Book-Entry Only System."

The obligation of the City to make the 2005 Installment Payments does not constitute a debt of the City, the Authority or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City, the Authority, the State of California or any political subdivision thereof is obligated to levy or pledge any form of taxation or for which the City, the Authority, the State of California or any political subdivision thereof levied or pledged any form of taxation.

Payment of the principal of and interest on the 2005 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2005 Bonds. See "FINANCIAL GUARANTY INSURANCE" and "APPENDIX H - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" herein.

**Ambac**

This cover page contains information for reference only. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision. See "BONDOWNERS' RISKS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the 2005 Bonds.

The 2005 Bonds will be offered when, as and if executed, delivered and received by the Underwriters, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority. Certain legal matters will be passed upon by Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel, and for the Authority and the City by the City Attorney, Meyers, Nave, Riback, Silver & Wilson. It is expected that the 2005 Bonds will be available for delivery through DTC in New York, New York on or about December 22, 2005.

**PiperJaffray**

Dated: December 21, 2005

## MATURITY SCHEDULE

<u>Principal Amount</u>	<u>Initial Auction Date</u>	<u>Length of Initial Interest Period*</u>	<u>Auction Date Generally*</u>	<u>Initial Interest Payment Date</u>	<u>Interest Payment Date Generally *</u>	<u>Final Maturity Date</u>	<u>CUSIP Number†</u>
\$38,850,000	December 28, 2005	7 days	Every 7 days	December 29, 2005	Every 7 days	June 1, 2035	72456PAQ5

Interest will accrue on the 2005 Bonds for the initial interest period set forth above beginning on the date of issuance of the 2005 Bonds at the rate established by the Underwriter prior to the date of issuance. Thereafter, the 2005 Bonds will accrue interest at the ARB interest Rate for, generally, 7 day Auction Periods, until conversion to another Auction Period or an interest rate mode other than an ARB Interest Rate, at the Authority's election, as described in this Official Statement. Interest on the 2005 Bonds will be payable on the initial Interest Payment Date set forth above and thereafter as described herein under the caption "THE 2005 BONDS - General Term of Auction Rate Bonds ("ARBs")."

\*Subject to change as described herein.

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**CITY OF PITTSBURG PUBLIC FINANCING AUTHORITY  
CITY OF PITTSBURG**

**City Council and Authority Officers**

Michael B. Kee, Mayor  
William G. Glynn, Vice Mayor  
Will Casey, Council Member  
Ben Johnson, Council Member  
Nancy L. Parent, Council Member

**Elected City Officials**

James F. Holmes, Treasurer  
Lillian J. Pride, City Clerk

**CITY STAFF/AUTHORITY STAFF OFFICERS**

Marc S. Grisham, City Manager  
Matt Rodriguez, Assistant City manager  
Marie Simons, Finance Director  
Joe Sbranti, City Engineer

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**Disclosure Counsel**

Jones Hall, A Professional Law Corporation  
San Francisco, California

**Auction Agent**

The Bank of New York

**Verification Agent**

The Arbitrage Group  
Tuscaloosa, Alabama

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the offer and sale of the 2005 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2005 Bonds.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the Authority or the City in any press release and in any oral statement made with the approval of an authorized officer of the Authority or the City or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project", "forecast", "expect", "intend" and similar expressions identify "forward looking statements". Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority or the City with respect to the Water System or any other entity described or referenced herein since the date hereof.

The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

**Limit of Offering.** No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations in connection with the offer or sale of the 2005 Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2005 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

**Involvement of Underwriter.** The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**Stabilization of Prices.** In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the 2005 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2005 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE 2005 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2005 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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## OFFICIAL STATEMENT

**\$38,850,000**  
**CITY OF PITTSBURG PUBLIC FINANCING AUTHORITY**  
**WATER REVENUE BONDS**  
**SERIES 2005**

### INTRODUCTION

#### General

The purpose of this Official Statement (which includes the cover page and the appendices attached hereto) is to provide information concerning the issuance, sale and delivery by the City of Pittsburg Public Financing Authority (the "Authority") of its Water Revenue Bonds, Series 2005 (the "2005 Bonds"), in the aggregate principal amount of \$38,850,000. The Authority is a joint exercise of powers authority organized under the laws of the State of California and formed by the City of Pittsburg, California (the "City") and the Pittsburg Redevelopment Agency (the "Redevelopment Agency"). The Authority was formed on January 21, 1991 to assist in the financing and refinancing of various public capital improvements, including the financing and refinancing of a portion of the design, acquisition and construction of additions, betterments and improvements to the City's municipal water system (as more described herein, the "Water System").

The 2005 Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), and an Indenture of Trust, dated as of December 1, 2005 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the sale of the 2005 Bonds will be used to:

- refund, on an advance basis, the City of Pittsburg Public Financing Authority Water Revenue Bonds, Series 1997 (the "1997 Bonds"),
- finance certain repairs, renovations, extensions, betterments and improvements to the Water System (together with the refunding of the 1997 Bonds, the "2005 Water Project"),
- fund the Debt Service Reserve Account in an amount equal to the Debt Service Reserve Requirement established under the Indenture,
- fund capitalized interest on that portion of the 2005 Bonds used to finance certain repairs, renovations, extension, betterments and improvements to the Water System, and
- pay certain costs of issuance of the 2005 Bonds.

See "ESTIMATED SOURCES AND USES OF FUNDS," and "THE WATER SYSTEM - The 2005 Water Project" herein.

The 2005 Bonds are being issue in denominations of \$25,000 or any integral multiple thereof. The 2005 Bonds are multi-modal bonds that are initially being issued as ARBs, which is how the Indenture refers to the 2005 Bonds during any period that they bear interest at an ARB Interest Rate, with a 7 day Auction Period. SEE "APPENDIX B – AUCTION PROCEDURES" for a description of certain terms of the 2005 Bonds for so long as an ARB Interest Rate is in effect. The Indenture provides that, at the option of the Authority, the interest rate with respect to the 2005 Bonds may be converted from an ARB Interest Rate mode described in this Official Statement to a mode in which the interest rate is determined at different intervals and by different means (including one or more fixed rates and a variety of variable rates). On the effective date of such a conversion, certain other terms of the 2005 Bonds, including interest payment dates and redemption provisions, will change. In connection with any such conversion, all of the 2005 Bonds would be required to be tendered by the owners thereof for purchase. Accordingly, this Official Statement only describes the terms of the 2005 Bonds when they bear interest at an ARB Interest Rate. If all of the conditions to a conversion are not met, the purchase of the 2005 Bonds tendered for purchase will not be consummated, and the owners of the 2005 Bonds will continue to own the 2005 Bonds. See "THE 2005 BONDS – Mandatory Tender."

### **The Water System**

The City owns and operates a complete water system, supplying treated water to the entire area within its limits as well as to users outside the City. The City provides approximately 2.5 billion gallons of water per year, or about 7 million gallons per day, to over 15,900 customers.

The City is within the Contra Costa Water District (the "District") service area and obtains most of its raw water from the District pursuant to a contractual arrangement allowing the City to obtain such quantity of water as is necessary to meet its needs, subject to rationing restrictions in the event of drought or other extraordinary circumstances. The City pumps this water into its system from various points on the District's Contra Costa Canal, which runs through the City east to west. The City also has the ability to supplement this supply with ground water pumping, however, the ground water supply is limited by the pumping capacity of the Water System and the quality of the water derived from the wells.

The City treats both sources of water at its treatment plant, located in the south central part of the City. This plant has a nominal treatment capacity of 32 million gallons per day (mgd) and a permanent treatment capacity of 28 mgds. The maximum peak demand that the City has experienced is 16.9 mgd and the average demand is approximately 7 mgd.

See "THE WATER SYSTEM" herein for a more complete description of the Water System.

### **Security for the 2005 Bonds**

The 2005 Bonds are payable from, and secured by a first pledge of (i) certain payments (the respective "2005 Installment Payments") received by the Authority from the City pursuant to the 2005 Installment Purchase Contract, dated as of December 1, 2005 (the "2005 Contract"), by and between the Authority and the City, (ii) all receipts and payments made to the City pursuant to any Qualified Swap Agreement (including the 2005 Swap, as defined below) and assigned to the Authority pursuant to the 2005 Contract, and (iii) interest and other income from any investment of any money in any fund and account (other than the 2005 Project Fund and



the Rebate Fund) held under the Indenture (the "Revenues," as more fully described herein). The obligation of the City to make the 2005 Installment Payments is limited to all gross income and revenue received by the City from the ownership or operation of the Water System, excluding Maintenance and Operations Costs of the Water System (the "Net Revenues," as more fully described herein). Under the 2005 Contract, the City is purchasing certain improvements to the Water System and has irrevocably pledged all Net Revenues to the payment of the 2005 Installment Payments, subject to the terms and conditions of the 2005 Contract. See "SECURITY FOR THE 2005 BONDS - Revenues; Pledge of Revenues" and – "2005 Installment Payments."

In connection with the issuance of the 2005 Bonds and the execution and delivery of the 2005 Contract, the City is entering into an interest rate swap agreement (the "2005 Swap"), for the purpose of receiving amounts expected to be approximately equal to the variable rate 2005 Installment Payments the City is obligated to make under the 2005 Contract in exchange for making fixed rate payments to the Swap Provider (as defined herein). The obligation of the City to make such fixed rate payments are on a parity with the 2005 Installment Payments.

The City may at any time issue any revenue bonds or execute any installment payment contracts or other agreements which are payable from Net Revenues on a parity with the 2005 Installment Payments provided certain conditions set forth in the 2005 Contract are met. See "THE 2005 BONDS - Additional Bonds and Contracts."

The 2005 Bonds are limited obligations of the Authority and are payable solely from the Revenues as provided in the Indenture. Neither the full faith and credit of the Authority nor that of the City or the Redevelopment Agency are pledged for the payment of the interest on or principal of the 2005 Bonds and no tax or other source of funds, other than the Revenues, is pledged to pay the interest on or principal of the 2005 Bonds. The payment of the principal of or interest on the 2005 Bonds does not constitute a debt liability or obligation of the Authority, the City or the Redevelopment Agency for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

### **Financial Guaranty Insurance**

Simultaneously with the delivery of the Bonds, a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") will be issued by Ambac Assurance Corporation (the "Insurer") which provides for payment of the principal (but not redemption premium or purchase price) and interest on the Bonds when due to the extent that the Trustee has not received sufficient funds from the Authority for the payment thereof. See "FINANCIAL GUARANTY INSURANCE" herein.

### **Continuing Disclosure**

The City has covenanted in the 2005 Contract for the benefit of the holders and beneficial owners of the 2005 Bonds to provide certain financial information and operating data relating to the Water System and the City by not later than eight months following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the report for the 2005 fiscal year (the "Annual Report") due by March 1, 2006, and to provide notices of the occurrence of certain enumerated events, if material. The City will file, or cause to be filed, the Annual Report with each Nationally Recognized Municipal Securities Information Repository (each, a "NRMSIR"), and with the appropriate State information depository, if any, and the

Agency will file, or cause to be filed, the notices of material events with the NRMSIRs (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below in "APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The City has appointed The Bank of New York Trust Company, N.A., as dissemination agent under the Continuing Disclosure Certificate. The City has had no instance in the previous five years in which it failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

### **Miscellaneous**

This Official Statement contains brief descriptions of, among other things, the City and its Water System, the 2005 Bonds, the 2005 Contract and the Indenture. The descriptions do not purport to be comprehensive or definitive. Additionally, this Official Statement only describes the terms of the 2005 Bonds during the period when they bear interest at an ARB Interest Rate. All references in this Official Statement to documents are qualified in their entirety by reference to such documents, and references to the 2005 Bonds are qualified in their entirety by reference to the form of 2005 Bonds included in the Indenture. During the offering period for the 2005 Bonds, copies of the forms of the Indenture, the 2005 Contract and other documents described in this Official Statement may be obtained at the principal offices of the Underwriter. Copies of these documents may be obtained from the Trustee or the City after issuance and delivery of the 2005 Bonds.

Capitalized terms not otherwise defined herein have the meaning given to them in the Indenture. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

### **Forward Looking Statements**

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements". Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE WATER SYSTEM."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

## FINANCING PLAN

### General

The proceeds of the sale of the 2005 Bonds will be used to

- refund, on an advance basis, the City of Pittsburg Public Financing Authority Water Revenue Bonds, Series 1997 (the "1997 Bonds") currently outstanding in the amount of \$13,430,000,
- finance certain repairs, renovations, extensions, betterments and improvements to the Water System (together with the refunding of the 1997 Bonds, the "2005 Water Project"),
- fund the Debt Service Reserve Account in an amount equal to the Debt Service Reserve Requirement established under the Indenture,
- fund capitalized interest on that portion of the 2005 Bonds used to finance certain repairs, renovations, extensions, betterments and improvements to the Water System, and
- pay certain costs of issuance of the 2005 Bonds.

### Refunding of the 1997 Bonds

A portion of the proceeds of the 2005 Bonds, plus certain other available funds of the Authority, will be used by the Authority to refund all of the outstanding 1997 Bonds. The 1997 Bonds being refunded are described below:

#### CITY OF PITTSBURG PUBLIC FINANCING AUTHORITY WATER REVENUE BONDS SERIES 1997

Maturity Date (June 1)	Amount	Interest Rate	CUSIP No.
2006	\$345,000	4.65%	72456PAE
2007	360,000	4.75	72456PAF
2008	375,000	5.50	72456PAG
2009	395,000	4.85	72456PAH
2010	415,000	4.90	72456PAJ
2011	435,000	5.00	72456PAK
2012	460,000	5.00	72456PAL
2013	480,000	5.00	72456PAM
2017	2,185,000	5.25	72456PAN
2027	<u>7,980,000</u>	5.50	72456PAP
Total	\$13,430,000		

The proceeds of the 2005 Bonds being applied to the refunding of the 1997 Bonds, together with certain other available moneys, will be deposited in the Escrow Fund relating to the 1997 Bonds (the "1997 Escrow Fund") established pursuant to the Escrow Agreement dated

as of December 1, 2005, between the Authority and The Bank of New York Trust Company, N.A., as escrow agent (the "Escrow Agent"), and invested in direct noncallable United States Treasury obligations maturing on such dates and in such amounts as may be required to make the payments described below. On each June 1 and December 1 through and including June 1, 2007, the Escrow Agent will apply amounts on deposit in the 1997 Escrow Fund to pay scheduled principal and interest on the 1997 Bonds. On June 1, 2007, the Escrow Agent will apply the remaining amounts on deposit in the 1997 Escrow Fund to redeem the 1997 Bonds set forth above (other than the 1997 Bonds maturing on June 1, 2006 and June 1, 2007, which will be paid on their respective maturity dates) at a redemption price equal to 102% of the principal amount thereof, plus accrued interest thereon, to the date fixed for redemption. Sufficiency of the deposits for those purposes will be verified by The Arbitrage Group of Tuscaloosa, Alabama. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" below.

### **2005 Water Project**

In addition to the refunding of the 1997 Bonds, proceeds of the 2005 Bonds will be used to finance additions and betterments to, and the rehabilitation of, the Water System.

The City intends to construct new infrastructure for the Water System that will serve a variety of new and future developments in the southwestern part of the City, much of which is at higher elevations than the remainder of the Water System and thus will require new pumps and water storage facilities. This new infrastructure will also improve service (and the reliability of service) to certain existing developments within the City.

The City also intends to replace older parts of the Water System, including pipes and transmission mains located throughout the City.

### **2005 Swap**

The City has entered into an interest rate swap (the "2005 Swap") with respect to the 2005 pursuant to that certain ISDA Master Agreement, dated December 1, 2005, as supplemented by the Schedule and the Credit Support Annex thereto, and evidenced by the Confirmation, each dated December 1, 2005 and each by and between the City and Piper Jaffray Financial Products Inc. (the "Swap Provider"), and the Replacement Swap Undertaking, among the City, Piper Jaffray Financial Products Inc., and Morgan Stanley Capital Services Inc. and any replacement Payment Agreement entered into pursuant to the Replacement Swap Undertaking. The 2005 Swap will be in an initial notional amount equal to the aggregate principal amount of the 2005 Bonds outstanding, and the notional amount of the 2005 Swap will be reduced by the amount of principal payments made on the 2005 Bonds as such payments are scheduled to be paid. Under the 2005 Swap the City will pay amounts based upon a fixed rate of 3.615% and receive amounts based upon a variable rate (based on 63% of the One-Month London Interbank Offering Rate ("LIBOR") plus 36 basis points). The payment obligations of the Authority under the 2005 Swap (excluding Termination Payments thereunder) will constitute a Parity Obligation under the 2005 Contract, and the payments received by the City under the 2005 Swap have been assigned to the Authority and pledged to the payment of the 2005 Bonds. The payment obligations of the City under the 2005 Swap that constitute Termination Payments are junior and subordinate in all respects to Parity Obligations.

The City has entered into the 2005 Swap in connection with the 2005 Bonds for the purpose of receiving amounts expected to be approximately equal to the floating rate 2005 Installment Payments the City is obligated to make in exchange for making fixed rate payments.

Under certain circumstances, the 2005 Swap is subject to early termination prior to the scheduled termination date and prior to the maturity of the 2005 Bonds, in which event, the City may be obligated to make Termination Payments to the Swap Provider and the City may be required to make a substantial supplemental appropriation for such purpose. Neither the holders of the 2005 Bonds nor any other person other than the City will have any other rights under the 2005 Swap or against the Swap Provider.

### ESTIMATED SOURCES AND USES OF FUNDS

The following sets forth the estimated sources and uses of funds related to the issuance of the 2005 Bonds (other than accrued interest).

**Sources of Funds:**

Principal Amount of 2005 Bonds	\$38,850,000.00
Total Sources of Funds	\$38,850,000.00

**Uses of Funds:**

Deposit to 2005 Project Fund	\$20,025,000.00
Deposit to 1997 Bonds Escrow Fund	14,035,478.54
Deposit to Debt Service Reserve Account	2,254,541.28
Deposit to Interest Account <sup>(1)</sup>	2,686,848.84
Underwriter's Discount	155,400.00
Costs of Issuance <sup>(2)</sup>	792,449.22
Total Uses of Funds	\$38,850,000.00

- (1) Represents capitalized interest on the non-refunding portion of the 2005 Bonds through December 21, 2008.
- (2) Includes fees of Trustee, Bond Counsel, Disclosure Counsel, Financial Advisor, Verification Agent and rating agencies, printing costs and municipal bond insurance premium.

### THE 2005 BONDS

The 2005 Bonds will be issued only in registered form in denominations of \$25,000 or multiples thereof. The 2005 Bonds will be dated the date of their initial execution and delivery and will be issued initially as auction rate bonds ("ARBs"). This Official Statement only describes the terms of the 2005 Bonds while they bear interest at an ARB Interest Rate. This following provisions contain only brief descriptions of the ARBs, which are more fully described in "APPENDIX B – AUCTION PROCEDURES." Capitalized terms used but not defined below shall have the meanings given in said APPENDIX B or in "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

**Maturity Date; Registered Ownership**

The 2005 Bonds mature (subject to prior redemption) on June 1, 2035 (the "Maturity Date").

The 2005 Bonds will be registered initially in the name of Cede & Co., as nominee of the Securities Depository, and will be evidenced by one 2005 Bond for each maturity of the 2005 Bonds in the principal amount of the respective maturities of the 2005 Bonds. Registered ownership of the 2005 Bonds, or any portion thereof, may not thereafter be transferred except as described in "THE 2005 BONDS – Book-Entry System."

### **General Terms of Auction Rate Bonds ("ARBs")**

*Authorized Denominations.* The ARBs will be issued in fully registered form in denominations of \$25,000 or any integral multiple thereof.

*Interest Payment Dates.* Interest on the ARBs is payable on each ARB Interest Payment Date, which is defined as follows:

(i) when used with respect to any Auction Period (including the initial Auction Period commencing on and including the effective date of a change in the Interest Rate Period to an ARB Interest Rate Period and expiring on and including the initial Auction Date (or, if such initial Auction Date is not followed by a Business Day, the next succeeding day that is followed by a Business Day) determined by the Authority in connection with a change in the Interest Rate Period to an ARB Interest Rate Period) other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period,

(ii) when used with respect to a daily Auction Period, the first (1st) Business Day of the month immediately succeeding such Auction Period, and

(iii) when used with respect to a Flexible Auction Period of (i) seven (7) or more but fewer than one hundred eighty-two (182) days, the Business Day immediately following such Flexible Auction Period, or (ii) one hundred eighty-two (182) or more days, each June 1 and December 1 and on the Business Day immediately following such Flexible Auction Period.

### **Payments on Auction Rate Bonds ("ARBs")**

*Accrual of Interest.* For each ARB Interest Rate Period, interest on the 2005 Bonds shall be payable on each ARB Interest Payment Date for the period commencing on (and including) the immediately preceding Interest Accrual Date (i.e., for other than the first ARB Interest Payment Date, the immediately preceding ARB Interest Payment Date) and ending on the day immediately preceding such Interest Payment Date. In any event, interest on the 2005 Bonds shall be payable for the final Interest Rate Period to but not including the date on which the 2005 Bonds shall have been paid in full.

*Medium of Payment.* Unless otherwise requested by the Securities Depositories, the interest on each 2005 Bond shall be payable on each Interest Payment Date for such 2005 Bond and shall be paid by check of the Trustee mailed on such Interest Payment Date to the Owner of such Bond shown on the Bond Register as of the close of business on the Record Date immediately preceding such Interest Payment Date. Owners of at least \$1,000,000 aggregate principal amount of 2005 Bonds may, at any time prior to a Record Date with respect to the payment of interest on such 2005 Bonds, give the Trustee written instructions for payment of such interest on each succeeding Interest Payment Date for such 2005 Bonds by wire transfer or by deposit to an account.

The principal or Redemption Price of the 2005 Bonds will be payable in lawful money of the United States of America at the Principal Office of the Trustee upon surrender of the 2005 Bonds to the Trustee for cancellation.

*ARB Payment Defaults.* The Trustee shall determine not later than 2:00 p.m., New York City time, on each ARB Interest Payment Date, whether an ARB Payment Default has occurred. If an ARB Payment Default has occurred, the Trustee shall, not later than 2:30 p.m. New York City time on such Business Day, send a Notice of ARB Payment Default to the Auction Agent and each Broker-Dealer by telecopy or similar means and, if such ARB Payment Default is cured, the Trustee shall immediately send a Notice of Cure of ARB Payment Default to the Auction Agent and the Broker-Dealer by telecopy or similar means.

### **Calculation of Auction Rate**

The Auction Rate for the first Auction Period for the ARBs will be determined prior to delivery of the ARBs. Thereafter the Auction Rate for each subsequent ARB Interest Rate Period will be determined under the Auction Procedures described in "APPENDIX B – AUCTION PROCEDURES."

Generally, the ARB Interest Rate will be determined by a Dutch auction procedure, but may under certain circumstances be based on indexes and other factors. Further, the ARB Interest Rate generally may not exceed 12%. Interest shall be computed, in the case of an ARB Interest Rate Period of less than 180 days, on the basis of a 360-day year and the number of days actually elapsed. Interest shall be computed, in the case of an ARB Interest Rate Period equal to or more than 180 days, on the basis of a 360-day year of twelve 30-day months.

### **Auction Periods**

*Auction Periods.* The first Auction Period for the ARBs will begin on and include the Closing Date and will end on and include December 28, 2005. The first Interest Payment Date for the ARBs will be December 29, 2005. Thereafter, the City expects the Auction Period for the ARBs to be, initially, a seven-day Auction Period, as described below.

The various possible Auction Periods for the ARBs are described below:

- with respect to ARBs in a Flexible Auction Period, (a) any period one hundred eighty-two (182) days or less which is divisible by seven (7) and begins on an ARB Interest Payment Date and ends (i) in the case of ARBs with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of ARBs with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of ARBs with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of ARBs with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of ARBs with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the

next succeeding day which is followed by a Business Day or (b) any period which is longer than one hundred eighty-two (182) days, which begins on an ARB Interest Payment Date and ends not later than the final scheduled Maturity Date of such ARBs;

- with respect to ARBs in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

- with respect to ARBs in a seven (7)-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven (7) days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven (7) days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven (7) days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven (7) days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, however, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday), and (v) Thursdays, a period of generally seven (7) days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Thursday is Thanksgiving Day, on the Monday following such Thursday);

- with respect to ARBs in a twenty-eight (28)-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally twenty-eight (28) days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth (4th) Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally twenty-eight (28) days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth (4th) Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally twenty-eight (28) days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth (4th) Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally twenty-eight (28) days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction



Period does not end on a Wednesday) and ending on the fourth (4th) Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday), and (v) Thursdays, a period of generally twenty-eight (28) days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth (4th) Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Thursday is Thanksgiving Day, on the Monday following such Thursday);

- with respect to ARBs in a thirty-five (35)-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally thirty-five (35) days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth (5th) Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally thirty-five (35) days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth (5th) Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally thirty-five (35) days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth (5th) Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally thirty-five (35) days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth (5th) Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday), and (v) Thursdays, a period of generally thirty-five (35) days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth (5th) Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Thursday is Thanksgiving Day, on the Monday following such Thursday); and

- with respect to ARBs in a three (3)-month Auction Period, a period of generally three (3) months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the day that is ninety (90) days thereafter (unless such day is not Wednesday, in which case on the first (1st) Wednesday succeeding such day), provided, that if such day is not followed by a Business Day, on the next succeeding day which is followed by a Business Day and further provided that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday; and

- with respect to ARBs in a six (6)-month Auction Period, a period of generally six (6) months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the day that is one hundred eighty (180) days thereafter (unless such day is

not Wednesday, in which case on the first (1st) Wednesday succeeding such day), provided, that if such day is not followed by a Business Day, on the next succeeding day which is followed by a Business Day and further provided that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday;

provided that

- if there is a conversion of ARBs with Auctions generally to be conducted on Fridays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

- if there is a conversion of ARBs with Auctions generally to be conducted on Mondays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

- if there is a conversion of ARBs with Auctions generally to be conducted on Tuesdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall

end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

- if there is a conversion of ARBs with Auctions generally to be conducted on Wednesdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion; and

- if there is a conversion of ARBs with Auctions generally to be conducted on Thursdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

provided further, that any Auction Period that is greater than thirty-five (35) days may be extended as provided in the Auction Procedures and as described below.

## **Changes in Auction Period or Auction Date**

*Changes in Auction Period.* During any Auction Period, the Authority may, with the consent of the Insurer, from time to time on any ARB Interest Payment Date, change the length of the Auction Period with respect to all of the ARBs among daily, seven (7) days, twenty-eight (28) days, thirty-five (35) days, three (3) months, six (6) months and a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such ARBs; provided, however, that in the case of a change from a Flexible Auction Period, the date of such change shall be the ARB Interest Payment Date immediately following the last day of such Flexible Auction Period. The Authority will initiate the change in the length of the Auction Period by giving written notice to the Insurer, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period will change if the conditions described herein are satisfied and the proposed effective date of the change, at least ten (10) Business Days prior to the Auction Date for such Auction Period.

Any such changed Auction Period will be for a period of one (1) day, seven (7) days, twenty-eight (28) days, thirty-five (35) days, three (3) months, six (6) months or a Flexible Auction Period and will be for all of the ARBs in an ARB Interest Rate Period.

The change in the length of the Auction Period for any ARBs will not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

The change in length of the Auction Period for any ARBs will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first (1st) such Auction Period, notice from the Authority specifying the change in the length of the Auction Period and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first (1st) Auction Period. For purposes of the Auction for such first (1st) Auction Period only, each Existing Owner will be deemed to have submitted Sell Orders with respect to all of its ARBs except to the extent such Existing Owner submits an Order with respect to such ARBs. If the condition referred to in (A) above is not met, the ARB Interest Rate for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the ARB Interest Rate for the next Auction Period will be the ARB Maximum Rate, and the Auction Period will be a seven (7)-day Auction Period.

On the conversion date for ARBs selected for conversion from one Auction Period to another, any ARBs which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

*Changes in Auction Date.* During any Auction Period, the Auction Agent, with the written consent of the Insurer, may specify an earlier Auction Date (but in no event more than five (5) Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARBs. The Insurer shall not consent to such change in the Auction Date unless it shall have received from the Auction Agent not less than three (3) nor more than 20 days prior to the

effective date of such change a written request for consent together with a certificate demonstrating the need for such change. The Auction Agent will provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a notice by mail delivered at least forty-five (45) days prior to the proposed changed Auction Date to the Trustee, the Insurer, the Authority, the Broker-Dealers and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends and the day on which a Flexible Auction Period ends and the ARB Interest payment Date relating to a Special Auction Period will be adjusted accordingly.

#### **Initial Auction Agent, Broker-Dealer and Market Agent**

*Auction Agent.* The Bank of New York (the "Auction Agent") is appointed as the initial Auction Agent for the ARBs under the Indenture and under an Auction Agent Agreement dated as of December 1, 2005, by and among the Authority, the Trustee and the Auction Agent.

*Broker-Dealer.* Piper Jaffray Inc. (the "Broker-Dealer") is appointed as the initial Broker-Dealer for the ARBs under the Indenture and a Broker-Dealer Agreement dated as of December 1, 2005, between the Auction Agent and the Broker-Dealer.

#### **Actions that May be Taken by Broker-Dealer**

While the 2005 Bonds bear interest at an ARB Interest Rate, the Broker-Dealer may submit orders in auctions for its own account. The Broker-Dealer submitting an order for its own account in any auction will have an advantage over other bidders in that it would have knowledge of other orders placed through it in that auction (but it would not have knowledge of orders placed through other broker-dealers, if any). As a result of the Broker-Dealer bidding, the auction clearing rate may be higher or lower than the rate that would have cleared if the broker-dealer had not bid. The Broker-Dealer may also bid in order to prevent what would otherwise be (i) a failed auction; (ii) an "all-hold" auction; or (iii) an auction clearing at a rate that the broker-dealer deems, in its discretion, to be too high given prevailing market conditions. The Broker-Dealer may, but is not obligated to, advise holders of the 2005 Bonds that the rate that will apply in an "all hold" auction is often a lower rate than would apply if holders submit bids, and such advice, if given, may facilitate the submission of bids by existing holders that would avoid the occurrence of an "all hold" auction (although a Broker-Dealer should not inform bidders that there are no bids at a specific rate in order to avoid an all-hold rate). The Broker-Dealer may encourage bidding by others to prevent a failed auction or an interest rate that it believes is not a market rate. In the Broker-Dealer Agreement, the Broker-Dealer will agree to handle customer orders in accordance with its duties under applicable securities laws and rules.

Initially, Piper Jaffray & Co. will be the only Broker-Dealer.

#### **Possible Limitation on Sale or Transfer of ARBs**

During any ARB Interest Rate Period a beneficial owner of ARBs may only be able to sell, transfer or dispose of ARBs under a bid or sell order in accordance with the auction and settlement procedures (see "APPENDIX B – AUCTION PROCEDURES") or through a Broker-Dealer.

The ability to sell ARBs in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the ARBs at a rate equal to or less than the Maximum Interest

Rate. No assurance can be given that the Broker-Dealer will make a market in the ARBs between Auctions, or that secondary markets for the ARBs will develop.

### **Redemption**

*Optional Redemption.* While any ARB Interest Rate Period is in effect, the 2005 Bonds are subject to redemption prior to their stated maturity, at the option of the Authority, in whole or in part (in such amounts as may be specified by the Authority), on any ARB Interest Payment Date at a Redemption Price equal to the principal amount of 2005 Bonds to be redeemed, plus unpaid accrued interest thereon to the date fixed for redemption, without premium.

*Mandatory Redemption.* The 2005 Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments on each June 1 on and after June 1, 2006, as set forth below, at a Redemption Price equal to the principal amount of the 2005 Bonds to be redeemed together with interest unpaid accrued thereon to the date fixed for redemption, without premium. **Notwithstanding the foregoing, when any 2005 Bond to be redeemed pursuant to Sinking Fund Installments is subject to an ARB Interest Rate Period, if such June 1 is not an ARB Interest Payment Date, the redemption from Sinking Fund Installments shall occur on the ARB Interest Payment Date immediately preceding such June 1.**

Redemption Date (June 1)	Redemption Amount
2006	\$ 375,000.00
2007	450,000.00
2008	450,000.00
2009	675,000.00
2010	825,000.00
2011	900,000.00
2012	925,000.00
2013	950,000.00
2014	1,000,000.00
2015	1,025,000.00
2016	1,075,000.00
2017	1,125,000.00
2018	1,150,000.00
2019	1,200,000.00
2020	1,250,000.00
2021	1,300,000.00
2022	1,350,000.00
2023	1,400,000.00
2024	1,450,000.00
2025	1,500,000.00
2026	1,550,000.00
2027	1,600,000.00
2028	1,675,000.00
2029	1,725,000.00
2030	1,800,000.00
2031	1,875,000.00
2032	1,950,000.00
2033	2,025,000.00
2034	2,100,000.00
2035 (final maturity)	2,175,000.00

*Notice of Redemption.* Notice of redemption shall be mailed by first-class mail, by the Trustee, in the name of the Authority, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the Owners of the 2005 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. Such notice shall specify the maturity date of the 2005 Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption shall be payable and, if less than all of the 2005 Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of 2005 Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each 2005 Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal amount thereof to be redeemed in the case of 2005 Bonds to be redeemed in part only, and that from and after such date interest on such 2005 Bond or the portion of such 2005 Bond to be redeemed shall cease to accrue and be payable.

The Trustee shall also give notice of redemption of any 2005 Bonds to one of the Information Services, as provided in the Indenture.

## **Mandatory Tender**

Whenever the 2005 Bonds are to be converted from an ARB Interest Rate Period to any other interest rate period, the 2005 Bonds shall be subject to mandatory tender for purchase. In such event, the purchase price of the 2005 Bonds shall be payable only from the remarketing proceeds thereof and, in the event that the remarketing does not generate sufficient proceeds to purchase all of the 2005 Bonds, the conversion of the 2005 Bonds from an ARB Interest Rate Period to any other interest rate period shall not occur and the 2005 Bonds shall bear interest at the ARB Maximum Rate, until the next succeeding Auction Period and then at the Applicable ARB Rate.

In the event of a mandatory tender in lieu of redemption, the purchase price of the 2005 Bonds shall be payable from the moneys that otherwise would have been used to redeem the 2005 Bonds.

The purchase price of the 2005 Bonds shall be the principal amount thereof plus accrued and unpaid interest with respect thereto through but not including the date of purchase of such 2005 Bonds.

## **Book-Entry System**

DTC will act as securities depository for the 2005 Bonds. The 2005 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One authenticated, fully-registered 2005 Bond will be issued for each stated maturity of the 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2005 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their



holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2005 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2005 Bonds, except in the event that use of the book-entry system for the 2005 Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2005 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2005 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, mandatory redemption and interest payments on the 2005 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

The Authority cannot and does not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the 2005 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority is not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2005 Bonds or an error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the 2005 Bonds, payment of principal, interest and other payments on the 2005 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such 2005 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

#### **Discontinuance of Book-Entry System**

DTC may discontinue providing its services with respect to the 2005 Bonds at any time by giving notice to the Trustee and discharging its responsibilities with respect thereto under applicable law or the Authority may terminate participation in the system of book-entry transfers through DTC or any other securities depository at any time. In the event that the book-entry system is discontinued, the Authority will execute, and the Trustee will authenticate and make available for delivery, replacement 2005 Bonds in the form of registered bonds. In addition, the following provisions would apply: the principal of and redemption premium, if any, on the 2005 Bonds will be payable at the principal office of the Trustee, and interest on the 2005 Bonds will be payable by check mailed to the registered owner pursuant to the requirement of the Indenture. See "General" above. 2005 Bonds will be transferable and exchangeable on the terms and conditions provided in the Indenture.

#### **Debt Service Requirements**

The amounts required to be set aside each fiscal year ending June 30 for principal, sinking account payments and interest relating to the 2005 Bonds are as follows:

<u>Year</u> <u>Ending</u> <u>(June 1)</u>	<u>2005 Bond</u> <u>Principal</u>	<u>2005 Bond</u> <u>Interest<sup>1</sup></u>	<u>TOTAL</u>
2006	\$ 375,000.00	\$ 596,881.71	\$ 971,881.71
2007	450,000.00	1,390,871.28	1,840,871.28
2008	450,000.00	1,374,603.84	1,824,603.84
2009	675,000.00	1,358,336.28	2,033,336.28
2010	825,000.00	1,333,935.00	2,158,935.00
2011	900,000.00	1,304,111.28	2,204,111.28
2012	925,000.00	1,271,576.28	2,196,576.28
2013	950,000.00	1,238,137.56	2,188,137.56
2014	1,000,000.00	1,203,795.00	2,203,795.00
2015	1,025,000.00	1,167,645.12	2,192,645.12
2016	1,075,000.00	1,130,591.28	2,205,591.28
2017	1,125,000.00	1,091,730.00	2,216,730.00
2018	1,150,000.00	1,051,061.28	2,201,061.28
2019	1,200,000.00	1,009,488.72	2,209,488.72
2020	1,250,000.00	966,108.84	2,216,108.84
2021	1,300,000.00	920,921.28	2,220,921.28
2022	1,350,000.00	873,926.28	2,223,926.28
2023	1,400,000.00	825,123.84	2,225,123.84
2024	1,450,000.00	774,513.84	2,224,513.84
2025	1,500,000.00	722,096.28	2,222,096.28
2026	1,550,000.00	667,871.28	2,217,871.28
2027	1,600,000.00	611,838.72	2,211,838.72
2028	1,675,000.00	553,998.72	2,228,998.72
2029	1,725,000.00	493,447.56	2,218,447.56
2030	1,800,000.00	431,088.72	2,231,088.72
2031	1,875,000.00	366,018.72	2,241,018.72
2032	1,950,000.00	298,237.56	2,248,237.56
2033	2,025,000.00	227,745.00	2,252,745.00
2034	2,100,000.00	154,541.28	2,254,541.28
2035	2,175,000.00	78,626.28	2,253,626.28

<sup>1</sup>Based on the 3.615% swap rate.

## SECURITY FOR THE 2005 BONDS

### Revenues; Pledge of Revenues

Subject to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth in the Indenture, to secure the payment of all the Obligations, including without limitation the 2005 Bonds, any other Bonds, Credit Provider Bonds and Qualified Swap Agreements (including the 2005 Swap), and the interest payments becoming due thereon according to their tenor, purport and effect, and to secure the performance and observance of all of the covenants, agreements and conditions contained in the Obligations, including without limitation Credit Provider Bonds, the Qualified Swap Agreements (including the 2005 Swap) and the Indenture, the Authority has assigned, irrevocably granted a lien on and a security interest in, and pledged, the Revenues and all money in the Revenue Fund established under the Indenture and in the funds or accounts so specified and provided for in this Indenture, whether held by the Authority or the Trustee, to the Trustee for the benefit of the Owners of the Outstanding Bonds, including the 2005 Bonds, and Credit Provider Bonds and any other Obligations, including without limitation Qualified Swap Agreements (including the 2005 Swap).

This lien on and security interest in and pledge of the Revenues and such money in the Revenue Fund and in the funds or accounts so specified and provided for in this Indenture shall constitute a first pledge of and charge and lien upon the Revenues and such money in the Revenue Fund and in the funds or accounts so specified and provided for in this Indenture, shall immediately attach and be effective, binding, and enforceable against the Authority, its successors, purchasers of any of the Revenues or such money in the Revenue Fund or in the funds or accounts so specified and provided for in this Indenture, creditors, and all others asserting rights therein to the extent set forth in, and in accordance with, the Indenture, irrespective of whether those parties have notice of the lien on, security interest in and pledge of the Revenues and such money in the Revenue Fund and in the funds or accounts so specified and provided for in this Indenture and without the need for any physical delivery, recordation, filing or further act.

The City has assigned to the Authority its right, title and interest in the 2005 Swap Receipts (as defined in the 2005 Contract) pursuant to the 2005 Contract and the Authority has directed the Trustee to pay Net Payments on behalf of the City to the 2005 Swap Provider pursuant to the Indenture.

The Authority (to the extent of its rights, if any, in the Revenue Fund and all money on deposit in the accounts and funds established under the Indenture, although it is the intent of the parties to the Indenture that the Authority not have any right, title or interest in or to the Revenue Fund or such money) has pledged and granted a lien on and a security interest in the Revenue Fund and such money to the Trustee for the benefit of the 2005 Bonds, any other Bonds and any other Obligations. The Authority and the Trustee agree to take such action (including, if required under applicable law, the filing of financing statements and continuation statements) as may be necessary from time to time to perfect or otherwise preserve the priority of the pledge set forth above.

"Revenues" are defined in the Indenture as all 2005 Installment Payments paid by the City to the Trustee pursuant to the 2005 Contract, all receipts and payments made to the City pursuant to any Qualified Swap Agreement and assigned to the Authority pursuant to the 2005

Contract and all interest earnings on the funds and accounts held under the Indenture (except the 2005 Project Fund and the Rebate Fund).

### **2005 Installment Payments**

Pursuant to the 2005 Contract, the City is obligated to make 2005 Installment Payments, but solely from Net Revenues (as defined below), which are sufficient to provide for the payment of the principal of and interest on the 2005 Bonds. The obligation of the City to pay the 2005 Installment Payments is absolute and unconditional, and until such time as the 2005 Installment Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to the Indenture), the City will not discontinue or suspend any 2005 Installment Payments required to be paid by it under the 2005 Contract when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

As security for the payment of the 2005 Bonds, the Authority has assigned to the Trustee the Authority's rights and remedies under the 2005 Contract, including the right to receive the 2005 Installment Payments.

As stated below, the obligation of the City to pay the 2005 Installment Payments is limited to the Net Revenues, which is defined in the 2005 Contract as, for any fiscal year, the Water Revenues during such fiscal year less the Maintenance and Operation Costs during such fiscal year. These terms are defined as follows:

"Water Revenues" includes all gross income and revenue received or receivable by the City from the ownership or operation of the Water System, determined in accordance with generally accepted accounting principles, including all charges, fees and rates, and all water facility reserve fees received by the City for water and other services of Water System and all proceeds of insurance covering business interruption loss relating to the Water System and all other income and revenue howsoever derived by the City from the ownership or operation of the Water System, but excluding in all cases any proceeds of taxes and any refundable deposits made to establish credit and advances or contributions in aid of construction.

"Maintenance and Operation Costs" are the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Water System, determined in accordance with generally accepted accounting principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the City that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes and payments in lieu of taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the 2005 Contract or of any resolution authorizing the issuance of the Parity Bonds or of such Parity Bonds or of any resolution authorizing the execution of any Contract or of such Contract, such as compensation, reimbursement and indemnification of the trustee for any such Parity Bonds or Contract and fees an expenses of Independent Certified Public Accountants and Independent Engineers, Insurance Consultants and the Director of Finance of the City, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor, amortization of intangibles.

"Water System" is all the facilities for the distribution, delivery and treatment of water owned by the City and all other properties, structures or works acquired and constructed by the City and determined to be a part of the Water System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof.

"Water Service" means the distribution, delivery and treatment of water to residential, commercial, industrial or other users of the Water System, made available or provided by the Water System.

### **Special Obligation; Unconditional Obligation**

The obligation of the City to make the 2005 Installment Payments is a special obligation of the City and is payable solely from the Net Revenues and the other funds as provided herein, and does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction, and does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The obligation of the City to pay the 2005 Installment Payments from the Net Revenues as herein provided is absolute and unconditional, and until such time as the 2005 Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made in accordance with the 2005 Contract), the City will not discontinue or suspend any 2005 Installment Payments required to be made by it under this section, whether or not the 2005 Water Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to abatement because of any damage to, destruction or condemnation of the 2005 Water Project, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

### **2005 Swap**

The City has entered into an interest rate swap (the "2005 Swap") with respect to the 2005 pursuant to that certain ISDA Master Agreement, dated December 1, 2005, as supplemented by the Schedule and the Credit Support Annex thereto, and evidenced by the Confirmation, each dated December 1, 2005 and each by and between the City and Piper Jaffray Financial Products Inc. (the "Swap Provider"), and the Replacement Swap Undertaking, among the City, Piper Jaffray Financial Products Inc., and Morgan Stanley Capital Services Inc. and any replacement Payment Agreement entered into pursuant to the Replacement Swap Undertaking. The 2005 Swap will be in an initial notional amount equal to the aggregate principal amount of the 2005 Bonds outstanding, and the notional amount of the 2005 Swap will be reduced by the amount of principal payments made on the 2005 Bonds as such payments are scheduled to be paid. Under the 2005 Swap the City will pay amounts based upon a fixed rate of 3.615% and receive amounts based upon a variable rate (based on 63% of the One-Month London Interbank Offering Rate ("LIBOR") plus 36 basis points). The payment obligations of the Authority under the 2005 Swap (excluding Termination Payments thereunder) will constitute a Parity Obligation under the 2005 Contract, and the payments received by the City under the 2005 Swap have been assigned to the Authority and pledged to the payment of the

2005 Bonds. The payment obligations of the City under the 2005 Swap that constitute Termination Payments are junior and subordinate in all respects to Parity Obligations.

The City has entered into the 2005 Swap in connection with the 2005 Bonds for the purpose of receiving amounts expected to be approximately equal to the floating rate 2005 Installment Payments the City is obligated to make in exchange for making fixed rate payments. Under certain circumstances, the 2005 Swap is subject to early termination prior to the scheduled termination date and prior to the maturity of the 2005 Bonds, in which event, the City may be obligated to make Termination Payments to the Swap Provider and the City may be required to make a substantial supplemental appropriation for such purpose. Neither the holders of the 2005 Bonds nor any other person other than the City will have any other rights under the 2005 Swap or against the Swap Provider.

### **Rate Covenant; Collection of Rates and Charges**

The City has covenanted under the 2005 Contract to fix, prescribe and collect rates, fees and charges for Water Service by the during each Fiscal Year which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield Net Revenues during the next succeeding Fiscal Year equal to 115% of the sum of (i) Parity Debt Service for such Fiscal Year and (ii) all Policy Costs due and owing in such Fiscal Year, plus any termination payments for which other lawful monies are not otherwise available. The City may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements described in this paragraph.

The City has further covenanted to have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the Water System to pay the rates, fees and charges applicable to the Water Service to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The City will not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the City may without charge use the Water System.

### **Debt Service Reserve Account**

Under the Indenture, a Reserve Account is created for the Bonds (the "Debt Service Reserve Account"), and shall be held in trust by the Trustee. On the date of issuance of the 2005 Bonds, the Trustee shall deposit into the Debt Service Reserve Account an amount equal to the "Debt Service Reserve Account Requirement" which is \$2,254,541.28 The Debt Service Reserve Account Requirement shall be maintained in the Debt Service Reserve Account at all times, subject to the provisions of the Indenture, and any deficiency therein shall be replenished from the first available Revenues pursuant to the Indenture.

If on any date on which the principal or Redemption Price of, or interest on, Bonds or an Authority Swap Payment is due, the amount in the applicable account in the Revenue Fund available for such payment is less than the amount of the principal and Redemption Price of and interest on the Bonds or Authority Swap Payment due on such date, the Trustee shall apply

amounts from the Debt Service Reserve Account to the extent necessary to make good the deficiency.

In lieu of making the Debt Service Reserve Account Requirement in compliance with the Indenture, or in replacement of moneys then on deposit in the Debt Service Reserve Account, the Authority may deliver to the Trustee an insurance policy or letter of credit securing an amount, together with moneys, Permitted Investments or letters of credit on deposit in the Debt Service Reserve Account, no less than the Debt Service Reserve Account Requirement in accordance with the requirements set forth in the Indenture. See "APPENDIX A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture – Debt Service Reserve Account."

### **Additional Bonds and Contracts**

The City will not incur any obligations payable from Net Revenues superior to the payment of the 2005 Installment Payments; provided, that the City may at any time enter into Parity Obligations to finance or refinance any Water Project, if:

(a) The Net Revenues and Adjusted Net Revenues (as defined below) for the most recent audited Fiscal Year preceding the execution and delivery of such Parity Obligation, as evidenced by a special report prepared by the City or an Independent Financial Consultant, shall have satisfied the Coverage Requirement (as defined below) for such Fiscal Year;

(b) The Net Revenues and Adjusted Net Revenues for the most recent audited Fiscal Year preceding the execution and delivery of such Parity Obligation, as evidenced by a special report prepared by the City or an Independent Financial Consultant, shall have satisfied the Coverage Requirement (as defined above) for such Fiscal Year; provided, that for purposes of this clause (b), such report shall assume that (i) any increases or decreases in rates and charges for the Water Service that have become effective at any time since the first day of such Fiscal Year had been in effect since the first day of such Fiscal Year, (ii) any Parity Obligations that have been incurred since the first day of such Fiscal Year had been incurred on the first day of such Fiscal Year, and (iii) any Parity Obligation proposed to be issued had been incurred on the first day of such Fiscal Year; and

(c) The estimated Net Revenues and Adjusted Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Water Project, including (after giving effect to the completion of all such uncompleted Water Projects) an allowance for estimated Net Revenues and Adjusted Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for the Water Service and which in the opinion of the City are economically feasible and reasonably considered necessary based on projected operations for such period, shall satisfy the Coverage Requirement with respect to the estimated Parity Debt Service for each of such Fiscal Years, after giving effect to the execution of all Parity Obligations estimated to be required to be executed or issued to pay the costs of completing all uncompleted Water Projects within such Fiscal Years, assuming that all such Parity Obligations have maturities, interest rates (or Assumed Rates, in the case of Variable Interest Rate Obligations) and proportionate principal repayment provisions similar to the Parity Obligation last



executed or then being executed for the purpose of acquiring and constructing any of such uncompleted Water Projects;

provided, that any Parity Obligation may be entered into without regard to the foregoing conditions if the Parity Debt Service in each Fiscal Year after giving effect to such Parity Obligation, is not increased by reason of the Parity Obligation; and provided further, that any Parity Obligation may be entered into without regard to the foregoing conditions in order to refund Parity Obligations then outstanding if, as a result of such refunding, an Event of Default will be cured; and provided further, that nothing contained herein shall limit the ability of the City to execute and deliver obligations secured by Net Revenues on a basis subordinate to all Parity Obligations.

Notwithstanding the satisfaction of the other conditions set forth in the 2005 Contract, no Parity Obligations may be issued if (1) any Event of Default (or any event with, with the passage of time or the giving or notice, or both, shall become an Event of Default) shall have occurred and be continuing, unless such default shall be cured upon such issuance, (2) upon the issuance of such Parity Obligations, the Reserve Account will have an amount less than the Reserve Requirement, in either case unless otherwise permitted by the Insurer, or (3) any Termination Payment and interest thereon as described in the applicable Payment Agreement shall be due and payable unless such non-payment shall be cured upon such issuance.

"Adjusted Net Revenues" means Net Revenues less all connection fees received by the City for water and other services of the Water System.

"Coverage Requirement" means, for any Fiscal Year or any other period, (a) with respect to Net Revenues, an amount of Net Revenues equal to at least one hundred twenty-five percent (125%) of the sum of (i) Parity Debt Service for such Fiscal Year or such other period, as applicable, and (ii) all Policy costs due and owing in such Fiscal Year or such other period, as applicable, and (b) with respect to Adjusted Net Revenues, an amount equal to one hundred percent (100%) of the sum of (i) Parity Debt Service for such Fiscal Year or such other period, as applicable, and (ii) all Policy Costs due and owing in such Fiscal Year or such other period, as applicable.

#### **Insurance and Eminent Domain; Net Proceeds**

The City will procure and maintain such insurance relating to the Water System which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in the State in connection with municipal water systems comparable to the Water System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with municipal water systems in the State comparable to the Water System and is, in the opinion of an accredited actuary, actuarially sound. All policies of insurance required to be maintained herein shall provide that the Authority and the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

If the City receives any insurance proceeds resulting from a casualty loss to the Water System or if all or any part of the Water System is taken by eminent domain proceedings, the Net Proceeds thereof, at the option of the City, will be applied either to the prepayment of the

2005 Installment Payments or other Parity Obligations or will be used to substitute other components for the condemned or destroyed components of the Water System.

### **Other Covenants**

Additional covenants contained in the 2005 Contract include, but are not limited to, the following:

*Against Encumbrances.* The City will not make any use of or encumber the Net Revenues except as provided herein; provided, that so long as the City is not in default hereunder, the City may issue any obligations subordinate to the Parity Obligations that are payable from surplus Net Revenues as provided in the 2005 Contract.

*Against Sale or Other Disposition of Property.* The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of Net Revenues. The City will not enter into any agreement which impairs the operation of the Water System or any part thereof necessary to secure adequate Net Revenues for the payment of the Parity Obligations or which would otherwise impair the rights of the City with respect to Net Revenues or the operation of the Water System.

*Against Competitive Facilities.* The City will not, to the extent permitted by law, acquire, purchase, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, purchase, maintain or operate within the City any water system competitive with the Water System.

*Maintenance and Operation of Water System.* The City will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

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

## FINANCIAL GUARANTY INSURANCE

### Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "**Financial Guaranty Insurance Policy**") relating to the 2005 Bonds effective as of the date of issuance of the 2005 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "**Insurance Trustee**") that portion of the principal of and interest on the 2005 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the **Obligor** (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2005 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2005 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2005 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2005 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2005 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 2005 Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

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

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

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of 2005 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2005 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial

Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2005 Bond's, appurtenant coupon, if any, or right to payment of principal or interest on such 2005 Bond and will be fully subrogated to the surrendering Holder's rights to payment.

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

### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("**Ambac Assurance**") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,645,000,000 (unaudited) and statutory capital of \$5,403,000,000 (unaudited) as of September 30, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the 2005 Bonds.

Ambac Assurance makes no representation regarding the 2005 Bonds or the advisability of investing in the 2005 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE."

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "**Company**"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

#### **Incorporation of Certain Documents by Reference**

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;
6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;
7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005;
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005;
9. The information furnished and deemed to be filed under Item 2.02 contained in the Company's Current Report on Form 8-K dated and filed on October 19, 2005;
10. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2005 and filed on November 9, 2005; and
11. The Company's Current Report on Form 8-K dated November 29, 2005 and filed on December 5, 2005.

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

## THE WATER SYSTEM

The City is located in the eastern portion of Contra Costa County (the "County") at the confluence of the San Joaquin and Sacramento Rivers, about 40 miles northeast of San Francisco. Originally a coal shipping port, the City was founded in 1849, and incorporated in 1903 as a general law city. In the 1940's and early 1950's, the City was a major commercial and industrial center for the County and the eastern ports of the greater San Francisco Bay Area. Today the City is part of the second largest industrial center in the County and has a population of approximately 62,605 as of January 1, 2005. The City covers an area of approximately 15.5 square miles. For more information on the City, see "APPENDIX C - CITY OF PITTSBURG GENERAL INFORMATION."

The City owns and operates a complete water system, supplying treated water to the entire area within its limits as well as to users outside the City. The City provides approximately 2.5 billion gallons of water per year, or about 7 million gallons per day, to over 15,600 paying customers.

The City is within the Contra Costa Water District (the "District") service area and obtains most of its raw water from the District pursuant to a contractual arrangement allowing the City to obtain such quantity of water as is necessary to meet its needs, subject to rationing restrictions in the event of drought or other extraordinary circumstances. The District has indicated that near term demand can be met under all supply conditions, but that, starting in 2010, during the second and third year of a multi-year drought, short-term water purchases would, most likely, need to be reduced by 5% to 15%. The District has further indicated that it believes the maximum amount of short-term conservation expected to be necessary under drought conditions would be 15% of demand.

The City pumps the water it receives from the District water into its system from a connection adjacent to the City's Water Treatment Plant, on the District's Contra Costa Canal, which runs through the City east to west. The City also has the ability to supplement this supply with ground water pumping; however, the ground water supply is limited by the pumping capacity of the Water System and the quality of the water derived from the wells.

The City treats both sources of water at its treatment plant, located in the south central part of the City. This plant has a nominal treatment capacity of 32 million gallons per day (mgd), and a permanent capacity of 28 mgd. The maximum peak demand that the City has experienced is 16.9 mgd and the average demand is approximately 13 mgd.

The principal storage facility, is comprised of two tanks located at the treatment plants, has a total capacity of 6 million gallons. There are 6 additional reservoirs throughout the City, which vary in size from 1 million to 3 million gallons, with a cumulative capacity of approximately 11 million gallons. The location of these additional facilities is intended to provide water efficiently to customers of the Water System, and is based on geography and vertical elevation.

### **Rate Structure**

In accordance with California law, the City Council may, from time to time and at its discretion, fix, alter, change, amend or revise any connection charges, fixed monthly services fees, commodity charges and other fees related to the Water System. Consequently, the City Council periodically reviews such charges and fees to determine if they are sufficient to cover

maintenance and operations costs, capital improvement expenditures and debt service requirements. See "SECURITY FOR THE 2005 BONDS - Rate Covenant; Collection of Rates and Charges" above. Such charges and fees are set by the City Council for the services provided by the Water System after a public hearing is held. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS - Proposition 218." Neither the City nor the Water System is subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body in connection with the establishment of charges and fees related to the Water System.

The City's current water rates went into effect on August 1, 2005. The current water rates include a monthly service charge which varies by meter size, a quantity charge per hundred cubic feet (Ccf) of water use, and lower lifeline quantity charge for the first 400 Ccf of water use for qualifying senior, low income and/or disabled customers. Water facility reserve charges ("Water FRC's") for residential connections are based on the number of individual living units being connected to the system.

The City has caused to be prepared by Brown and Caldwell, rate consultants to the City, two studies, each dated April 2005:

- Development of Water Charges Water Rate Study (the "Water Rate Study") of the City's rate structure for water service, and
- Development of Water and Sewer Facility Reserve Charges (the "FRC Study") of the City's rate structure for facility reserve fees.

The purpose of the Water Rate Study and the FRC Study (together, the "Studies") was to develop water rates and charges that generate the annual revenue requirements necessary to fund both the operation and maintenance expenses as well as the capital improvement costs of the Water System for the 5-year study period.

As a result of the findings presented in the Water Rate Study, on May 16, 2005 the City enacted an ordinance to fundamentally change its water service rate structure, with a significant increase in charges for non-residential customers to restore equity between residential and non-residential customers. This new rate structure was approved in mid-June, 2005, and became effective August 1, 2005, with annual increases taking effect on each November 1, from November 1, 2006 through November 1, 2008. See Table 1 and Table 2 below for a summary of the newly-enacted water rates.

Further, on June 20, 2005 the City enacted an ordinance that calls for an increase in water facility reserve fees based on:

- the number and type of dwelling unit count for residential customers, and
- a water meter capacity ratio for non-residential customers.

The first of these annual increases became effective August 1, 2005, with annual increases taking effect on each November 1 from November 1, 2006 through November 1, 2008.

The City has not experienced delinquencies in the payment of bills which have a significant impact upon the revenue generated by the Water System.

*Water Service Charges.* Monthly meter rates for water service within City limits are shown in the table below. The rates will increase annually on each November 1 from November 1, 2006 through November 1, 2008, according to the schedule shown.

**Table 1  
City of Pittsburgh  
Monthly Meter Rates**

Meter Size	Monthly Water Service Charge: Effective August 1, 2005	Monthly Water Service Charge: Effective November 1, 2006	Monthly Water Service Charge: Effective November 1, 2007	Monthly Water Service Charge: Effective November 1, 2008
5/8" x 3/4" or 3/4"	\$ 15.60	\$ 16.40	\$ 17.20	\$ 18.10
1"	34.20	35.90	37.70	39.50
1 1/2"	65.00	68.40	71.80	75.30
2"	102.10	107.30	112.80	118.20
3"	200.80	211.20	221.90	232.60
4"	312.00	328.10	344.70	361.30
6"	620.60	652.80	685.80	718.90
8"	1,114.50	1,172.20	1,231.60	1,291.00
10"	1,793.60	1,886.50	1,982.10	2,077.60
12"	2,657.90	2,795.60	2,937.30	3,078.80

In addition, the City charges a monthly quantity usage charge for all uses (other than by qualified senior citizens), as follows:

**Table 2  
City of Pittsburgh  
Monthly Quantity Charges**

Quantity	Monthly Quantity Charge: Effective August 1, 2005	Monthly Quantity Charge: Effective November 1, 2006	Monthly Quantity Charge: Effective November 1, 2007	Monthly Quantity Charge: Effective November 1, 2008
SF Residential				
1- 14 Ccf/month	\$2.13 per Ccf	\$2.25 per Ccf	\$2.37 per Ccf	\$2.49 per Ccf
Over 14 Ccf/month	\$3.60 per Ccf	\$3.80 per Ccf	\$4.00 per Ccf	\$4.20 per Ccf
Other	\$2.66 per Ccf	\$2.80 per Ccf	\$2.95 per Ccf	\$3.10 per Ccf

The City also adjusts water service charges for water service in different elevation zones.

*Water Facility Reserve Fees.* Water facility reserve fees are based on the number and type of dwelling units for residential customers. Water facility reserve fees range from \$2,450 to \$6,960 based on the amount of contribution for common facilities each developer is responsible for. A representative figure for 2005 is \$3,890 for a single-family residential unit.

Water facility reserve fees for non-residential customers are based on a water meter capacity ratio. The ratios range from 1.0 R (for a 5/8 inch meter) to 215.0 R (for a 12 inch



meter). The multipliers "R" range from \$2,470 to \$6,960. The multipliers will increase annually according to the schedule set forth in the Ordinance on each November 1, until November 1, 2008.

Water Accounts by Meter Size. As shown above, the City's billing of water usage varies according to meter size. The following table shows the distribution of water accounts by meter size for fiscal year 2005-06. The majority of the City's water accounts are for 5/8 inch meters.

**Table 3  
City of Pittsburg  
Water Accounts by Meter Size  
Fiscal Year 2005-06**

<u>Meter Size</u>	<u>Number of Accounts</u>	<u>Percent of Total</u>
5/8" x 3/4" or 3/4"	15,255	95.53%
1"	329	2.06
1 1/2"	158	.99
2"	174	1.09
3"	29	0.18
4"	9	0.06
6"	12	0.08
8"	0	0.00
10"	2	0.01

**Comparative Rates**

Comparative water service rates for areas for fiscal year 2004-05 in the vicinity of the City are shown in the table below.

**Table 4  
City of Pittsburg  
Comparative Water Rates Per Month**

<u>Meter Size</u>	<u>City of Pittsburg</u>	<u>City of Martinez</u>	<u>East Bay MUD</u>	<u>City of Antioch</u>	<u>Contra Costa WD</u>
5/8" x 3/4" or 3/4"					
3/4"	\$ 15.60	\$ 19.05	\$ 8.84	\$ 7.95	\$ 17.05
1"	34.20	44.79	14.46	7.95	42.62
1 1/2"	65.00	87.69	23.63	33.25	85.23
2"	102.10	139.16	34.72	52.25	136.37
3"	200.80	276.43	60.60	103.25	272.73
4"	312.00	430.85	97.61	160.50	426.14
6"	620.60	859.80	190.06	319.50	852.29
8"	1,114.50	1,546.13	301.01	510.00	1,534.10
10"	1,793.60	2,489.83	430.44	923.25	2,471.64
12"	2,657.90	No rate	596.87	1,368.25	3,664.78

## Water Consumption

*Annual Consumption.* The table below shows the change in water consumption for fiscal year 1993-94 through fiscal year 2004-05.

**Table 5**  
**City of Pittsburg**  
**Historical Water Consumption (In CCF)**

<u>Fiscal Year</u>	<u>Consumption</u>	<u>% Change</u>
1993-94	3,391,285	--
1994-95	3,341,008	(1.47)%
1995-96	3,338,836	(0.06)
1996-97	3,181,500	(4.70)
1997-98	3,321,910	4.40
1998-99	3,116,480	(6.20)
1999-00	3,224,530	3.50
2000-01	3,427,940	6.29
2001-02	3,334,074	(2.74)
2002-03	3,405,513	2.16
2003-04	3,334,890	(2.08)
2004-05	3,377,348	1.27

Source: City of Pittsburg.

*Consumption by User Class.* The City categorizes its water customers into customer classes which include single-family, single-family senior, multiple-family, commercial, industrial, irrigation and institutional accounts. The following table shows the growth in water consumption by user type for fiscal year 2004-05.

**Table 6**  
**City of Pittsburg**  
**Water Consumption (In CCF) and Revenue by User Type**

<u>Customer</u>	<u>Number of Accounts</u>	<u>Total Consumption</u>	<u>Percent of Total Consumption</u>	<u>Total Revenues</u>	<u>Percent of Total Revenue</u>
Multi Family	352	2,588	0.08%	\$1,041,437	10.02%
Senior	641	790	0.02%	219,130	2.11%
Single Family	13,883	3,361,317	99.53%	6,793,582	65.36%
Irrigation-Residential	138	4,379	0.13%	677,982	6.52%
<b>Subtotal - Residential</b>	<b>15,014</b>	<b>3,369,075</b>	<b>99.76%</b>	<b>\$8,732,130</b>	<b>84.00%</b>
Commercial	542	5,784	0.17%	\$ 913,119	8.78%
Industrial	16	654	0.02%	308,596	2.97%
Irrigation-Commercial	46	1,460	0.04%	225,994	2.17%
<b>Subtotal - Non-Res.</b>	<b>604</b>	<b>7,897</b>	<b>0.23%</b>	<b>\$1,447,709</b>	<b>13.93%</b>
Institution	66	377	0.01%	\$ 214,970	2.07%
<b>Subtotal - Other</b>	<b>66</b>	<b>377</b>	<b>0.01%</b>	<b>\$ 214,970</b>	<b>2.07%</b>
<b>TOTAL</b>	<b>15,684</b>	<b>3,377,348</b>	<b>100%</b>	<b>\$10,394,809</b>	<b>100%</b>

Source: City of Pittsburg.

## User Profiles

The following tables shows the ten principal users of the Water System (excluding the City) in Fiscal Year 2004-05.

**Table 7**  
**City of Pittsburg**  
**Top Ten Water System Accounts**  
**(Based on Consumption and Amount Paid)**  
**2004-2005**

Customers	Primary Business of Activity	Units (CCF)	WATER REVENUE			% of Total Rev	% of Total Use
			water fees	meter fees	Total		
1 Pittsburg Unified School District	School District	89,936	\$208,292	\$4,458	\$212,750	2.05%	2.66%
2 USS POSCO	Steel Mill	73,072	169,235	1,169	170,403	1.64%	2.16%
3 Kirker Creek LTD Partner	Apartment Complex	63,630	147,367	3,370	176,703	1.70%	1.88%
4 The Meadows Mobile Home	Mobile Home Park	38,386	88,902	974	89,876	0.86%	1.14%
5 GWF Power Plant	Power Plant	31,304	72,500	544	73,044	0.70%	0.93%
6 Lido Square Townhouses	Apartment Complex	25,278	58,544	1,169	59,713	0.57%	0.75%
7 G&K Services, Inc	Laundry Service	23,441	54,289	466	54,756	0.53%	0.69%
8 Pittsburg Foxcreek Apts.	Apartment Complex	21,398	49,558	652	50,210	0.48%	0.63%
9 President Park	Apartment Complex	20,664	47,858	1,071	48,929	0.47%	0.61%
10 Delta Hawaii	Apartment Complex	19,183	44,428	556	44,984	0.43%	0.57%
TOTAL		406,292	\$940,972	\$14,430	\$ 981,368	9.44%	12.03%

## Projected Operating Results

The following table shows the projected Net Revenues for fiscal year 2005-06 through 2010-11 calculated in accordance with the formula set forth in the Indenture with respect to the City's rate covenant. The table also presents debt service coverage for such fiscal year based on such projected Net Revenues. See "SECURITY FOR THE 2005 Bonds - Rate Covenant; Collection of Rates and Charges" above.

**Table 8**  
**CITY OF PITTSBURG**  
**Projected Net Revenues and Debt Service Coverage**  
**Fiscal Year 2005-06 through 2010-11**  
**(ending June 30)**

Item	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11
Balance, July 1	\$1,174,875	\$1,356,349	\$1,770,704	\$2,405,637	\$2,889,792	\$2,909,191
<b>Revenues</b>						
Water Rates	12,595,000	13,350,700	14,151,742	15,000,847	15,600,880	16,224,916
Non-operating	<u>603,000</u>	<u>603,000</u>	<u>603,000</u>	<u>603,000</u>	<u>603,000</u>	<u>603,000</u>
Subtotal Revenues	13,198,000	13,953,700	14,754,742	15,603,847	16,203,880	16,827,916
<b>Expenditures</b>						
O&M	10,241,322	10,599,768	10,970,760	11,354,737	11,752,153	12,163,478
Admin overhead	515,814	531,288	547,227	563,644	580,553	597,970
CIP	912,283	1,000,000	1,200,000	1,200,000	1,200,000	1,300,000
Debt payments	992,795	1,043,347	1,025,932	1,614,144	2,252,995	2,296,064
Transfer to GF (Utility Payment Center)	<u>354,312</u>	<u>364,941</u>	<u>375,889</u>	<u>387,166</u>	<u>398,781</u>	<u>410,745</u>
Subtotal Expenditures	13,016,526	13,539,345	14,119,809	15,119,691	16,184,482	16,768,256
<b>Revenues-Expenditures</b>	181,474	414,355	634,933	484,155	19,399	59,659
<b>Balance, June 30</b>	1,356,349	1,770,704	2,405,637	2,889,792	2,909,191	2,968,850
<b>Rate Covenant Evaluation</b>						
Net Water Revenues and Debt Service:						
Gross Income	13,198,000	13,953,700	14,754,742	15,603,847	16,203,880	16,827,916
Maintenance and Operation Costs	11,111,448	11,495,998	11,893,877	12,305,547	12,731,487	13,172,192
Net Water Revenues	2,086,552	2,457,702	2,860,865	3,298,300	3,472,394	3,655,723
Debt Service	992,795	1,043,347	1,025,932	1,614,144	2,252,995	2,296,064
Net Water Revenues/Debt Service Ratio	<b>2.10</b>	<b>2.36</b>	<b>2.79</b>	<b>2.04</b>	<b>1.54</b>	<b>1.59</b>

Source: City of Pittsburgh

## **BONDOWNERS' RISKS**

### **Water System Demand**

There can be no assurance that the demand for water services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the covenants to fix rates and charges so as to produce Net Revenues at least equal to 1.15% of the 2005 Installment Payments and any Parity Obligations.

### **Water System Expenses**

There can be no assurance that the City's expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require an increase in rates or charges in order to comply with the rate covenant.

### **SEC Inquiry**

The Securities and Exchange Commission (the "SEC") is conducting an informal inquiry relating to Auction Rate Bonds transactions. Recent financial market news reports indicate that a number of participants in the Auction Rate Bonds market have received a letter from the SEC requesting the recipient to conduct a voluntary internal investigation of the firm's practices and procedures relating to Auction Rate Bonds. Piper Jaffray Inc., the underwriter and the Broker-Dealer for the 2005 Bonds, has advised the Authority that it has received such a letter and is responding to the SEC in this inquiry. What action, if any, the SEC will take at the conclusion of its inquiry cannot be predicted. It is possible that the inquiry could lead to changes in practices relating to auctions which, among other things, might adversely affect the market for, and liquidity of, Auction Rate Bonds such as the 2005 Bonds.

### **2005 Swap**

In the event that the Swap Provider defaults under the 2005 Swap, the City will be required to pay 2005 Installment Payments equal to the variable rate debt service on the 2005 Bonds without the benefit of the variable rate payments from the Swap Provider unless and until the City converts the interest rate with respect to the 2005 Bonds to a Fixed Rate or enters into a replacement swap. In such event, if the variable rate payable on the 2005 Bonds is greater than the fixed rate the City had been paying under the 2005 Swap, the City's debt service coverage would be reduced and, if such reduction is substantial enough, could force the City to raise rates for the Water System in order to comply with the rate covenant set forth in the 2005 Contract. See "SECURITY FOR THE 2005 BONDS – Rate Covenant" above.

### **Seismic Considerations**

The City, like much of California, is subject to seismic activity that could result in interference with the delivery of water from the Contra Costa Water District or the City's operation of the Water System. A major seismic event prior to the time such improvements are completed could result in water deliveries from the Contra Costa Water District to the Water System being interrupted for a significant period of time. As a result, no assurance can be given that a future seismic event will not materially adversely affect the operation of the Water System.

### **Limited Recourse on Default**

If the City defaults on its obligation to make 2005 Installment Payments, the Trustee has the right to accelerate the total unpaid principal amount of the 2005 Installment Payments. However, in the event of a default and such acceleration there can be no assurance that the City will have sufficient funds to pay the accelerated 2005 Installment Payments.

### **Limitation of Remedies**

In addition to the limitations on remedies contained in the Indenture and the 2005 Contract, the rights and remedies provided in the Indenture and the 2005 Contract may be limited by and are subject to the provisions of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS - Proposition 218" below.

### **Environmental Regulation**

The kind and degree of water treatment effected through the Water System is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Water System and mandate the use of water treatment technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state agencies, should impose stricter water quality standards upon the Water System, the City's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs.

### **Constitutional Limitations on Appropriations and Fees**

Under Article XIII B of the California Constitution, as amended, state and local government entities have an annual "appropriations limit" which limits their ability to spend certain moneys called "appropriations subject to limitation", which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The water service and use charges imposed by the City do not exceed the costs the City incurs in providing the Water Service. In general terms, the "appropriations limit" is to be based on certain 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two year.

### **Limitation of Remedies**

The ability of the City to comply with its covenants under the 2005 Contract and to generate Net Revenues sufficient to pay principal of and interest on the 2005 Bonds may be adversely affected by actions and events outside of the control of the City and the Authority and

may be adversely affected by actions taken (or not taken) by voters, property owners, or persons obligated to pay Water System fees and charges. See "Proposition 218; California Constitution, New Articles XIII C and XIII D." Furthermore, the remedies available to the owners of the 2005 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the 2005 Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against general law cities and joint exercise of powers agencies in the State of California. The opinion to be delivered by Orrick, Herrington & Sutcliffe LLP, bond counsel, concurrently with the issuance of the 2005 Bonds, will be subject to such limitations, and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. See "APPENDIX E - PROPOSED FORM OF BOND COUNSEL OPINION." In the event the City fails to comply with its covenants under the 2005 Contract to pay the Installments Payments, there can be no assurance of the availability of remedies adequate to protect the interests of the holders of the 2005 Bonds.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS**

### **Article XIII A of the California Constitution**

Article XIII A of the State Constitution, also known as Proposition 13, limits the amount of ad valorem taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax roll under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment period", subject to exemptions in certain circumstances of property transfer or reconstruction. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, and (b) as a result of an amendment approved by California voters on June 3, 1986, on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978. In addition, Article XIII A requires the approval of two-thirds of all members of the State legislature to change any State taxes for the purpose of increasing tax revenues.

## **Article XIII B of the California Constitution**

Article XIII B of the State Constitution, as amended by Proposition 111 approved by the voters on June 5, 1990, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit was originally the 1978-79 fiscal year. Following the approval of Proposition 111, for fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government will be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIII B, as amended by Proposition 111.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, (a) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (b) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any fiscal year and the fiscal year immediately following it, exceed the amounts that may be appropriated in that fiscal year and the fiscal year immediately following it, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

## **Proposition 218**

**General.** On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 adds Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218, which generally became effective on November 6, 1996, changes, among other things, the procedure for the imposition of any new or increased "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to herein as a "property-related fee or charge").

Specifically, Article XIII D requires that, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and, if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the property-related fee or charge.

Further, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.



**Interpretation of Proposition 218.** Since Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion have indicated that fees and charges levied for water and wastewater services are not property-related fees and charges and thus are not subject to the above described requirements regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed.

However, in *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3<sup>rd</sup> 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain water service-related charges. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dicta that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In July 2004 the California Court of Appeal, Fourth District, held, in *Bighorn-Desert View Water Agency v. Beringson* (180 Cal. App 4<sup>th</sup> 890), that the costs of water services are not property related or incidents of property ownership because they are based on consumption and not on property ownership. The Court had reached this conclusion previously in an earlier decision in the *Bighorn* case, but the California Supreme Court had directed the California Court of Appeal to reconsider its decision in light of the *Richmond* case mentioned above. The California Supreme Court has granted a petition for hearing in the *Bighorn* case. The City is unable to predict when the California Supreme Court will hear the case, or what the outcome of that hearing will be.

Most recently, in *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and must comply with Article XIID. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

**Proposition 218 and the City's Water Service Charges.** The City cannot predict whether courts will determine that fees and charges such as the City's fees and charges for water service from the Water System are subject to the provisions of either Article XIIC or XIID. However, the City did comply with such provisions in connection with its recent water rate increases, and intends to comply with such provisions in connection with future increases. Accordingly, the City cannot predict whether a majority protest established in accordance with Article XIID could preclude adoption of any future proposed increase.

**Conclusion.** The provisions of Proposition 218 have not been fully interpreted by the courts. The City is unable to predict how Article XIIC and Article XIID will be interpreted by the courts and what, if any, further implementing legislation will be enacted, and there can be no assurance that Article XIIC and Article XIID will not limit the ability of the City to impose, levy, charge and collect increased fees and charges for the Enterprise.

## **THE AUTHORITY**

The City of Pittsburg Public Financing Authority was created by a Joint Exercise of Powers Agreement, dated as of January 1, 1991 between the City and the Redevelopment Agency. The agreement was entered into pursuant to the provisions of Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. The Authority was created for the purpose of assisting in the financing and refinancing of various public capital improvements, including the financing and refinancing of a portion of the design, acquisition and construction of additions, betterments and improvements to the City's municipal water system. Under the JPA Law, the Authority has the power to purchase bonds issued by a local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale.

## **CONTINUING DISCLOSURE**

The City has covenanted in the 2005 Contract for the benefit of the holders and beneficial owners of the 2005 Bonds to provide certain financial information and operating data relating to the Water System and the City by not later than nine months following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the report for the 2005 fiscal year (the "Annual Report") due by April 1, 2006, and to provide notices of the occurrence of certain enumerated events, if material. The City will file, or cause to be filed, the Annual Report with each Nationally Recognized Municipal Securities Information Repository (each, a "NRMSIR"), and with the appropriate State information depository, if any, and the Agency will file, or cause to be filed, the notices of material events with the NRMSIRs (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below in "APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The City has appointed The Bank of New York Trust Company, N.A., as dissemination agent under the Continuing Disclosure Certificate.

The City has had no instance in the previous five years in which it failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

## **LEGAL OPINION**

The proceedings in connection with the issuance of the 2005 Bonds are subject to the approval as to their validity of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Certain legal matters will be passed upon by Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel. Certain matters will be passed upon for the Authority and the City by the City Attorney of the City. The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the 2005 Bonds.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2005 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the 2005 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the 2005 Bonds is less than the amount to be paid at maturity of such 2005 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2005 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2005 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2005 Bonds is the first price at which a substantial amount of such maturity of the 2005 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2005 Bonds accrues daily over the term to maturity of such 2005 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2005 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2005 Bonds. Beneficial Owners of the 2005 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2005 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2005 Bonds in the original offering to the public at the first price at which a substantial amount of such 2005 Bonds is sold to the public.

2005 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2005 Bonds. The Commission has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2005 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2005 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of

the 2005 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2005 Bonds may adversely affect the value of, or the tax status of interest on, the 2005 Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2005 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2005 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the 2005 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2005 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the 2005 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the 2005 Bonds. Prospective purchasers of the 2005 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2005 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Commission, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Commission has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2005 Bonds ends with the issuance of the 2005 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Commission or the Beneficial Owners regarding the tax-exempt status of the 2005 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Commission and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Commission legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2005 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues

may affect the market price for, or the marketability of, the 2005 Bonds, and may cause the Commission or the Beneficial Owners to incur significant expense.

### **NO LITIGATION**

There is no action, suit, or proceeding known by the Authority or the City to be pending or threatened at the present time restraining or enjoining the delivery of the 2005 Bonds or the payment of 2005 Installment Payments by the City or in any way contesting or affecting the validity of the 2005 Bonds, the Indenture, the 2005 Contract or any proceedings of the Authority or the City taken with respect to the execution or delivery thereof.

### **RATINGS**

Fitch Ratings has given the 2005 Bonds a rating of AAA, and Standard & Poor's Rating Services has given the Bonds a rating of AAA based upon the financial guaranty insurance provided by Ambac Assurance. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. The City and the Authority have furnished to FitchRatings and Standard & Poor's Rating Services certain materials and information with respect to the Authority, the City and the Bonds. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. The Authority, the City and the Underwriter have undertaken no responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the ratings might have an adverse effect on the market price or marketability of the Bonds.

### **FINANCIAL STATEMENTS**

Attached as APPENDIX D are the audited financial statements of the City (the "Financial Statements") for Fiscal Year 2003-04, which include financial statements for the Water System, prepared by the City's Finance Department and audited by Maze & Associates, Accountancy Corporation, of Walnut Creek, California (the "Auditor").

The Auditor's letter concludes that the Financial Statements present fairly, in all material respects, the financial position of the City as of June 30, 2004, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the Fiscal Year then ended in conformity with accounting principles generally accepted in the United States of America.

*The Financial Statements include information regarding certain funds of the City, including its General Fund, which are not pledged to make 2005 Installment Payments or to otherwise pay debt service on the 2005 Bonds. Additionally, the City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit*

*review of the financial condition or operations of the City. In addition, the Auditor has not reviewed this Official Statement.*

### **VERIFICATION OF MATHEMATICAL ACCURACY**

The Arbitrage Group, Inc., Tuscaloosa-Buhl, Alabama, independent accountants, upon delivery of the 2005 Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the Authority, relating to (a) the sufficiency of the anticipated receipts from the cash and the United States Treasury obligations on deposit in the 1997 Escrow Fund to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the 1997 Bonds, and (b) the "yield" on the United States Treasury obligations on deposit in the 1997 Escrow Fund and on the 2005 Bonds considered by Bond Counsel in connection with the opinion rendered by such firm that the 2005 Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

### **FINANCIAL ADVISOR**

The City has retained Public Financial Management, Inc., of San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2005 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Financial Management, Inc., is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

### **UNDERWRITING**

Piper Jaffray Inc. (the "Underwriter") has agreed to purchase the 2005 Bonds, subject to certain conditions, at a price of \$38,694,600 (representing the par amount of the 2005 Bonds (\$38,850,000) less an Underwriter's discount of \$155,400). The Underwriter is committed to purchase all of the 2005 Bonds if any are purchased.

The public offering prices of the 2005 Bonds may be changed from time to time by the Underwriter. The Underwriter may offer and sell 2005 Bonds to certain dealers and others at a price lower than the public offering prices.

### **MISCELLANEOUS**

All quotations from, and summaries and explanations of the Indenture, the 2005 Contract, the 2005 Bonds or other documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions.

This Official Statement is submitted only in connection with the sale of the 2005 Bonds by the Authority. All estimates, assumptions, statistical information and other statements contained herein, while taken from sources considered reliable, are not guaranteed by the Authority, the City or the Underwriter. The information contained herein should not be construed as representing all conditions affecting the Authority, the City or the 2005 Bonds.

All information contained in this Official Statement pertaining to the Authority and the City has been furnished by the Authority and the City and the execution and delivery of this Official Statement has been duly authorized by the Authority and the City.

CITY OF PITTSBURG PUBLIC  
FINANCING AUTHORITY

By:           /s/ Marc S. Grisham            
Executive Director

CITY OF PITTSBURG

By:           /s/ Marc S. Grisham            
City Manager

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## **APPENDIX A**

### **SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

The following are brief summaries of certain provisions of the Indenture and the 2005 Installment Purchase Contract, each dated as of December 1, 2005, pertaining to the issuance of the Bonds. These summaries do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the full terms of the respective documents listed below. Capitalized terms not otherwise defined herein have the meaning specified in the respective document.

### **DEFINITIONS**

The following are definitions of certain terms used in this Summary of Principal Legal Documents or elsewhere in this Official Statement:

“Accountant’s Certificate” means a certificate signed by an Independent Certified Public Accountant selected by the Authority.

“Accountant’s Report” means an audited financial report prepared and signed by an Independent Certified Public Accountant.

“Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended) and all laws amendatory thereof or supplemental thereto.

“Additional Funding Amount” has the meaning ascribed to it in the provisions of the Indenture regarding General Provisions Relating to Tenders.

“Adjusted Net Revenues” means Net Revenues less all connection fees received by the City for water and other services of the Water system.

“All-Hold Rate” means, as of any Auction Date, fifty-five per cent (55%) of the Index in effect on such Auction Date.

“Alternate Credit Support Instrument” means a bond insurance policy, financial guaranty, letter of credit, line of credit, standby purchase agreement or similar agreement or any combination thereof issued by a commercial bank or other financial institution and delivered to the Tender Agent in accordance with the provision of the Indenture regarding Credit Support Instrument and Alternative Credit Support Instruments which replaces the Credit Support Instrument then in effect.

“Applicable ARB Rate” means, while the Bonds are in an ARB Interest Rate Period, the rate per annum at which interest accrues with respect to the Bonds for any Auction Period.

“ARBs” means, on any date, the Bonds in an ARB Interest Rate Period as to which interest accrues on such date as auction rate securities as provided in the provisions of the Indenture regarding ARB provisions and the Auction Procedures applicable thereto.

“ARB Beneficial Owner” means the Person who is the beneficial owner of an ARB according to the records of (i) the Securities Depository or its participants while such ARB is a Book-Entry Bond or (ii) the Trustee while the ARBs are not Book-Entry Bonds.

“ARB Default Rate” means the ARB Maximum Rate.

“ARB Interest Payment Date” means, with respect to ARBs,

(a) when used with respect to any Auction Period (including the initial Auction Period commencing on and including the effective date of a change in the Interest Rate Period to an ARB Interest Rate Period and expiring on and including the initial Auction Date (or, if such initial Auction Date is not followed by a Business Day, the next succeeding day that is followed by a Business Day) determined by the Authority in connection with a change in the Interest Rate Period to an ARB Interest Rate Period) other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period,

(b) when used with respect to a daily Auction Period, the first (1st) Business Day of the month immediately succeeding such Auction Period, and

(c) when used with respect to a Flexible Auction Period of (i) seven (7) or more but fewer than one hundred eighty-two (182) days, the Business Day immediately following such Flexible Auction Period, or (ii) one hundred eighty-two (182) or more days, each June 1 and December 1 and on the Business Day immediately following such Flexible Auction Period.

“ARB Interest Rate” means, for ARBs for each Auction Period, the rate of interest to be borne by the ARBs during that Auction Period, which ARB Interest Rate shall be determined in accordance with the Auction Procedures, and if Sufficient Clearing Bids exist, the ARB Interest Rate shall be the Winning Bid Rate; provided, that if all of the ARBs are the subject of Submitted Hold Orders, the ARB Interest Rate shall be the All-Hold Rate with regard to such ARBs, and if Sufficient Clearing Bids do not exist, the ARB Interest Rate shall be the ARB Maximum Rate.

“ARB Interest Rate Period” means each Interest Rate Period during which the Bonds are ARBs.

“ARB Maximum Rate” means twelve per cent (12%) per annum.

“ARB Payment Default” means (i) a default in the due and punctual payment of any installment of interest on ARBs or (ii) a default in the due and punctual payment of any principal of or premium, if any, on ARBs at stated maturity or pursuant to a mandatory redemption.

“Assumed Rate” means an assumed interest rate on a Variable Interest Rate Obligation for any period with respect to which the actual Variable Interest Rates on such Variable Interest Rate Obligation cannot be determined (including prospective periods and prior periods during which there were no actual Variable Interest Rates), and is equal to *The Bond Buyer* Revenue Bond Index, or if such index ceases to be published, any other index reasonably estimated to approximate the rates reflected in *The Bond Buyer* Revenue Bond Index, as selected by the Authority and approved in writing by the Insurer.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means any initial or successor or additional Person meeting the requirements of the Indenture regarding ARB provisions which is a party to an Auction Agent Agreement and agrees with the Trustee to perform the duties of the Auction Agent with respect to ARBs.

“Auction Agent Agreement” means, on any date, any initial, replacement or additional auction agent agreement in substantially the form of Exhibit D attached to the Indenture, as from time to time in effect.

“Auction Agent Fee” has the meaning provided in each Auction Agent Agreement.

“Auction Date” means, with respect to ARBs, during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Indenture, (i) if the ARBs are in a daily Auction Period, each Business Day, (ii) if the ARBs are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and (iii) if the ARBs are in any other Auction Period, the Business Day immediately preceding each ARB Interest Payment Date for such ARBs (whether or not an Auction will be conducted on such date); provided, that the last Auction Date with respect to ARBs in an Auction Period other than a daily Auction Period or a Flexible Auction Period will be the earlier of (a) the Business Day immediately preceding the ARB Interest Payment Date immediately preceding the effective date of a change in the Interest Rate Period from an ARB Interest Rate Period to a different Interest Rate Period for such ARBs and (b) the Business Day immediately preceding the ARB Interest Payment Date immediately preceding the Maturity Date for such ARBs; and provided further, that if such ARBs are in a daily Auction Period, the last Auction Date will be the earlier of (x) the Business Day immediately preceding the effective date of a change in the Interest Rate Period applicable to such ARBs from an ARB Interest Rate Period to a different Interest Rate Period and (y) the Business Day immediately preceding the Maturity Date for such ARBs; and provided further, that the last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first (1st) Auction Period following the conversion.

“Auction Period” means:

- (a) a Flexible Auction Period;
- (b) with respect to ARBs in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;
- (c) with respect to ARBs in a seven (7)-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven (7) days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven (7) days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven (7) days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on

the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven (7) days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, however, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday), and (v) Thursdays, a period of generally seven (7) days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Thursday is Thanksgiving Day, on the Monday following such Thursday);

(d) with respect to ARBs in a twenty-eight (28)-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally twenty-eight (28) days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth (4th) Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally twenty-eight (28) days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth (4th) Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally twenty-eight (28) days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth (4th) Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally twenty-eight (28) days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth (4th) Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday), and (v) Thursdays, a period of generally twenty-eight (28) days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth (4th) Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Thursday is Thanksgiving Day, on the Monday following such Thursday).

(e) with respect to ARBs in a thirty-five (35)-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally thirty-five (35) days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fifth (5th) Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally thirty-five (35) days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth (5th) Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally thirty-five (35) days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth (5th) Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of

generally thirty-five (35) days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth (5th) Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday), and (v) Thursdays, a period of generally thirty-five (35) days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth (5th) Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, provided, that if such Thursday is Thanksgiving Day, on the Monday following such Thursday);

(f) with respect to ARBs in a three (3)-month Auction Period, a period of generally three (3) months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the day that is ninety (90) days thereafter (unless such day is not Wednesday, in which case on the first (1st) Wednesday succeeding such day), provided, that if such day is not followed by a Business Day, on the next succeeding day which is followed by a Business Day and further provided that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday; and

(g) with respect to ARBs in a six (6)-month Auction Period, a period of generally six (6) months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the day that is one hundred eighty (180) days thereafter (unless such day is not Wednesday, in which case on the first (1st) Wednesday succeeding such day), provided, that if such day is not followed by a Business Day, on the next succeeding day which is followed by a Business Day and further provided that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday;

provided, that:

(a) if there is a conversion of ARBs with Auctions generally to be conducted on Fridays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

(b) if there is a conversion of ARBs with Auctions generally to be conducted on Mondays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a

Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

(c) if there is a conversion of ARBs with Auctions generally to be conducted on Tuesdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

(d) if there is a conversion of ARBs with Auctions generally to be conducted on Wednesdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion; and

(e) if there is a conversion of ARBs with Auctions generally to be conducted on Thursdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a

Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the ARB Interest Payment Date for the prior Auction Period) and shall end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

provided further, that any Auction Period that is greater than thirty-five (35) days may be extended as provided in the Auction Procedures.

“Auction Procedures” means the procedures for conducting Auctions for ARBs during an ARB Interest Rate Period set forth in Exhibit B attached to the Indenture.

“Authority” means the City of Pittsburg Public Financing Authority, a public body, corporate and politic, duly organized and existing under and pursuant to the Act.

“Authority Swap Payments” means, with respect to a Qualified Swap Agreement, the regularly scheduled payments payable by the Authority under such Qualified Swap Agreement, without regard to netting of payments payable by the counterparty to the Authority thereunder.

“Authorized Authority Representative” means the Chair of the Authority, the Executive Director of the Authority and any other officer of the Authority duly authorized to act as an Authorized Authority Representative for purposes of the Indenture by the Authority or written authorization of the Chair of the Authority.

“Authorized Denominations” means with respect to the Bonds in any (i) Long-Term Interest Rate Period, \$5,000 and any integral multiple thereof; (ii) Daily Interest Rate Period or Weekly Interest Rate Period, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000, (iii) Index Interest Rate Period, \$25,000 and any integral multiple thereof and (iv) ARB Interest Rate Period, \$25,000 and any integral multiple thereof.

“Available Moneys” means (a) during any period in which a Credit Support Instrument is in effect with respect to the Outstanding Bonds, (i) funds received by the Trustee pursuant to any Credit Support Instrument; (ii) remarketing proceeds received by the Tender Agent from the Remarketing Agent or any purchaser of Bonds (other than funds provided by the Authority or any affiliate of the Authority); (iii) moneys which have been continuously on deposit with the Trustee (A) held in any separate and segregated fund, account or subaccount established under the Indenture in which no other moneys which are not Available Moneys are held, and (B) which have so been on deposit with the Trustee for at least 124 consecutive days from their receipt by the Trustee and not commingled with any moneys so held for less than said period and during and prior to which period, and as of the date of the application thereof to a payment with respect to the Bonds, no Event of Bankruptcy has occurred with respect to the Authority; (iv) any other moneys if there is delivered to the Trustee at the time such moneys are deposited with the Trustee an opinion of counsel (which may assume that no Owner of Bonds is an “insider” within the meaning of the Federal Bankruptcy Code) from a firm experienced in bankruptcy matters to the effect that the use of such moneys to pay amounts due on Bonds would not be recoverable from

the Owners thereof pursuant to Section 550 of the Federal Bankruptcy Code as avoidable preferential payments under Section 547 of the Federal Bankruptcy Code in the event of the occurrence of an Event of Bankruptcy with respect to the Authority; or (v) proceeds of the investment of funds qualifying as Available Moneys under the foregoing clauses; or (b) during any period in which no Credit Support Instrument is in effect with respect to the Outstanding Bonds, any moneys deposited with the Trustee.

“Balloon Obligation” means any Parity Obligation designated as such in such obligation or in the related Issuing Document.

“Balloon Payments” means any payments designated as such in any Balloon Obligation or in the related Issuing Document.

“Beneficial Owner” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

“Bid” has the meaning provided in the Auction Procedures.

“BMA Index” means the “BMA Municipal Swap Index” (such index previously known as the “PSA Municipal Swap Index”) announced by Municipal Market Data on the rate determination date and based upon the weekly interest rate resets of Tax-Exempt variable rate issues included in a database maintained by Municipal Market Data which meets specified criteria established by the Bond Market Association. The BMA Index shall be based upon current yields of high-quality weekly adjustable variable rate demand bonds which are subject to tender upon seven days notice, the interest on which is Tax-Exempt and not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are subject to such tax.

“1997 Bonds” means all revenue bonds of the Authority secured by 1997 Installment Payments.

“2005 Bonds” or “Bonds” means all water revenue bonds of the Authority authorized, issued and delivered under the 2005 Indenture that are at any time outstanding pursuant thereto.

“Bond Counsel” means Orrick, Herrington & Sutcliffe LLP or another attorney or firm of attorneys of recognized national standing in the field of law relating to municipal securities and to exclusion of interest thereon from income for federal income tax purposes selected by the Authority.

“1997 Bonds Debt Service Reserve Fund” means the Debt Service Reserve Fund established pursuant to the provisions of the 1997 Indenture regarding Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund.

“1997 Bonds Escrow Agent” means The Bank of New York Trust Company, N.A., as trustee for the Refunded Bonds and as escrow agent under the 1997 Bonds Escrow Agreement.

“1997 Bonds Escrow Agreement” means that certain Escrow Agreement, dated as of December 1, 2005, by and between the Authority and the 1997 Bonds Escrow Agent.



“1997 Bonds Escrow Fund” means the escrow fund established under the 1997 Bonds Escrow Agreement with respect to the Refunded Bonds.

“Bond Insurance Policy” shall mean the financial guaranty insurance policy issued by Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

“Bond Insurer” or “Insurer” shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Bond Purchase Fund” means the “Bond Purchase Fund” established pursuant to the provisions of the Indenture regarding General Provisions Relating to Tenders.

“Bond Register” means the registration books for the ownership of Bonds maintained by the Trustee pursuant to the provisions of the Indenture regarding the Bond Register.

“Bondowner” or “Owner” means, with respect to a Bond, the registered owner of such Bond as set forth in the Bond Register.

“Book-Entry Bonds” means Bonds registered in the name of a nominee of DTC or any successor Securities Depository for the Bonds, or a nominee thereof, as the registered owner thereof pursuant to the terms and provisions of the Indenture regarding Book-Entry Bonds.

“Broker-Dealer” means any initial, successor or additional 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 (i) is a participant in or member of the Securities Depository as determined by the rules or bylaws of the Securities Depository (or an affiliate of such a participant or member), (ii) has been appointed as such by the Authority pursuant to the provisions of the Indenture regarding ARB provisions, and (iii) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

“Broker-Dealer Agreement” means, on any date, a broker-dealer agreement in substantially the form of Exhibit E attached to the Indenture among the Trustee, the Auction Agent and a Broker-Dealer 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.

“Business Day” means any day of the year other than (a) a Saturday, (b) a Sunday, (c) any day which shall be in San Francisco, California or New York, New York a legal holiday or a day on which banking institutions are authorized or required by law or other government action to close, and (d) any day the city or cities in which the principal or other designated corporate office of the Trustee, the Tender Agent, the Remarketing Agent or the Credit Provider (if any) is located are required or authorized to close.

“Calendar Week” means, with respect to the Bonds in a Weekly Interest Rate Period, the period during which interest accrues with respect to the Bonds at a particular Weekly Interest Rate and will be the period from Thursday of one week (whether or not a Business Day) to and including the Wednesday of the following week (whether or not a Business Day); provided that the initial Calendar Week for each Weekly Interest Rate Period shall be the period from the first day of such Weekly Interest Rate Period to the next succeeding Wednesday (whether or not a Business Day); and provided further that the final Calendar Week for a Weekly Interest Rate

Period which ends on a day other than a Wednesday shall be the period from the Thursday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period to the last day of such Weekly Interest Rate Period.

“Capitalized Interest Subaccount” means the subaccount of the Interest Account by that name in the Revenue Fund established by the provisions of the Indenture regarding Funds.

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

“Code” means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code in the Indenture shall be deemed to include the applicable United States Treasury Regulations thereunder and also includes all amendments and successor provisions unless the context clearly requires otherwise.

“1997 Contract” means the 1997 Installment Purchase Contract, dated as of July 1, 1997, by and between the City and the Authority.

“2005 Contract” means the 2005 Installment Purchase Contract dated as of December 1, 2005, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance therewith.

“Conversion” means a conversion of the Bonds from one Interest Rate Period to another Interest Rate Period and, with respect to Bonds in a Long-Term Interest Rate Period, the establishment of another Long-Term Interest Rate Period for the Bonds.

“Conversion Date” means the effective date of a Conversion.

“Costs of Issuance” means, to the extent permitted by law, all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the original authorization, execution, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, including disclosure documents and documents relating to the sale of such Bonds, initial fees and charges (including counsel fees) of any fiscal agent, any paying agent and any Credit Provider, legal fees and charges, financial advisor fees and expenses, fees and expenses of other consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the authorization, issuance, sale or original delivery of the Bonds or other Obligations.

“Costs of Issuance Fund” shall mean the Costs of Issuance Fund established pursuant to the provisions of the Indenture regarding the Costs of Issuance Fund.

“Costs of the Project” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the 2005 Water Project, including the acquisition and construction of those certain additions, betterments, extensions and improvements to the water system of the City and costs incurred by the City for the administration and management of such acquisition and construction.

“Coverage Requirement” means, for any Fiscal Year or any other period, (a) with respect to Net Revenues, an amount of Net Revenues equal to at least one hundred twenty-five per cent (125%) of the sum of (i) Parity Debt Service for such Fiscal Year or such other period, as

applicable, and (ii) all Policy Costs due and owing in such Fiscal Year or such other period, as applicable, and (b) with respect to Adjusted Net Revenues, an amount equal to one hundred per cent (100%) of the sum of (i) Parity Debt Service for such Fiscal Year or such other period, as applicable, and (ii) all Policy Costs due and owing in such Fiscal Year or such other period, as applicable.

“Credit Provider” means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support Instrument for some or all of the Obligations.

“Credit Provider Bonds” means any Bonds paid as to principal, Redemption Price, Purchase Price and/or interest with funds provided under a Credit Support Instrument for so long as such Bonds are held by or for the account of, or are pledged to, the applicable Credit Provider or any assignee thereof in accordance with the applicable Credit Support Agreement.

“Credit Provider Reimbursement Obligations” means obligations of the Authority to pay from the Revenues amounts due under a Credit Support Agreement, including without limitation amounts advanced by a Credit Provider pursuant to a Credit Support Instrument as credit support or liquidity for Obligations and the interest with respect thereto.

“Credit Support Agreement” means, with respect to any Credit Support Instrument, the agreement or agreements (which may be the Credit Support Instrument itself) between the Authority and the applicable Credit Provider, as originally executed or as it may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the reimbursement to the Credit Provider for payments under such Credit Support Instrument or for extensions of credit made to the Authority by the Credit Provider, and the interest thereon, and includes any subsequent agreement pursuant to which a substitute Credit Support Instrument is provided, together with any related pledge agreement, security agreement or other security document.

“Credit Support Instrument” means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit and/or liquidity support with respect to the payment of interest, principal, Redemption Price or Purchase Price of any Obligations but shall not include a Reserve Financial Guaranty.

“Credit Support Instrument Account” means the account by that name in the Bond Purchase Fund established pursuant to the provisions of the Indenture regarding General Provisions Relating to Tenders.

“Credit Support Instrument Rate” means, collectively, the rates per annum, if any, specified as applicable to Credit Provider Bonds in the related Credit Support Instrument.

“2005 Contract” means the 2005 Installment Purchase Contract, dated as of December 1, 2005, by and between the Authority and the City.

“Daily Interest Rate” means an interest rate with respect to the Bonds in a Daily Interest Rate Period established in accordance with the provisions of the Indenture regarding the Daily Interest Rate Period.

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

“Date of Operation” means, with respect to any uncompleted Water Project, the estimated date by which such Water Project will have been completed and, in the opinion of the City, will be ready for use and operation by the City.

“Debt Service Reserve Account” means the Debt Service Reserve Account, and any account thereof, established pursuant to the provisions of the Indenture regarding Funds.

“Debt Service Reserve Requirement” means an amount equal to \$2,254,541.28.

“Delivery Date” means December 22, 2005.

“Depository” means any bank or trust company organized under the laws of any state of the United States (including the Trustee and its affiliates), or any national banking association which is willing and able to accept the office on reasonable and customary terms, authorized by law to act in accordance with the provisions of the Indenture.

“Drawing Time” means, with respect to any Credit Support Instrument, the time specified therein by which the Tender Agent must submit a draw request in order to receive immediately available funds to pay the Purchase Price of on the Bonds.

“DTC” means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York or its successors and assigns. References in the Indenture to DTC shall include any Nominee of DTC in whose name any Bond is registered.

“Electronic” means, with respect to notice, notice through telecopy, telegraph, telex, facsimile transmission, internet, e-mail, dedicated electronic link or other electronic means of communication capable of producing a written record.

“Escheat Period” means, with respect to any money held by the Trustee in trust for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds, a period beginning on the date such payment was due and ending on the date sixty (60) days prior to the date on which such money would escheat to the State by operation of applicable law.

“Event of Bankruptcy” means any of the following with respect to any Person: (a) the commencement by such person of a voluntary case under the Federal Bankruptcy Code or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such person under the Federal Bankruptcy Code or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person’s assets shall be appointed in any proceeding brought against the Person or such Person’s assets; (e) assignment of assets by such person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

“Event of Default” means an event described as such in the Indenture or an event defined as such in the 2005 Installment Purchase Contract.

“Existing Owner” means, with respect to any Auction, a person who is listed as the beneficial owner of ARBs in the records of the Auction Agent.

“Expiration Date” means (i) the date upon which a Credit Support Instrument is scheduled to expire (taking into account any extensions of such Expiration Date by virtue of extensions of a particular Credit Support Instrument, from time to time) or terminate in accordance with its terms, including without limitation, termination upon delivery of an Alternate Credit Support Instrument to the Trustee and (ii) the date upon which a Credit Support Instrument terminates following voluntary termination by the Authority pursuant to the provisions of the Indenture regarding Termination of Credit Support Instrument and Purchase by Credit Provider and Notices.

“Favorable Opinion of Bond Counsel” means, with respect to any action requiring such an opinion, an Opinion of Bond Counsel to the effect that such action shall not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds or such portion thereof as shall be specified in the provisions of the Indenture or the Supplemental Indenture requiring such an opinion.

“Federal Bankruptcy Code” means Title 11 of the United States Code entitled “Bankruptcy,” as the same may be amended and supplemented, and any successor statute.

“Federal Securities” means obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any Authority or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America, including U.S. treasury obligations, all direct or fully guaranteed obligations, Farmers Home Administration, guaranteed Title XI financing, Government National Mortgage Association (GNMA) and State and Local Government Series.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the Authority.

“Fitch” means Fitch, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, but only to the extent that such entity is then rating any Parity Bonds at the request of the Authority.

“Fixed Index Interest Rate Conversion Date” means the Conversion Date for the Bonds to an Index Interest Rate for which the Authority has irrevocably elected an Index Interest Rate Period ending on the day immediately preceding the Maturity Date.

“Fixed Rate Conversion Date” means the Conversion Date for the Bonds to a Long-Term Interest Rate for a Long-Term Interest Rate Period ending on the day immediately preceding the Maturity Date.

“Flexible Auction Period” means, with respect to ARBs, (a) any period one hundred eighty-two (182) days or less which is divisible by seven (7) and begins on an ARB Interest Payment Date and ends (i) in the case of ARBs with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of ARBs with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of ARBs with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of ARBs with Auctions generally conducted on

Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of ARBs with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or (b) any period which is longer than one hundred eighty-two (182) days, which begins on an ARB Interest Payment Date and ends not later than the final scheduled Maturity Date of such ARBs.

“Generally Accepted Accounting Principles” means generally accepted accounting principles applied on a consistent basis set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants applicable to a government-owned utility applying all statements and interpretations issued by the Governmental Accounting Standards Board and statements and pronouncements of the Financial Accounting Standards Board which are not in conflict with the statements and interpretations issued by the Governmental Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, that are applicable to the circumstances as of the date of determination.

“Hold Order” has the meaning provided in the Auction Procedures.

“Indenture” or “2005 Indenture” means that certain 2005 Indenture dated as of December 1, 2005, by and between the Authority and the 2005 Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

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

- (1) is in fact independent and not under the domination of the Authority;
- (2) does not have any substantial interest, direct or indirect, with the Authority; and
- (3) is not connected with the Authority as a member, 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.

“Independent Financial Consultant” means any financial consultant specializing in municipal finance, appointed and paid by the City, and who –

- (1) is in fact independent and not under the domination of the City;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the City; and
- (3) is not connected with the City as a councilmember, officer or employee of the City, but may be regularly retained by the City to provide consulting services.

“Index” has the meaning, with respect to ARBs, provided in the Auction Procedures.

“Index Bond Calculation Period” for any Index Bond means the period from and including each Interest Accrual Date for the Index Bond to but excluding the next succeeding Interest Payment Date for the Index Bond.

“Index Bond Reset Date” means the day on which the interest rate will be reset and such day will be the first Business Day of each month.

“Index Bonds” means Bonds bearing interest at an Index Interest Rate.

“Index Interest Rate” means, for any Index Bond Calculation Period, a per annum rate equal to the weighted arithmetic average of the MMD Adjusted Rate in effect for each day in the Index Bond Calculation Period, calculated by multiplying each such MMD Adjusted Rate by the number of days such MMD Adjusted Rate is in effect, determining the sum of such products and dividing such sum by the number of days in the Index Bond Calculation Period, all as set forth in the Indenture, but not to exceed the Maximum Interest Rate.

“Index Interest Rate Period” means each Interest Rate Period during which Index Interest Rates are in effect.

“Information Services” means any of the following services which has been designated in a certificate of the Authority delivered to the Trustee: Financial Information, Inc.’s “Daily Called Bond Service”, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; FIS/Mergent, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attn: Call Notification; Standard & Poor’s Securities Evaluation, Inc., 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; Xcitek, 5 Hanover Square, New York, New York 10004; or such other services providing information with respect to called bonds as the Authority may designate in a certificate of the Authority delivered to the Trustee.

“1997 Installment Payments” means the installment payments payable under the 1997 Contract.

“2005 Installment Payments” means the Parity Installment Payments scheduled to be paid by the City under the 2005 Contract, consisting of Principal Payments and Variable Payments.

“2005 Installment Payment Date” means any date on which 2005 Installment Payments are scheduled to be paid by the City under the 2005 Contract.

“Interest Account” means the account by that name in the Revenue Fund established pursuant to the provisions of the Indenture regarding Funds.

“Interest Accrual Date” means (i) with respect to each Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each calendar month, (ii) with respect to each Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month, (iii) with respect to each Long-Term Interest Rate Period, the first day thereof, and thereafter, each December 1, and June 1, (iv) with respect to each Index Interest Rate Period, the first day thereof and, thereafter, the first Business Day of each month of each Index Interest Period and (v) with respect to each ARB Interest Rate Period, the first day thereof and, thereafter, the immediately preceding Interest Payment Date.

“Interest Payment Date” means (i) with respect to each Daily Interest Rate Period, the fifth Business Day of each calendar month, (ii) with respect to each Weekly Interest Rate Period, the first Wednesday of each calendar month (or the next succeeding Business Day if such Wednesday is not a Business Day); (iii) with respect to each Long-Term Interest Rate Period,

each December 1 and June 1 or if any such December 1 and June 1 is not a Business Day, the next succeeding Business Day; provided that the first interest payment made for any Long-Term Interest Rate Period shall be at least ninety (90) days from the first day of such period; (iv) with respect to each Index Interest Rate Period, the first Business Day of each calendar month and the Maturity Date; (v) with respect to each ARB Interest Rate Period, each ARB Interest Payment Date; (vi) with respect to each Interest Rate Period, the day next succeeding the last day thereof; and (vii) with respect to Credit Provider Bonds, the dates set forth in the applicable Credit Support Instrument.

“Interest Rate Period” means a Daily Interest Rate Period, a Weekly Interest Rate Period, a Long-Term Interest Rate Period, an Index Interest Rate Period or an ARB Interest Rate Period.

“Issuing Document” means any indenture, trust agreement or other document that provides for the issuance of Parity Bonds or Parity Obligations.

“Long-Term Conversion Date” means the date on which the Bonds begin to bear interest at a Long-Term Interest Rate pursuant to the provisions of the Indenture regarding Long Term Interest Rate Period and such term shall include the Fixed Rate Conversion Date for the Bonds.

“Long-Term Interest Rate” means an interest rate with respect to the Bonds during a Long-Term Interest Rate Period established in accordance with the provisions of the Indenture regarding Long-Term Interest Rate Period.

“Long-Term Interest Rate Period” means each Interest Rate Period during which a Long-Term Interest Rate is in effect with respect to the Bonds.

“Maintenance and Operation Costs” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or otherwise acquired for the Water System and all costs of treating water for the Water System and all expenses necessary to maintain and preserve the Water System in good repair and working order and including all administrative and management costs of the City that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the 2005 Contract or of any resolution authorizing the issuance of any Parity Bonds or of such Parity Bonds or of any resolution authorizing the execution of any Contract or of such Contract, such as compensation, reimbursement and indemnification of the trustee for any such Parity Bonds or Contract and fees and expenses of Independent Certified Public Accountants and independent engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

“Maturity Date” means June 1, 2035.

“Maximum Interest Rate” means: (i) with respect to Bonds other than ARBs and Credit Provider Bonds, twelve percent (12%) per annum; (ii) with respect to ARBs, the ARB Maximum Rate; and (iii) with respect to Credit Provider Bonds, twenty-five percent (25%) per annum; provided, however, that the Maximum Interest Rate for any Bond shall not exceed the Maximum Lawful Rate.



“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law which, as of the date of this Trust Agreement, is twelve percent (12%) per annum for all Bonds other than Credit Provider Bonds.

“MMD” means the AAA Municipal Market Data General Obligation Yield Curve for a MMD Maturity as available through the Thompson Municipal Market Monitor ([www.tm3.com](http://www.tm3.com)) and the Municipal Market Data-Line (i) on each day prior to each Index Bond Reset Date or (ii) if the MMD is not published or provided on that day, then the MMD will be the MMD for the next preceding Business Day. If the MMD as described in (i) and (ii) is not available, then the MMD will be a comparable or successor index selected by the Authority. The MMD as so determined shall be effective for each period from the Index Bond Reset Date through but not including the next Index Bond Reset Date.

“MMD Adjusted Rate” means a per annum rate equal to the MMD Initial Rate plus or minus the change in the MMD since the date of adjustment, provided that the MMD Adjusted Rate shall never be more than the Maximum Interest Rate. The MMD Adjusted Rate as so determined shall be effective for each period from the Index Bond Reset Date through but not including the next Index Bond Reset Date.

“MMD Initial Rate” means the applicable rate for each Index Bond as designated by the Authority at the date of adjustment to an Index Interest Rate Period. The MMD Initial Rate shall be effective for the period from date of adjustment through but not including the first Index Bond Reset Date.

“MMD Maturity” means a specific year or period of one year or any multiple of one year as designated by the Treasurer at the date of adjustment to an Index Rate Period.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, but only to the extent that such entity is then rating any Parity Bonds at the request of the Authority..

“Net Payment” means with respect to a Qualified Swap Agreement, the net amount payable or receivable by the Authority in connection with each scheduled payment date (other than Termination Payments) under such Qualified Swap Agreement. For purposes of the calculations required in the Indenture, if a Net Payment is payable by the Authority, it shall be expressed as a positive number and if a Net Payment is receivable by the Authority, it shall be expressed as a negative number.

“Net Revenues” means, for any Fiscal Year, the Revenues during such Fiscal Year less the Maintenance and Operation Costs during such Fiscal Year.

“Nominee” means the nominee of the Securities Depository for the Book-Entry Bonds in whose name such Bonds are to be registered. The initial Nominee shall be Cede & Co., as the nominee of DTC.

“Notice of ARB Payment Default” means notice pursuant to the provisions of the Indenture regarding ARB Payment Defaults to the Auction Agent and each Broker-Dealer that there has been an ARB Payment Default.

“Notice of Cure of ARB Payment Default” means a notice substantially in the form of Exhibit C attached to the Indenture.

“Notice of Mandatory Tender” means the notice provided in the Credit Support Instrument to the effect that Credit Provider’s obligation to advance funds under a Credit Support Instrument terminates as of the date specified in such notice due to the occurrence of an event of default under such Credit Support Instrument (other than an event of default under such Credit Support Instrument which causes such Credit Support Instrument to terminate immediately without notice or demand).

“Obligations” means (a) the Bonds, (b) obligations payable from the Revenues and entered into in connection with, or relating to, a Qualified Swap Agreement, including Net Payments; and (c) Credit Provider Reimbursement Obligations.

“One Month USD LIBOR Rate” means the British Banker’s Association average of interbank offered rates in the London market for United States dollar deposits for a one month period as reported in the Wall Street Journal or, if not reported in such newspaper, as reported in such other source as may be selected by the Authority.

“Opinion of Bond Counsel” means a written opinion signed by Bond Counsel.

“Order” means a Hold Order, Bid or Sell Order.

“Outstanding” when used as of any particular time with respect to the Bonds, means, except as otherwise provided in the provisions of the Indenture regarding Amendments to Indenture, all Bonds theretofore or thereupon being issued by the Authority, except (a) Bonds theretofore cancelled or surrendered for cancellation; (b) Bonds paid or deemed to be paid within the meaning of the Indenture regarding Defeasance; and (c) Bonds in lieu of or in substitution for which replacement Bonds have been issued.

“Parity Bonds” means the 2005 Bonds and all other water revenue bonds of the Authority secured by Parity Installment Payments.

“Parity City Bonds” means all water revenue bonds of the City authorized, executed, issued and delivered by the City under and pursuant to applicable law which are secured by a pledge of and lien on the Net Revenues on a parity with the security for the Parity Installment Payments.

“Parity Contracts” means the 2005 Contract and all other installment purchase contracts executed by the City under and pursuant to applicable law, the installment payments under which are secured by a pledge of and lien on the Net Revenues on a parity with the security for the 2005 Installment Payments and the Parity City Bonds.

“Parity Debt Service” means, with respect to any Parity Obligation for any period of calculation, those portions of the payments of interest on and principal and redemption premiums, if any, required to be made during such period under such Parity Obligation, less any such interest that is to be paid from proceeds of such Parity Obligation, less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds and capitalized interest funds established for such Parity Obligation; provided, that for purposes of the calculation of Parity Debt Service, the following shall apply:

(A) Interest on Variable Interest Rate Obligations. Interest on any Variable Interest Rate Obligation shall be deemed to be at the following interest rate or rates:

(1) for periods with respect to which the actual Variable Interest Rates on such Variable Interest Rate Obligation can be determined, the interest rates on such contract shall be such actual Variable Interest Rates for such periods; and

(2) for periods with respect to which the actual Variable Interest Rates on such Variable Interest Rate Obligation cannot be determined (including prospective periods and prior periods during which there was no actual Variable Interest Rate), the Variable Interest Rate on such obligation shall be the Assumed Rate.

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

(1) City Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the City with respect to a Parity Obligation resulting in the payment of a net variable interest rate with respect to such Parity Obligation and Payment Agreement by the City, the interest rate on such Parity Obligation for future periods when the actual interest rate cannot yet be determined shall be assumed, during the period the Payment Agreement is in effect, to be equal to the sum of (i) the fixed rate or rates stated in such Parity Obligation, minus (ii) the fixed rate paid by the Qualified Counterparty to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the Assumed Rate; and

(2) City Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the City with respect to a Parity Obligation resulting in the payment of a net fixed interest rate with respect to such Parity Obligation and Payment Agreement by the City, the interest on such Parity Obligation shall be included in the calculation of the Parity Debt Service during the period the Payment Agreement is in effect by including for each calculation period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement;

(C) For purposes of calculating the Parity Debt Service on any Balloon Obligation, it shall be assumed that the principal of such Balloon Obligation will be amortized in a manner resulting in approximately equal annual installments of debt service over a term of thirty (30) years, at an assumed interest rate equal to the Assumed Rate;

(D) For purposes of any Parity Obligation or portions thereof the debt service requirements under which contain no current interest component but which are sold at a discount and which discount accretes with respect to such Parity Obligation or portions thereof, such accreted discount shall be treated as interest in the calculation of Parity Debt Service;

(E) For purposes of any Parity Obligations that constitute paired obligations, the interest rate on such Parity Obligations shall be the resulting linked rate or the effective fixed interest rate to be paid by the City with respect to such paired obligations; and

(F) The amount on deposit in a debt service reserve fund with respect to a Parity Obligation on any date of calculation of Parity Debt Service shall be deducted from the amount of principal due at the final maturity of such Parity Obligation to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess shall be applied to the full amount of principal due, in each preceding year, in inverse order of due date, until such amount is exhausted.

“Parity Installment Payments” means the installment payments payable under the 2005 Contract and all other Parity Contracts.

“Parity Installment Payment Date” means any date on which Parity Installment Payments are scheduled to be paid by the City under any Parity Contract.

“Parity Installment Payment Fund” means the City of Pittsburg Public Financing Authority Water Revenue Bonds Revenue Fund established pursuant to the provisions of the Indenture regarding Funds.

“Parity Obligations” means all Parity Contracts, all Parity City Bonds and the scheduled payments (but not any Termination Payment) under any Payment Agreement which have been designated by the City as a “Parity Obligation” in the Payment Agreement or in the Contract or Issuing Document for the related Parity Obligations.

“Participants” means, with respect to a Securities Depository for Book-Entry Bonds, those participants listed in such Securities Depository’s book-entry system as having an interest in such Bonds.

“Paying Agent” means the Trustee and any banking corporation, banking association or trust company designated as paying agent for the Bonds pursuant to the provisions of the Indenture regarding the Trustee or the Paying Agent, and its successor or successors appointed in the manner provided in the Indenture.

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

“Payment Agreement Payments” means the amounts periodically required to be paid by the City to all Qualified Counterparties under all Payment Agreements.

“Payment Agreement Receipts” means the amounts periodically required to be paid by all Qualified Counterparties to the City under all Payment Agreements.

“Permitted Investments” means any of the following obligations if and to the extent that they are permissible investments of funds of the Authority as stated in its current investment policy (the Trustee may rely on the investment directions of the Authority that the investment is approved by the Authority’s investment policy) and to the extent then permitted by law:

- (a) Federal Securities;
- (b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies acceptable to each Credit Provider whose acceptance is required by a Supplemental Indenture or a Credit Support Agreement.

(d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

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

(f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

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

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

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

(h) Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P;

(i) Investment agreements acceptable to each Credit Provider whose acceptance is required by a Supplemental Indenture or a Credit Support Agreement (supported by appropriate opinions of counsel);

(j) Any state administered pool investment fund in which the Authority is statutorily permitted or required to invest will be deemed a permitted investment, including, but not limited to the Local Agency Investment Fund in the treasury of the State, provided that, the Trustee shall be permitted to invest in and withdraw from such fund in its own name;

(k) California Asset Management Program (CAMP); and

(l) Other forms of investments (including repurchase agreements) acceptable to each Credit Provider whose acceptance is required by a Supplemental Indenture or a Credit Support Agreement.

The value of the above investments shall be determined as follows:

a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.

b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest thereon; and

c) As to any investment not specified above: the value thereof established by prior agreement among the Authority, the Trustee, and each Credit Provider whose acceptance is required by a Supplemental Indenture or a Credit Support Agreement.

“Person” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any Authority or political subdivision thereof.

“Potential Owner” means any person, including any Existing Owner, who may be interested in acquiring a beneficial interest in ARBs, in addition to the ARBs currently owned by such person, if any.

“Principal Account” means the account by that name in the Revenue Fund established pursuant to the provisions of the Indenture regarding Funds.

“Principal Office” means, (i) with respect to the Tender Agent, the designated corporate trust office of the Tender Agent in San Francisco, which as of the date thereof is located at 550 Kearny Street, Suite 600, San Francisco, CA 94108-2527, Attention: Corporate Trust Department; (ii) with respect to the Remarketing Agent, the address for the Remarketing Agent designated in the Remarketing Agreement with such Remarketing Agent; (iii) the Trustee, the principal office of such Trustee in San Francisco, California, which as of the date thereof is located at 550 Kearny Street, Suite 600, San Francisco, CA 94108-2527; (iv) a Paying Agent or a Credit Provider, the office designated as such in writing by such party to the Trustee; and (iii) with respect to the Auction Agent, the office thereof designated in writing to the Trustee and each Broker-Dealer.

“Principal Payments” means the payments of principal (whether at maturity or as a result of mandatory sinking account payments) due on the Series 2005 Bonds.

“Principal Payment Date” means any date on which principal is payable on a Bond, whether at maturity or upon mandatory redemption from Sinking Fund Installments.

“Project Fund” or 2005 Project Fund” means the Pittsburg Public Financing Authority Water Revenue Bonds, Series 2005 Project Fund established pursuant to the provisions of the Indenture regarding the 2005 Project Fund.

“Proper Delivery” means, with respect to the delivery of a Tendered Bond to the Tender Agent to receive the Purchase Price thereof in connection with any optional or mandatory tender of such Tendered Bond for purchase pursuant to the provisions of the Indenture regarding Tender of Bonds: (a) if such Tendered Bond is a Book-Entry Bond, the making of, or the irrevocable authorization to make, by 10:00 a.m., New York City time, on the applicable Purchase Date or any Business day thereafter, entries on the books of the Securities Depository or a Participant of such Securities Depository to transfer the beneficial ownership of such Tendered Bonds; and (2) if such Tendered Bond is not a Book-Entry Bond, the delivery of such Tendered Bond to the Tender Agent at its Principal Office, by 10:00 a.m., New York City time, on the applicable Purchase Date or any Business Day thereafter, accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent, executed in blank by the Owner thereof or by the Owner’s duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

“Purchase Date” means, with respect to each Tendered Bond, the date on which such Tendered Bond is tendered or deemed tendered for purchase pursuant to the provisions of the Indenture regarding Tender of Bonds.

“Purchase Price” means, with respect to any Tendered Bond (or portion thereof), an amount, payable in immediately available funds, equal to the principal amount thereof plus accrued interest from and including the Interest Accrual Date immediately preceding the applicable Purchase Date to but not including the applicable Purchase Date; provided, however, that (1) if the Purchase Date for any Tendered Bond is on or after the Record Date for an Interest

Payment Date and on or prior to such Interest Payment Date, the Purchase Price thereof shall be the principal amount thereof, and interest on such Tendered Bond shall be paid to the Owner of such Tendered Bond as of the applicable Record Date as provided for the payment of interest on Bonds in the Indenture and (2) in the case of a Purchase Date which is the first day of an Interest Rate Period which is preceded by a Long-Term Interest Rate Period and which commences prior to the day originally established as the last day of such preceding Long-Term Interest Rate Period, "Purchase Price" of any Tendered Bond means the optional redemption price determined pursuant to the provisions of the Indenture regarding Optional Tender During Daily Interest Rate Period or Weekly Interest Rate Period which would have been applicable to the redemption of such Tendered Bond on such Purchase Date pursuant to the provisions of the Indenture regarding optional tender during daily interest rate period or weekly interest rate period if the preceding Long-Term Interest Rate Period had continued to the day originally established as its last day.

"Qualified Counterparty" means a counterparty to a Payment Agreement (1) (a) which is rated at least equal to the ratings assigned by each of the Rating Agencies to the Parity Bonds (without regard to any gradations within a rating category and without regard to any credit enhancement thereof), (b) the senior debt obligations of which are rated at least equal to the ratings assigned by each of the Rating Agencies to the Parity Bonds (without regard to any gradations within a rating category and without regard to any credit enhancement thereof), or guaranteed by an entity so rated, (c) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating at least equal to the ratings assigned by each of the Rating Agencies to the Parity Bonds (without regard to any gradations within a rating category and without regard to any credit enhancement thereof), or (d) the obligations of which under the Payment Agreement are collateralized in such a manner as to obtain a rating at least equal to the ratings assigned by each of the Rating Agencies to the Parity Bonds (without regard to any gradations within a rating category and without regard to any credit enhancement thereof), and (2) which is otherwise qualified to act as the counterparty under a Payment Agreement with the City under the Charter and all applicable policies of the City, and under all applicable laws of the State.

"Qualified Swap Agreement" means the 2005 Swap and, in the event the 2005 Swap is terminated while any Bonds remain Outstanding, any other Payment Agreement entered into by the City with respect to the Bonds pursuant to the 2005 Contract.

"Rating Agency" means, as of any time and to the extent it is then providing or maintaining a rating on Obligations at the request of the Authority, each of Moody's, Standard & Poor's or Fitch, or in the event that neither Moody's, Standard & Poor's or Fitch then maintains a rating on Obligations at the request of the Authority, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds at the request of the Authority.

"Rating Category" means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"Rating Confirmation" means written evidence from each Rating Agency then rating Outstanding Obligations at the request of the Authority to the effect that, following the event



which requires the Rating Confirmation, the then current rating for each Outstanding Obligation shall not be lowered or withdrawn solely as a result of the occurrence of such event.

“Rebate Fund” means the fund designated as the “Rebate Fund” established in the provisions of the Indenture regarding the Rebate Fund.

“Rebate Instructions” means those calculations and written directions required to be delivered to the Trustee by the Authority pursuant to the provisions of the Indenture regarding the Application of Proceeds of Bonds.

“Rebate Requirement” means the Rebate Requirement as defined in the Tax Certificate.

“Record Date” means (i) with respect to each Interest Payment Date for Bonds in a Daily Interest Rate Period, the last day of the calendar month preceding the month in which such Interest Payment Date falls, (ii) with respect to each Interest Payment Date for Bonds in a Weekly Interest Rate Period or Index Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (iii) with respect to each Interest Payment Date for Bonds in a Long-Term Interest Rate Period, the fifteenth day of the month preceding the month in which such Interest Payment Date falls, and (iv) with respect to each Interest Payment Date for Bonds which are ARBs, the second Business Day next preceding the applicable ARB Interest Payment Date.

“Redemption Date” means, with respect to any Bonds to be redeemed in accordance with the Indenture and the Supplemental Indenture authorizing such Bonds, the redemption date set forth in notice of redemption of such Bonds given in accordance with the terms of the Indenture.

“Redemption Fund” means the City of Pittsburg Public Financing Authority Water Revenue Bonds Redemption Fund established pursuant to the provisions of the Indenture regarding funds.

“Redemption Price” means, with respect to any redemption of a Bond prior to its maturity, the amount to be paid upon such redemption of the Bond as set forth in, or determined in accordance with, the Supplemental Indenture authorizing such Bond.

“Refunded Bonds” means the City of Pittsburg Public Financing Authority Water Revenue Bonds, Series 1997, authorized by the 1997 Trust Agreement.

“Remarketing Agent” means any initial, successor or additional remarketing agent appointed with respect to the Bonds.

“Remarketing Agreement” shall mean the agreement or instrument pursuant to which a Remarketing Agent for the Bonds shall perform its services.

“Remarketing Proceeds Account” means the account by that name within the Bond Purchase Fund established pursuant to the provisions of the Indenture regarding General Provisions Relating to Tenders.

“Replacement Swap Undertaking” means that certain agreement entered into among the City, Piper Jaffray Financial Products, Inc. and Morgan Stanley Capital Services Inc. in connection with the 2005 Swap.

“Representation Letter” the letter or letters of representation from the Authority to, or other instrument or agreement with, a Securities Depository for Book-Entry Bonds, in which the Authority, among other things, makes certain representations to the Securities Depository with respect to the Book-Entry Bonds, the payment thereof and delivery of notices with respect thereto.

“Required Stated Amount” means with respect to a Credit Support Instrument, at any time of calculation, an amount equal to the aggregate principal amount of all Outstanding Bonds as to which the Purchase Price is payable pursuant to the provisions of the Indenture regarding Credit Support Instrument and Alternative Credit Support Instruments from the proceeds of a drawing on such Credit Support Instrument, together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Interest Rate) for the period specified in a certificate of an Authorized Authority Representative to be the minimum period specified by each Rating Agency then rating such Bonds as necessary to obtain (or maintain) a specified short-term rating of the Bonds.

“Reserve Account” means the account within the Parity Installment Payment Fund by that name established pursuant to the Flow of Funds provisions of the 2005 Indenture.

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

“Reserve Financial Guaranty Provider” means an issuer of a Reserve Financial Guaranty.

“Revenue Fund” means the City of Pittsburg Public Financing Authority Water Revenue Bonds Revenue Fund established pursuant to the provisions of the Indenture regarding funds.

“Revenues” means all 2005 Installment Payments paid by the City to the Trustee pursuant to the 2005 Contract, all receipts and payments made to the City pursuant to any Qualified Swap Agreement and assigned to the Authority pursuant to the 2005 Contract and all interest earnings on the funds and accounts held under the Indenture (except the 2005 Project Fund and the Rebate Fund).

“Rule 15c2-12” means Rule 15c2-12 of the Securities and Exchange Commission adopted pursuant to the Securities Exchange Act of 1934, as amended, as the same may be amended and supplemented from time to time.

“Securities Depository” means a trust company or other entity which provides a book-entry system for the registration of ownership interests of Participants in securities and which is acting as security depository for Book-Entry Bonds.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Sell Order” has the meaning set forth in the Auction Procedures.

“Serial Bonds” means Bonds for which no Sinking Fund Installments are established.

“Sinking Fund Account” means the account by that name in the Revenue Fund established pursuant to the provisions of the Indenture regarding funds.

“Sinking Fund Installment” means, with respect to the Bonds, the amount required by the provisions of the Indenture regarding terms of redemption to be paid by the Authority on any single date for the retirement of Bonds.

“Special Record Date” has the meaning set forth in the provisions of the Indenture regarding Medium of Payment, Form and Date and Letters and Numbers.

“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 and by virtue of the laws of the State of New York, and its successors or assigns, but only to the extent that such entity is then rating any Parity Bonds at the request of the Authority.

“State” means the State of California.

“Statutory Corporate Tax Rate” means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or thereafter applicable in each taxable year on the taxable income of every corporation as set forth in section 11 of the Code or any successor section, without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year. The Statutory Corporate Tax Rate as of the date of the Indenture is 35%.

“Submitted Bid” has the meaning specified in the Auction Procedures.

“Submitted Hold Order” has the meaning specified in the Auction Procedures.

“Submitted Order” has the meaning specified in the Auction Procedures.

“Submitted Sell Order” has the meaning specified in the Auction Procedures.

“Sufficient Clearing Bids” means with respect to ARBs, an Auction for which the aggregate principal amount of ARBs that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the ARB Maximum Rate is not less than the aggregate principal amount of ARBs that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the ARB Maximum Rate.

“Supplemental Indenture” means any supplemental indenture supplementing or amending the Indenture as theretofore in effect, entered into by the Authority and the Trustee in accordance with the provisions of the Indenture regarding Amendments.

“2005 Swap” means the transaction entered into pursuant to that certain Master Agreement, dated December 1, 2005, as supplemented by the Schedule and the Credit Support Annex thereto, and evidenced by the Confirmation, each dated December 15, 2005, and each between the City and Piper Jaffray Financial Products Inc. and any replacement Payment Agreement entered into pursuant to the Replacement Swap Undertaking.

“2005 Swap Provider” means Piper Jaffray Financial Products Inc. or the provider of any replacement swap under the Replacement Swap Undertaking.

“Tax-Exempt” means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the Owners thereof (other than any Owner who is a “substantial user” of facilities financed with such obligations or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“Tax-Exempt Securities” means bonds, notes or other securities the interest on which is Tax-Exempt.

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

“Tender Agent” shall mean the Trustee, or any successor tender agent appointed pursuant to the provisions of the Indenture regarding the Appointment, Duties and Qualifications of Tender Agent.

“Tender Indebtedness” means any Obligations or portions of Obligations, a feature of which is an option or obligation, on the part of the owners thereof under the terms of such Obligations, to tender all or a portion of such Obligations to the Authority, a fiscal agent, a paying agent, a tender agent or other agent for purchase and requiring that such Obligations or portions thereof be purchased at the applicable Purchase Price if properly presented.

“Tendered Bond” means any Bond (or the portion of any Bond) tendered or deemed tendered for purchase pursuant to provisions of the Indenture regarding Tender of Bonds.

“Termination Payment” means with respect to a Qualified Swap Agreement, the amount payable by the Authority as a result of the termination of such Qualified Swap Agreement prior to its scheduled expiration date.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from Sinking Fund Installments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

“Trustee” or “2005 Trustee” means, The Bank of New York Trust Company, N.A., as trustee for the Bonds under the Indenture and any successor satisfying the requirements of the provisions of the Indenture regarding the appointment of successor Trustee and the financial qualifications of the successor Trustee.

“Tax Certificate” shall mean that certain Tax Certificate and Agreement signed by the Authority on the Delivery Date and relating to the requirements of Section 148 of the Code.

“Undelivered Bond” means, with respect to each Purchase Date, each Tendered Bond subject to purchase on such Purchase Date as to which Proper Delivery of such Tendered Bond to the Tender Agent is not made on such Purchase Date; provided, however, no such Tendered Bond

shall be considered an Undelivered Bond on such Purchase Date unless the Tender Agent holds sufficient available moneys in trust for the Owners of the Tendered Bonds to pay in full the applicable Purchase Price of all Tendered Bonds due on such Purchase Date.

“Variable Index” means the BMA Index. If for any reason the BMA Index for any rate determination date is not announced or is otherwise unavailable or is held to be invalid or unenforceable by a court of law, except as otherwise provided with respect to ARBs in the definition of “Index”, the Variable Index for such rate determination date shall be an index selected by the Remarketing Agent which is a composite of bid-side yields of obligations (a) which (i) provide for a weekly adjustment of the interest rate, and (ii) which (A) must be purchased on demand of the owner thereof at any time upon notice of up to seven (7) days or (B) are payable in full not later than seven (7) days after the date of evaluation and (b) the interest on which is Tax-Exempt and not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt bonds are subject to such tax. If no such index is so selected by the Remarketing Agent or if any such index is held to be invalid or unenforceable by a court of law, except as otherwise provided with respect to ARBs in the definition of “Index,” the Variable Index for such rate determination date shall be an index computed by the Remarketing Agent and shall be equal to 95% of the yield applicable to 91-day United States Treasury bills, such yield to be computed on the basis of the coupon equivalent of the average per annum discount rate at which such Treasury bills shall have been sold at the most recent Treasury auction conducted prior to such rate determination date.

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

“Variable Interest Rate Obligations” means, for any period of time, any Parity Obligations that bear a Variable Interest Rate during such period, except that no such obligation shall be treated as a Variable Interest Rate Obligation if the net economic effect of interest rates on any particular payments and interest rates on any other payments of the same obligation, as set forth in such obligation, or the net economic effect of a Payment Agreement with respect to any particular Parity Obligation, in either case is to produce a substantially fixed interest rate obligation, and any Parity Obligation with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Obligation if the net economic effect of the Payment Agreement is to produce a substantially Variable Interest Rate Obligation.

“Variable Payments” means the amount required to be deposited in the Interest Account of the Revenue Fund on the applicable 2005 Installment Payment Date.

“Weekly Interest Rate” means an interest rate with respect to the Bonds in a Weekly Interest Rate Period established in accordance with the provisions of the Indenture regarding the Weekly Interest Rate Period.

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

“2005 Water Project” or “Water Project” means the 1997 Water Project and those certain additions, betterments, extensions and improvements to the Water System financed with proceeds of the 2005 Bonds, including new pumps and water storage facilities, and replacement of existing pipes and transmission mains located throughout the city, together with such additions thereto or less such deletions therefrom as shall be specified by the City (in accordance with the provisions of the 2005 Contract regarding additions to or deletions from the 2005 Water Project) stating that such additions constitute part of the 2005 Water Project or that such deletions do not constitute part of the 2005 Water Project, as the case may be.

“Water Revenues” means all gross income and revenue received by the City from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all charges, fees and rates and all connection fees received by the City for water and the other services of the Water System and all proceeds of insurance covering business interruption loss relating to the Water System and all other income and revenue howsoever derived by the City from the ownership or operation of the Water System, but excluding all proceeds of taxes and all refundable deposits made to establish credit and advances or contributions or grants in aid of construction.

“Water Service” means the commodity and the collection, conservation, production, storage, treatment, transmission, supply and distribution services furnished, made available or provided by the Water System.

“Water System” means all facilities for obtaining, storing, treating and delivering municipal water now owned or operated by the City, and all other properties, structures or works thereafter acquired and constructed by the City and determined to be a part of the Water System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof thereafter acquired or constructed.

## **CERTAIN PROVISIONS OF THE 2005 INSTALLMENT PURCHASE CONTRACT**

### **Acquisition, Construction, Sale and Purchase of the 2005 Water Project**

The Authority agrees to acquire and construct the 2005 Water Project and to sell the 2005 Water Project to the City, and the City agrees to purchase the 2005 Water Project from the Authority, all as provided in the 2005 Contract. In order to implement this provision, the Authority appoints the City as its agent for the purpose of such acquisition and construction, and the City agrees to enter into such engineering, design and construction contracts and to execute such purchase orders as may be necessary, as agent for the Authority, to provide for the complete acquisition and construction of the 2005 Water Project, and the City agrees that as such agent it will cause the acquisition and construction of the 2005 Water Project to be diligently completed from the funds on deposit in the Project Fund for such purpose; provided, that the Authority shall only be obligated for the payment of costs or expenses incurred by the City (whether as agent for the Authority or otherwise) for the acquisition and construction of the 2005 Water Project from money on deposit in the Project Fund.

In the event the Authority fails to observe or perform any agreement, condition, covenant or term contained in the 2005 Contract required to be observed or performed by it, the City may institute such action or proceeding against the Authority as the City may deem necessary or convenient to compel the observance or performance of such agreement, condition, covenant or term, or to recover damages for the nonobservance or nonperformance thereof. The City may, at

its own cost and expense and in its 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 City deems reasonably necessary in order to protect or secure its rights under the 2005 Contract, and in such event the Authority agrees to cooperate fully with the City and to take all action necessary to effect the substitution of the City for the Authority in any action or proceeding if the City shall so request.

#### **Additions to or Deletions from the 2005 Water Project**

The City may at any time make additions to or make deletions from the 2005 Water Project, but only if the City first files with the 2005 Trustee a certificate of the City:

(a) identifying the work to be added to the 2005 Water Project or the work to be deleted from the 2005 Water Project, or both; and

(b) stating (in the case of such an addition) that the estimated costs of the acquisition or construction of the addition to the 2005 Water Project are not greater than the funds on deposit in the Project Fund available to pay such estimated costs.

#### **Title to the 2005 Water Project**

Upon the acquisition or construction of each portion of the 2005 Water Project by the City as agent for the Authority, all right, title and interest therein shall automatically vest in the City, which automatic vesting shall occur without further action by the Authority; provided, that the Authority shall, if requested by the City or if necessary to assure such automatic vesting of such right, title or interest, execute and deliver any and all documents required to assure such vesting.

#### **Location of the 2005 Water Project; Ingress and Egress by Authority**

The 2005 Water Project consists of components which are not contiguous to one another and which are located at various locations within and without the City, and the Authority shall have the right of ingress and egress to and from all such locations for the purpose of fulfilling its obligations under the 2005 Contract without the necessity of either party to executing any further documentation relevant or appertaining to the 2005 Contract.

#### **Purchase Price**

The Purchase Price to be paid by the City under the 2005 Contract to the Authority for the purchase of the 2005 Water Project is thirty-eight million eight hundred fifty thousand dollars (\$38,850,000), payable in installments, equal to the sum of (i) the Principal Payments plus (ii) the Variable Payments (subject in each case to any right of prepayment provided in the provisions of the 2005 Contract regarding Events of Default and Remedies of the Authority), plus (iii) the Reserve Account deposits required pursuant to the provisions of the 2005 Contract regarding Allocation of Net Revenues, which may be credited to the 2005 Installment Payments as provided therein.

#### **Payment of the 2005 Installment Payments**

The City shall, subject to any right of prepayment as provided in provisions of the 2005 Contract regarding Events of Default and Remedies of the Authority, pay the Authority the 2005

Installment Payments as therein provided, without offset or deduction of any kind, by paying the Principal Payments annually in the amounts and on the date which is five (5) Business Days prior to each Principal Payment Date in accordance with Exhibit A attached to the 2005 Contract and incorporated therein and made a part thereof, and by paying the Variable Payments monthly on the date which is five (5) Business Days prior to the first Business Day of each month commencing in the month of February, 2006; provided, that in the event the City fails to make any 2005 Installment Payment when due, the defaulted 2005 Installment Payment shall continue as an obligation of the City, and the City shall pay the same with interest thereon from the due date thereof at a rate of interest equal to the greater of the Variable Payments or the default rate applicable to any unpaid amount under an Obligation as a result of such failure to pay.

The obligation of the City to pay the 2005 Installment Payments from the Net Revenues as provided in the 2005 Contract is absolute and unconditional, and until such time as the 2005 Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made pursuant to the provisions of the 2005 Contract regarding Discharge of Obligations), the City will not discontinue or suspend any 2005 Installment Payments required to be made by it under this section, whether or not the 2005 Water Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to abatement because of any damage to, destruction or condemnation of the 2005 Water Project, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

#### **Prepayment of the 2005 Installment Payments**

While any ARB Interest Period is in effect with respect to the 2005 Bonds, the City may prepay the principal components of 2005 Installment Payments on any date that is an ARB Interest Payment Date, as a whole or in part (with each prepayment by the City in integral multiples of five thousand dollars (\$5,000)), from any source of available funds, at a prepayment price equal to the sum of the principal amount prepaid plus accrued interest thereon to the date of prepayment.

Notwithstanding any such prepayment, the City shall not be relieved of its obligations under the 2005 Contract until all 2005 Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made pursuant to provisions of the 2005 Contract regarding Discharge of Obligations).

#### **Pledge of Net Revenues**

All Net Revenues are irrevocably pledged to the payment of the 2005 Installment Payments as provided in the 2005 Contract, and the Net Revenues shall not be used for any other purpose while any 2005 Installment Payments remain unpaid; provided, that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the provisions of the 2005 Contract regarding Revenues. This pledge shall constitute a first and exclusive lien on the Net Revenues for the payment of the 2005 Installment Payments in accordance with the terms of the 2005 Contract (subject to the incurrence of Parity Obligations in accordance with the provisions of the 2005 Contract regarding Additional Obligations).

All Water Revenues shall be deposited as and when received in the "City of Pittsburg Water Revenue Fund" (the "City Revenue Fund") which fund is continued in the treasury of the City and which fund shall be maintained by the City, and all money in the City Revenue Fund



shall be set aside by the City and applied to the payment of Maintenance and Operation Costs, as and when required to be paid.

All remaining Water Revenues after the payment of all Maintenance and Operation Costs then required to be paid shall be Net Revenues.

#### **Allocation of Net Revenues**

(1) Parity Installment Payment Fund Deposits. Five (5) Business Days prior to each 2005 Installment Payment Date, the City shall, from Net Revenues, transfer to the 2005 Trustee (on a parity with the transfers of Net Revenues for the payment of all other Parity Debt Service becoming due on such date, as the case may be) for deposit in the Parity Installment Payment Fund a sum equal to the amount of the 2005 Installment Payment due on such 2005 Installment Payment Date; and

(2) Reserve Account Deposits. On each June 1 and January 1, the City shall, from Net Revenues, transfer to the 2005 Trustee (on a parity with the transfers of Net Revenues for the replenishment of all other reserve accounts for all Parity Obligations) for deposit in the Reserve Account a sum equal to one-half (½) of the amount determined by the 2005 Trustee to be necessary to restore the Reserve Account to the Reserve Requirement by the next succeeding June 1 or January 1 that is six (6) months after the first such deposit, as the case may be, except that if the deficiency in the Reserve Account was occasioned by a reduction in the market valuation thereof (rather than a transfer therefrom), such deposit shall be equal to the total amount determined by the 2005 Trustee to be necessary prior to such transfer to restore the Reserve Account to the Reserve Requirement; and

(3) Surplus Net Revenues. Provided that the payments and deposits required under paragraphs (1) and (2) above have been made, any remaining Net Revenues may be used for any lawful purpose, including, but not limited to the payment of any obligations secured by Net Revenues on a priority subordinate to the Parity Obligations or the payment of any Termination Payment;

provided, that no such transfers to and deposits in the Parity Installment Payment Fund need be made if the amount available and contained therein is at least equal to 2005 Installment Payment next due and payable and if the amount contained in the Reserve Account is equal to the Reserve Requirement; and provided further, that nothing in this section shall be construed to limit the City's ability to make other transfers and deposits at any time from Net Revenues for the payment of debt service, reserve replenishment, credit enhancement reimbursement costs and Payment Agreement payments to the extent required with respect to additional Parity Obligations incurred in accordance with the provisions of the 2005 Contract regarding Additional Obligations.

#### **Compliance with, Amendment of and Assignment of 2005 Contract**

The City will punctually pay the 2005 Installment Payments in strict conformity with the terms of the 2005 Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the 2005 Contract required to be observed and performed by it, and will not terminate the 2005 Contract for any cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2005 Water Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to

observe or perform any agreement, condition, covenant or term contained in the 2005 Contract required to be observed and performed by it, whether express or implied. The City will, so long as any 2005 Installment Payments remain unpaid, apply Net Revenues as provided in the 2005 Contract.

The City and the Authority shall not supplement, amend, modify or terminate any of the terms of the 2005 Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the 2005 Trustee, which such consent shall be given only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the 2005 Bonds or the 2005 Swap or result in any material impairment of the security given for the payment of the 2005 Installment Payments, or (b) the 2005 Trustee first obtains the written consent of a majority in aggregate principal amount of the 2005 Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that any supplement that complies with the provisions of the 2005 Contract regarding Additional Obligations shall not be deemed to materially adversely affect the interests of the holders of any Parity Obligations or result in any material impairment of the security given for the payment of the 2005 Installment Payments; and provided further, that no such supplement, amendment, modification or termination shall reduce the amount of 2005 Installment Payments to be made to the Authority or the 2005 Trustee by the City pursuant to the 2005 Contract, or extend the time for making such 2005 Installment Payments, or permit the creation of any lien prior to the lien created by the 2005 Contract on Net Revenues or change the parity pledge for security and payment of all Parity Obligations without the written consent of all of the Holders of all 2005 Bonds then Outstanding and the 2005 Swap Provider, except as provided in the provisions of the 2005 Contract regarding Additional Obligations. Notwithstanding the foregoing provisions of this section, so long as the Insurer is not in default under the Bond Insurance Policy, the City and the Authority shall not supplement, amend, modify or terminate any of the terms of the 2005 Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Insurer; and such written consent of the Insurer, together with the consent of the 2005 Swap Provider, shall be full authority to the City and the Authority to supplement, amend, modify or terminate the 2005 Contract to the extent of such written consent, with or without the consent of the 2005 Trustee or any Holder of 2005 Bonds.

#### **Against Encumbrances**

The City will not make any use of or encumber the Net Revenues except as provided in the 2005 Contract; provided, that so long as the City is not in default under the 2005 Contract, the City may issue any obligations subordinate to the Parity Obligations that are payable from surplus Net Revenues as provided in the provisions of the 2005 Contract regarding allocation of Net Revenues.

#### **Against Sale or Other Disposition of Property**

The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of Net Revenues. The City will not enter into any agreement which impairs the operation of the Water System or any part thereof necessary to secure adequate Net Revenues for the payment of the Parity Obligations or which would otherwise impair the rights of the City with respect to Net Revenues or the operation of the Water System.

### **Against Competitive Facilities**

The City will not, to the extent permitted by law, acquire, purchase, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, purchase, maintain or operate within the City any water system competitive with the Water System.

### **Tax Covenants**

The City will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest components of the 2005 Installment Payments will not be included in the gross income of the owners of the Bonds for federal income tax purposes under the Code and will be exempt from State of California personal income taxes, and will take no action that would result in such interest being so included or not being so exempt. Without limiting the foregoing, the City and the Authority will at all times comply with the requirements of the Tax Certificate executed in connection with the delivery of the Bonds by the 2005 Trustee. This covenant shall survive any defeasance or discharge of the 2005 Installment Payments pursuant to the provisions of the 2005 Contract regarding Discharge of Obligations or any prepayment of principal components of the 2005 Installment Payments pursuant thereto.

### **Maintenance and Operation of the Water System**

The City will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

### **Payment of Claims**

The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on Net Revenues or any part thereof or on any funds in the hands of the City or which might impair the security of the 2005 Installment Payments.

### **Compliance with Contracts**

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

### **Insurance**

The City will procure and maintain such insurance relating to the Water System which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the 2005 Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in the State in connection with municipal water systems comparable to the Water System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with municipal water systems in the State comparable to the Water System and is, in the opinion of an accredited actuary, actuarially sound. All policies of

insurance required to be maintained in the 2005 Contract shall provide that the Authority and the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

#### **Accounting Records and Financial Statements and Other Reports**

The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System and the Net Revenues, the Maintenance and Operation Costs and the Net Revenues relating thereto, which records shall be available for inspection by the Authority and the 2005 Trustee at reasonable hours and under reasonable conditions.

The City will prepare annually within nine months after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2006) financial statements of the City for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

#### **Protection of Security and Rights of Authority**

The City will preserve and protect the security of the 2005 Contract and the rights of the Authority to the 2005 Installment Payments under the 2005 Contract and will warrant and defend such rights against all claims and demands of all persons.

#### **Payment of Taxes and Compliance with Governmental Regulations**

The City will pay and discharge all taxes, assessments and other governmental charges which may thereafter be lawfully imposed upon the Water System or any part thereof or upon Net Revenues when the same shall become due. The City will duly observe and comply with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

#### **Amount of Charges, Fees and Rates**

The City will fix, prescribe and collect rates, fees and charges for the Water Service during each Fiscal Year which are reasonably fair and nondiscriminatory and which are estimated to yield Net Revenues for such Fiscal Year equal to at least one hundred fifteen per cent (115%) of the sum of (i) Parity Debt Service for such Fiscal Year, and (ii) all Policy Costs due and owing in such Fiscal Year, plus any Termination Payments for which other lawful monies are not otherwise available; provided, that for purposes of this section, the assumptions set forth in the 2005 Contract in paragraph (D) of the definition of "Parity Debt Service" shall be disregarded. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

#### **Collection of Charges, Fees and Rates**

The City will have in effect at all times rules and regulations requiring each user of the Water System to pay the applicable rates, fees and charges applicable to the Water Service and

providing for the billing thereof and for a due date and a delinquency date for each bill. The City will not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the City may without charge use the Water System.

#### **Eminent Domain and Insurance Proceeds**

If all or any part of the Water System shall be taken by eminent domain proceedings, or if the City receives any insurance proceeds resulting from a casualty loss to the Water System, the Net Proceeds thereof, at the option of the City, shall be applied either to (a) the prepayment of Parity Obligations, or (b) to acquire and construct additions, betterments or improvements to the Water System to replace the condemned or destroyed portion of the Water System.

#### **Additional Covenants**

The City may provide additional covenants pursuant to any supplement to the 2005 Contract, including covenants relating to any credit support or liquidity support obtained for the 2005 Bonds.

#### **Continuing Disclosure**

The City agrees to comply with and carry out all of the provisions of the continuing disclosure undertaking relating to the 2005 Bonds. Notwithstanding any other provision of the 2005 Contract, failure of the City to comply with such undertaking shall not be considered an Event of Default under the 2005 Contract or the 2005 Indenture; provided, that the 2005 Trustee may (and, at the request of any Participating Underwriter or the Holders of at least a majority in aggregate principal amount of Outstanding 2005 Bonds and upon receipt of indemnification reasonably acceptable to the Trustee, shall) or any Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this section. Capitalized terms used in this section but not defined in the 2005 Contract shall have the meanings given in the aforesaid continuing disclosure undertaking.

#### **Further Assurances**

The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the 2005 Contract and for the better assuring and confirming unto the Authority of the rights and benefits provided to it in the 2005 Contract.

#### **Events of Default**

If one or more of the following Events of Default shall happen, that is to say –

(a) if default shall be made in the due and punctual payment of any Parity Installment Payment or of any installment of principal or interest on any Parity City Bond when and as the same shall become due and payable;

(b) if default shall be made by the City in the performance of any of the other agreements or covenants contained in the 2005 Contract or contained in any Issuing Document authorizing the issuance of any Parity City Bonds required to be performed by it or contained in any Parity Contracts required to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Authority, the Insurer or the 2005 Trustee; or

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

then and in each and every such case during the continuance of such Event of Default the Authority may, by notice in writing to the City, declare the entire principal amount of the unpaid 2005 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the 2005 Contract to the contrary notwithstanding; provided, that if at any time after the entire principal amount of the unpaid 2005 Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the money thereby due shall have been obtained or entered the City shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the 2005 Installment Payments due prior to such declaration and the accrued interest thereon, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid 2005 Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor then and in every case the Authority, by written notice to the City, may rescind and annul such declaration and its consequences, except that no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon; provided, that so long as the Insurer is not in default under its Bond Insurance Policy or Swap Insurance Policy, the Insurer shall be entitled to direct all remedies under this section, including the right to declare the 2005 Installment Payments to be due and payable, and the right to rescind any such declaration and its consequences.

#### **Distribution of Assets**

Upon the date of the declaration of an Event of Default by the Authority as provided in the provisions of the 2005 Contract regarding Events of Default, all Net Revenues shall be applied in the following order –

First, to the payment of the costs and expenses of the Trustee (as assignee of the Authority), if any, in carrying out the provisions of the 2005 Contract regarding Events of Default and Remedies of the Authority, including reasonable compensation to its agents, accountants and counsel and including any expenses of the Authority in indemnifying the Trustee;

Second, to the payment of the interest then due and payable on the principal amount of the Parity Obligations, and, if the amount available shall not be sufficient to pay in full all such

interest then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference;

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

Fourth, to the required replenishment of any debt service reserves with respect to the Parity Obligations;

Fifth, to the payment of any other amounts becoming due and payable with respect to Parity Obligations (including any letter of credit and remarketing fees) and to the payment of Termination Payments on any Payment Agreements; and

Sixth, to the payment of the costs and expenses of the Authority, if any, in carrying out the provisions of the 2005 Contract regarding Events of Default and Remedies of the Authority, including reasonable compensation to its agents, accountants and counsel, that were not paid pursuant to clause (1) above;

Seventh, to the payment of all other amounts due and payable by the City from Net Revenues, including, but not limited to the payment of obligations secured by Net Revenues on a priority subordinate to the Parity Obligations.

#### **Other Remedies of the Authority**

The Authority shall have the right –

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any councilmember, officer or employee thereof, and to compel the City or any such councilmember, officer or employee to perform and carry out its duties under agreements and covenants required to be performed by it or him or her contained in the 2005 Contract;

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

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

Notwithstanding any contrary provision, so long as the Insurer is not in default under the Bond Insurance Policy, the Insurer shall have the right to direct all remedies granted to the Authority under this section.

#### **Non-Waiver**

Nothing in the provisions of the 2005 Contract regarding Events of Default and Remedies of the Authority or in any other provision thereof shall affect or impair the obligation of the City,

which is absolute and unconditional, to pay the 2005 Installment Payments to the Authority at their respective due dates or upon prepayment as provided in the 2005 Contract from the Net Revenues, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the 2005 Contract.

A waiver of any default or breach of duty or contract by the Authority 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, and no delay or omission by the Authority 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 Authority by applicable law or by the provisions of the 2005 Contract regarding Events of Default and Remedies of the Authority may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

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

#### **Remedies Not Exclusive**

No remedy in the 2005 Contract conferred upon or reserved to the Authority 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 under the 2005 Contract or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by applicable law.

#### **Insurer Rights**

Notwithstanding any contrary provision of the 2005 Contract, so long as the Insurer is not in default under the Bond Insurance Policy, the Insurer shall be entitled to direct all remedies granted in the provisions of the 2005 Contract regarding Events of Default and Remedies of the Authority.

#### **Discharge of Obligations**

(a) If the City shall pay or cause to be paid all the 2005 Installment Payments at the times and in the manner provided in the 2005 Contract, the right, title and interest of the Authority provided therein and the obligations of the City thereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied, except as provided in the Tax Covenants of the 2005 Contract.

(b) Any unpaid principal component of the 2005 Installment Payments shall on its scheduled payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the City makes payment of such 2005 Installment Payments and the interest and prepayment premium, if applicable, thereon in the manner provided in the 2005 Contract, and money for the purpose of such payment or prepayment is then held by the 2005 Trustee.



(c) All or any portion of unpaid principal components of the 2005 Installment Payments shall, prior to their scheduled payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section (except that the City shall remain liable for the payment of such 2005 Installment Payments, but only out of the money or securities deposited with the 2005 Trustee or an escrow agent as hereinafter described) if (i) notice is provided by the City to the 2005 Trustee, (ii) there shall have been deposited with the 2005 Trustee or such escrow agent either money in an amount which shall be sufficient, or Federal Securities which are not subject to redemption prior to maturity except by the holder thereof (including any such Federal Securities issued or held in book entry form) the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the 2005 Trustee or such escrow agent at the same time, shall be sufficient, as stated in a report of an Independent Certified Public Accountant addressed to the City and the 2005 Trustee or such escrow agent, to pay when due the principal components of such 2005 Installment Payments or such portions thereof and the interest and prepayment premiums, if any, thereon on and prior to their payment dates or their dates of prepayment, as the case may be, and (iii) an opinion of nationally recognized bond counsel addressed to the City and the 2005 Trustee or such escrow agent is filed with the 2005 Trustee to the effect that the action taken pursuant to this subsection will not cause the interest components of the 2005 Installment Payments to be includable in gross income under the Code for federal income tax purposes and will not cause such interest components not to be exempt from State of California personal income taxes.

#### **Liability of City Limited to Net Revenues**

Notwithstanding anything contained in the 2005 Contract, the City shall not be required to advance any money derived from any source of income other than the Net Revenues and the other funds provided in the 2005 Contract for the payment of the 2005 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the 2005 Contract; provided, that the City may advance money for any such purpose so long as such money is derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the 2005 Installment Payments is a special obligation of the City and is payable solely from the Net Revenues and the other funds as provided in the 2005 Contract, and does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction, and does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

### **CERTAIN PROVISIONS OF THE INDENTURE OF TRUST**

#### **Rescission of Conversion and Conditions to Conversion**

(a) Notwithstanding anything in the Indenture to the contrary, in connection with any Conversion of the Interest Rate Period for the Bonds, the Authority shall have the right to deliver to the Trustee (with a copy to Remarketing Agent (if any), the Tender Agent (if any), the Credit Provider (if any), the Auction Agent (if any) and the Broker-Dealer (if any)), on or prior to 10:00 a.m. on the second Business Day preceding the proposed Conversion Date of any such Conversion a notice to the effect that the Authority elects to rescind its election to make such Conversion. If the Authority delivers a notice of rescission of election to Convert the Bonds to

the Trustee prior to the time a notice of such Conversion has been mailed to the Owners of the Bonds as provided in the provisions of the Indenture regarding Daily Interest Rate Period, Weekly Interest Rate Period, Long-Term Interest Rate Period, Index Interest Rate Period and ARB Provisions, as applicable, then the Interest Rate Period shall not be Converted and the Bonds shall continue to bear interest in the Interest Rate Period in effect immediately prior to such proposed Conversion. In any event, if notice of a Conversion has been mailed to the Owners of the Bonds as provided in the provisions of the Indenture regarding Daily Interest Rate Period, Weekly Interest Rate Period, Long-Term Interest Rate Period, Index Interest Rate Period and ARB Provisions, as applicable, and the Authority rescinds its election to make such Conversion, then (i) the Bonds (except ARBs, which shall not be subject to mandatory tender) shall continue to be subject to mandatory tender for purchase on the date which would have been the Conversion Date of the Conversion to a new Interest Rate Period as provided in the provisions of the Indenture regarding Notice to Owners of Mandatory Tender, and (ii) the Interest Rate Period shall not be Converted and the Bonds shall continue to bear interest in the Interest Rate Period in effect immediately prior to the proposed Conversion (provided, that the period of any such Long-Term Interest Rate Period shall be one year). In the case of the ARBs, the ARBs shall bear interest at the ARB Maximum Rate until the next succeeding Auction Period and then at the Applicable ARB Rate.

(b) No Conversion from one Interest Rate Period to another shall take effect unless each of the following conditions, to the extent applicable, shall have been satisfied.

(i) The Trustee shall have received a Favorable Opinion of Bond Counsel with respect to such Conversion on the Conversion Date.

(ii) The remarketing proceeds available on the Conversion Date and the amount made available under the Credit Support Instrument (if any) shall not be less than the amount required to purchase all of the Tendered Bonds at the applicable Purchase Price (unless the Authority, in its sole discretion, transfers or causes to be transferred, to the Tender Agent for application to the payment of such Purchase Price Available Moneys in the amount of such deficiency on or before the Conversion Date in funds which are immediately available on the Conversion Date).

(iii) In the case of any Conversion of the Bonds from an ARB Interest Rate Period to any other Interest Rate Period (except a Long-Term Interest Rate Period effective to, or an Index Interest Rate Period for which the Authority has irrevocably elected an Index Interest Rate Period ending on, the day immediately preceding the Maturity Date), prior to the Conversion Date the Authority shall have appointed a Tender Agent (unless the Trustee is serving as Tender Agent) and a Remarketing Agent with respect to the Bonds, there shall have been executed and delivered with respect to the Bonds a Tender Agent Agreement (unless the Trustee is serving as Tender Agent), and a Remarketing Agreement and the Authority has caused a Credit Support Instrument in the Required Stated Amount to be delivered to the Tender Agent.

(iv) In the case of any Conversion of the Bonds to an ARB Interest Rate Period from another Interest Rate Period, prior to the Conversion Date the Authority shall have appointed an Auction Agent and a Broker-Dealer with respect to the Bonds and there shall have been executed and delivered with respect to the Bonds, an Auction Agent Agreement and a Broker-Dealer Agreement.

(v) Prior to any Conversion to an ARB Interest Rate Period, the Authority shall receive a firm underwriting commitment or contract to purchase the Bonds in an ARB Interest Rate Period from an investment bank or other purchaser.

(vi) In the case of any Conversion of the Bonds to a Long-Term Interest Rate Period, the Remarketing Agent shall have determined the Long-Term Interest Rate for such Long-Term Interest Rate Period on or prior to the proposed Conversion Date to such Long-Term Interest Rate Period.

(vii) If any condition to the Conversion of the Bonds to another Interest Rate Period shall not have been satisfied, then the current Interest Rate Period shall not be Converted and the Bonds shall continue to bear interest in the Interest Rate Period in effect immediately prior to such proposed Conversion, and, if notice of such Proposed Conversion has been given to the Owners of the Bonds as provided in the Indenture, the Bonds (except ARBs) shall continue to be subject to mandatory tender for purchase on the date which would have been the Conversion Date as provided in the provisions of the Indenture regarding General Provisions Relating to Tenders. If the Interest Rate Period in effect immediately prior to such proposed Conversion is a Long-Term Interest Rate Period, then the Long-Term Interest Rate Period commencing on such proposed Conversion Date shall be for one year. In the case of ARBs, the ARBs shall continue to be owned by the Owners thereof and shall bear interest at the ARB Maximum Rate until the next succeeding Auction Period following such proposed Conversion Date, then at the Applicable ARB Rate.

(viii) Notwithstanding anything in the Indenture to the contrary, in connection with the Conversion from a Long-Term Interest Rate Period that would require the mandatory tender for purchase of Bonds at a Purchase Price greater than the principal amount thereof plus unpaid accrued interest thereon as provided in the Indenture regarding General Provisions Relating to Tenders, the Authority, as a condition to exercising its option to cause a Conversion of the Interest Rate Period, shall deliver or cause to be delivered to the Tender Agent prior to the mailing of notice of such Conversion, Available Moneys in an amount which is sufficient to pay such premium, unless the Credit Support Instrument, if any, then in effect with respect to such Bonds provides for the payment of such premium.

The Trustee shall send a copy of each notice of a Conversion sent to the Owners of the Bonds to the Credit Provider and each Rating Agency promptly after sending such notice to such Owners.

#### **Additional Obligations**

The Authority may, at any time and from time to time, enter into Credit Support Agreements or otherwise become obligated for Credit Provider Reimbursement Obligations with respect to the Bonds in connection with the Conversion of the Bonds to a Daily, Weekly or Long Term Interest Rate Period. In addition, in the event that the 2005 Swap is terminated and the City enters into a Qualified Swap Agreement other than the 2005 Swap, and assigns the net receipts of the City thereunder to the Authority pursuant to the 2005 Contract, such Qualified Swap Agreement will be an Obligation under the Indenture. No other obligations may be entered into by the Authority payable from or secured by a lien on the Revenues thereunder senior to or on a parity with the Obligations.

## **Credit Provider Bonds**

Subject only to the provisions of the Indenture regarding Bonds Constitute Limited Obligations, notwithstanding any other provision contained in the Indenture to the contrary, Bonds which are Credit Provider Bonds shall have terms and conditions, including terms of maturity, payment, prepayment and interest rate, as shall be specified in the applicable Credit Support Agreement.

## **2005 Project Fund**

(a) The Trustee shall establish and maintain in trust a separate fund designated as the "2005 Project Fund." Money deposited in said fund shall be used to pay Costs of the Project as provided in this section.

(b) The Trustee shall make payments from the 2005 Project Fund, except payments and withdrawals pursuant to subsection (e) of this section, in the amounts, at the times, in the manner and on the other terms and conditions set forth in this subsection. Before any such payment from the 2005 Project Fund shall be made, there shall be filed with the Trustee a requisition therefor, signed by an Authorized Authority Representative substantially in the form of Exhibit F to the Indenture. Each such requisition shall state, in respect of the payment to be made (a) the name and address of the person, firm or corporation to whom payment is due, (b) the amount of such payment, and (c) the particular item of the cost of the Project to be paid and that such payment in the stated amount is a proper charge against the 2005 Project Fund and that no part of such payment shall be applied to any item which has previously been paid as a cost of the Project. The Trustee shall promptly issue its check to the Authority or to the Person identified in the requisition in the amount or amounts specified in each such requisition or, if requested pursuant to any such requisition, shall by wire transfer interbank transfer or other method arrange to promptly make each payment required by such requisition. The Authority shall apply, or cause to be applied, all such moneys received by it from the 2005 Project Fund to the payment of the Costs of the Project identified in the requisition relating to such moneys.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Authority Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof.

(c) Upon the receipt by the Trustee of a certificate of an Authorized Authority Representative requesting the Trustee to close the 2005 Project Fund, and after payment from the 2005 Project Fund of all amounts included in requisitions submitted by the Authority pursuant to subsection (b) of this section, the Trustee shall transfer any moneys remaining in the 2005 Project Fund to such account or accounts in the Revenue Fund as directed by an Authorized Authority Representative. Upon such transfer, the Trustee shall close the 2005 Project Fund.

(d) Moneys held in the 2005 Project Fund may, subject to the Tax Certificate, be invested and reinvested to the fullest extent practicable in any investment in which the Authority can legally invest its funds, which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from the 2005 Project Fund. Any investment earnings on moneys on deposit in the 2005 Project Fund shall be deposited in the 2005 Project Fund and be used in the same manner as other amounts on deposit in the 2005 Project Fund. Until the 2005 Project Fund is closed as provided in subsection (c) of this section, interest or other income (net of that which (i) represents a return of accrued interest paid in

connection with the purchase of any investment or (ii) is required to effect the amortization of any premium paid in connection with the purchase of any investment) earned on any moneys or investments derived from proceeds of the Bonds in the Interest Account created under the Indenture shall be paid into the 2005 Project Fund.

(e) In the event of redemption of all the Bonds or an Event of Default which causes acceleration of the Bonds, any moneys then remaining in the 2005 Project Fund shall be transferred to such account or accounts in the Revenue Fund as directed by an Authorized Authority Representative.

### **Funds**

To ensure the payment when due and payable, whether at maturity or upon redemption or upon acceleration, of the principal of, Redemption Price, if any, and interest on the Bonds and Net Payments under the Qualified Swap Agreements, there are established the following funds and accounts, to be held and maintained by the Trustee and applied as provided in the Indenture for so long as any of the Bonds or other Obligations are Outstanding:

(a) the City of Pittsburg Public Financing Authority Water Revenue Bonds Revenue Fund (the "Revenue Fund"), comprised of an Interest Account and a Capitalized Interest Subaccount therein, a Principal Account, a Sinking Fund Account and a Debt Service Reserve Account; and

(b) the City of Pittsburg Public Financing Authority Water Revenue Bonds Redemption Fund (the "Redemption Fund").

### **Receipt and Deposit of Revenues in the Revenue Fund**

In order to carry out and effectuate the pledge, charge and lien contained in the Indenture, the Authority agrees and covenants that all Revenues when and as received by the Authority will be forthwith transferred by the Authority to the Trustee for deposit in the Revenue Fund established under the Indenture.

There shall not be deposited with the Trustee any Revenues eligible for allocation to the Authority for deposit in the Revenue Fund pursuant to the Act in an amount in excess of that amount which, together with all money then on deposit with the Trustee in the Revenue Fund and the accounts therein, shall be sufficient to discharge all Outstanding Obligations as provided in the provisions of the Indenture regarding Defeasance.

The Authority covenants and agrees that all Revenues deposited in the Revenue Fund will be accounted for through, and held in trust in the Revenue Fund, and the Authority shall have no beneficial right or interest in any of such money, except only as provided in the Indenture. All such Revenues shall nevertheless be disbursed, allocated and applied solely to the uses and purposes in the Indenture set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Authority.

### **Flow of Funds**

All moneys in the Revenue Fund shall be set aside by the Trustee when and as received in the following respective special accounts within the Revenue Fund; provided, however, that all receipts and payments made to the City pursuant to Qualified Swap Agreements and assigned to

the Authority pursuant to the 2005 Contract and constituting Revenues shall immediately upon receipt thereof be deposited in the Interest Account. All moneys 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.

(1) Interest Account and Capitalized Interest Subaccount.

(a) Five Business Days prior to the first Business Day of each month or each payment date for Net Payments specified in a Qualified Swap Agreement, as applicable, the Trustee shall calculate the sum of the following amounts (the resulting sum of (x) and (y) below being referred to in the Indenture as the "Total Interest Due"):

(x) an amount equal the interest paid on all Outstanding Bonds on all Interest Payment Dates in the immediately preceding month (provided that, if the date of calculation thereof falls on a Business Day that precedes the last Interest Payment Date in the such month, then the Trustee shall assume, for purposes of the calculation in this clause (x), that the last interest payment in such month will be equal to the penultimate interest payment in such month);

(y) plus the amount of Net Payments to be paid or received on the applicable payment date pursuant to a Qualified Swap Agreement in the month in which such calculation is being made.

On the same day, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account an amount of money which equals one hundred fifty per cent (150%) of the Total Interest Due, less any amount of money already contained in the Interest Account plus the payments, if any, becoming due and payable in such month on any other Obligations. For purposes of the calculation of amounts to be set aside from the Revenue Fund in the preceding sentence, the Trustee shall make the following adjustments to the Total Interest Due: (i) from the Delivery Date to May 25, 2006, the amount of Total Interest Due shall first be multiplied by 0.3623; (ii) from May 26, 2006 to May 31, 2007, the amount of Total Interest Due shall first be multiplied by 0.3561; (iii) from June 1, 2007 to May 29, 2008, the amount of Total Interest Due shall first be multiplied by 0.3485; and (iv) from May 30, 2008 until no Capitalized Interest remains on deposit in the Capitalized Interest Subaccount, the amount of Total Interest Due shall first be multiplied by 0.3407.

If, in any month the timing of payments and receipts of funds in the Interest Account causes an insufficiency with respect to amounts owed and payable therefrom as the same become due, then the Trustee shall notify the City of such insufficiency and request a deposit to satisfy the same.

All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds and any other Obligations, and Net Payments, as the same shall become due and payable, subject to the provisions of the Indenture regarding Flow of Funds Section.

(b) The initial deposit to the Capitalized Interest Subaccount set forth in the provisions of the Indenture regarding Application of Proceeds of Bonds and Other Amounts shall be used and withdrawn only according to the following provisions:

(i) from the Delivery Date to May 25, 2006, the Trustee shall use and withdraw from the Capitalized Interest Subaccount an amount equal to 63.77% of the interest on the Bonds and any other Obligations, and Net Payments, and shall apply such sum to the payment thereof as the same shall become due and payable in such period, and the remaining 36.23% of the interest on the Bonds and any other Obligations, and Net Payments, due and payable in such period shall be paid from all other monies on deposit in the Interest Account;

(ii) from the May 26, 2006 to May 31, 2007, the Trustee shall use and withdraw from the Capitalized Interest an amount equal to 64.39% of the interest on the Bonds and any other Obligations, and Net Payments, and shall apply such sum to the payment thereof as the same shall become due and payable in such period, and the remaining 35.61% of the interest on the Bonds and any other Obligations, and Net Payments, due and payable in such period shall be paid from all other monies on deposit in the Interest Account;

(iii) from the June 1, 2007 to May 29, 2008, the Trustee shall use and withdraw from the Capitalized Interest Subaccount an amount equal to 65.15% of the interest on the Bonds and any other Obligations, and Net Payments, and shall apply such sum to payment thereof as the same shall become due and payable in such period, and the remaining 34.85% of the interest on the Bonds and any other Obligations, and Net Payments, due and payable in such period shall be paid from all other monies on deposit in the Interest Account; and

(iv) from the May 30, 2008 until no Capitalized Interest remains on deposit in the Capitalized Interest Subaccount, the Trustee shall use and withdraw from the Capitalized Interest Subaccount an amount equal to 65.93% of the interest on the Bonds and any other Obligations, and Net Payments, and shall apply such sum to the payment thereof as the same shall become due and payable in such period, and the remaining 34.07% of the interest on the Bonds and any other Obligations, and Net Payments, due and payable in such period shall be paid from all other monies on deposit in the Interest Account.

Principal Account. Five Business Days prior to each Principal Payment Date, the Trustee shall set aside from the Revenue Fund and deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of the principal becoming due and payable on all Outstanding Bonds on such Principal Payment Date. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Outstanding Bonds as it shall become due and payable.

Sinking Fund Account. Five Business Days prior to each Principal Payment Date, the Trustee shall set aside from the Revenue Fund and deposit in the Sinking Fund Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of Sinking Fund Installments becoming due and payable with respect to all Outstanding Bonds on such Principal Payment Date. All moneys in the Sinking Fund Account shall be used by the Trustee to redeem the Outstanding Bonds. In the event that Bonds or which are Term Obligations purchased or redeemed at the option of the Authority are deposited with the Trustee for the credit of the Sinking Fund Account not less than forty-five (45) days prior to the due date for any Sinking Fund Installment for such Bonds, such deposit shall satisfy (to the extent of 100% of the principal amount of such Bonds) any obligation of the Authority to make a payment with respect to such Sinking Fund Installments. Any Bond so deposited with the Trustee shall be cancelled and shall no longer be deemed to be Outstanding for any purpose. Upon making the deposit with the Trustee of Bonds which are Term Obligations as provided in this paragraph, the Authority may specify the dates and amounts of Sinking Fund Installments for such Bonds as to

which the Authority's obligations to make a payment with respect to Sinking Fund Installments for such Bonds shall be satisfied.

Debt Service Reserve Account. (i) The Trustee shall set aside from the Revenue Fund and deposit in the Debt Service Reserve Account an amount of money (or other authorized deposit of security, as provided in paragraph (v) below) equal to the Debt Service Reserve Requirement for the Bonds then Outstanding. The Trustee shall also set aside from the Revenue Fund and deposit in the debt service reserve account established under an Issuing Instrument for any other Obligation an amount of money equal to the debt service reserve requirement for such Obligations then outstanding. The Debt Service Reserve Account shall be replenished in the following priority: (i) principal and interest on Reserve Financial Guaranties shall be paid from first available Revenues on a pro rata basis; and (ii) after all such amounts are paid in full, amounts necessary to fund the Debt Service Reserve Account to the required level, after taking into account the amounts available under the Reserve Financial Guaranties shall be deposited from next available Revenues. No deposit need be made in the Debt Service Reserve Account or the debt serve reserve account for such other Obligations so long as there shall be on deposit therein an amount equal to the Debt Service Reserve Requirement of the Bonds then Outstanding or the debt service reserve requirement for such Obligations then outstanding, as applicable. If on any date on which the principal or Redemption Price of, or interest on, Bonds or an Authority Swap Payment is due, the amount in the applicable account in the Revenue Fund available for such payment is less than the amount of the principal and Redemption Price of and interest on the Bonds or Authority Swap Payment due on such date, the Trustee shall apply amounts from the Debt Service Reserve Account to the extent necessary to make good the deficiency.

(ii) Except as provided in paragraph (v) below, if on the last Business Day of any month the amount on deposit in any Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement, such excess shall be applied to the reimbursement of each drawing on a Reserve Financial Guaranty deposited in or credited to such Fund and to the payment of interest or other amounts due with respect to such a Reserve Financial Guaranty and any remaining moneys shall be deposited in the Interest Account.

(iii) Whenever the amount in the Debt Service Reserve Account (excluding Reserve Financial Guaranties), together with the amount in the Revenue Fund, is sufficient to pay in full all of the Outstanding Bonds in accordance with their terms (including principal or Redemption Price and interest thereon), the funds on deposit in the Debt Service Reserve Account shall be transferred to the Revenue Fund.

(iv) In the event of the refunding of one or more Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized Authority Representative, withdraw from the Debt Service Reserve Account any or all of the amounts on deposit therein (excluding Reserve Financial Guaranties) and deposit such amounts with itself as Trustee, or the Escrow Agent for the Bonds to be refunded, to be held for the payment of the principal or Redemption Price, if any, of, and interest on, the Bonds (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the provisions of the Indenture regarding Bonds Deemed Paid, and (b) the amount remaining in the Debt Service Reserve Account after such withdrawal, taking into account any deposits to be made in the Debt Service Reserve Account in connection with such refunding, shall not be less than the Debt Service Reserve Requirement.



(v) In lieu of the deposits and transfers to the Debt Service Reserve Account required by the provisions of the Indenture regarding Flow of Funds, the Authority may cause to be deposited in the Debt Service Reserve Account a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the sums, if any, then on deposit in the Debt Service Reserve Account or being deposited in such Fund concurrently with such Reserve Financial Guaranty or Guaranties. The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Financial Guaranties to receive payments with respect to the Reserve Financial Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys shall be required to be withdrawn from the Debt Service Reserve Account and applied to the payment of principal or Redemption Price of, or interest on, any Bonds or of an Authority Swap Payment and such withdrawal cannot be met by amounts on deposit in the applicable accounts in the Debt Service Reserve Account; (ii) on the first Business Day which is at least ten (10) days prior to the expiration date of each Reserve Financial Guaranty, in an amount equal to the deficiency which would exist in the Debt Service Reserve Account if the Reserve Financial Guaranty expired, unless a substitute Reserve Financial Guaranty with an expiration date not earlier than 180 days after the expiration date of the expiring Reserve Financial Guaranty is acquired prior to such date or the Authority deposits funds in the Debt Service Reserve Account on or before such date such that the amount in the Debt Service Reserve Account on such date (without regard to such expiring Reserve Financial Guaranty) is at least equal to the Debt Service Reserve Requirement.

If, upon the deposit of a Reserve Financial Guaranty into the Debt Service Reserve Account pursuant to this paragraph (v), there shall be any amount in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement, such excess amount may be applied to the cost of acquiring such Reserve Financial Guaranty and, to the extent not so applied, shall be transferred to the Interest Account or, with a Favorable Opinion of Bond Counsel, as directed by the Authority.

If at any time obligations insured or issued by a Reserve Financial Guaranty Provider shall no longer maintain the required ratings set forth in the definition of "Reserve Financial Guaranty" in the Definitions section of this summary, the Authority shall provide or cause to be provided cash or a substitute Reserve Financial Guaranty meeting such requirements to the extent necessary to satisfy the Debt Service Reserve Requirement with either cash, qualified Reserve Financial Guaranties or a combination thereof.

(b) In the event that on any date upon which the Authority is to make a payment from Revenues pursuant to paragraphs (1), (2) and/or (3) of subsection (a) above and the amount of available Revenues is not sufficient to make such payment, then the Authority shall apply the available Revenues first to the payments required by paragraph (1) of subsection (a) above, and, then to the payments required by paragraphs (2) and/or (3) of subsection (a) above ratably (based on the respective amounts to be paid), without any discrimination or preferences.

(c) In the event that on any date upon which the Authority is to make a payment or deposit from Revenues pursuant to paragraph (4) of subsection (a) above and the amount of available Revenues is not sufficient to make such payment or deposit, then the Authority, after making the payments required by paragraphs (1), (2) and/or (3) of subsection (a) above, shall apply the available Revenues to the payments required by paragraph (4) of subsection (a) above ratably (based on the respective amounts to be paid), without any discrimination or preferences.

(d) In the event one or more Paying Agents have been appointed for the Bonds, moneys may be transferred by the Trustee to such Paying Agents from the appropriate account in the Revenue Fund for deposit into a special trust account to ensure the payment when due of the principal of, Redemption Price, if any, and interest on the Bonds. In the event that any principal of, Redemption Price or interest on, any Bond has been paid from amounts made available pursuant to a Credit Support Instrument, amounts in the appropriate accounts in the Revenue Fund with respect to such Bond, and any such amounts transferred by the Trustee from the Revenue Fund to a Paying Agent for such Bond pursuant to this section, shall be paid to the applicable Credit Provider as a reimbursement of the amounts so paid.

### **Redemption Fund**

From the moneys paid by the Authority, the Trustee shall, on or before each date fixed for redemption, deposit in the Redemption Fund an amount equal to the Redemption Price of the Bonds to be redeemed. Said moneys shall be set aside in said Fund and shall be applied on or after the redemption date to the payment of the Redemption Price of the Bonds to be redeemed and, except as otherwise provided in this section, shall be used only for that purpose. In the event one or more Paying Agents have been appointed for the Bonds which are to be redeemed with moneys in the Redemption Fund, amounts in the Redemption Fund may be transferred from such Fund by the Trustee to the Paying Agent for the Bonds to be redeemed for deposit into a special trust account held by such Paying Agent to ensure the payment when due the Redemption Price of the Bonds to be redeemed. In the event that the Redemption Price of a Bond has been paid by a Credit Provider pursuant to a Credit Support Instrument, amounts in the Redemption Fund with respect to such Redemption Price, and any such amounts transferred by the Trustee from the Redemption Fund to a Paying Agent for such Bonds pursuant to this section, shall be paid to such Credit Provider as a reimbursement of the amounts so paid. If, after all of the Bonds designated for redemption have been redeemed and cancelled or paid and cancelled, there are moneys remaining in the Redemption Fund, said moneys shall be transferred to the Interest Account; provided, however, that if said moneys are part of the proceeds of Refunding Obligations said moneys shall be applied as provided in the Issuing Instrument authorizing the issuance of such Refunding Obligations.

### **Rebate Fund**

For purposes of complying with tax covenants contained in the Indenture, there is established a fund designated the "Rebate Fund" to be held by the Trustee. Amounts on deposit in the Rebate Fund shall be applied as provided in the Tax Certificate.

### **Depositories**

The Trustee shall hold all moneys deposited with it pursuant to the Indenture or may deposit such moneys with one or more Depositories in trust. All moneys deposited under the provisions of the Indenture with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of the Indenture, and each of the Funds established by the Indenture shall be a trust fund for the purposes thereof.

## **Deposits**

All moneys held by the Trustee under the Indenture may be placed on demand or time deposit, if and as directed by the Authority, provided that such deposits shall permit the moneys so held to be available for use at the time when reasonably expected to be needed. No Trustee shall be liable for any loss or depreciation in value resulting from any investment made pursuant to the Indenture. Any such deposit may be made in the commercial banking department of the Trustee or its affiliates which may honor checks and drafts on such deposit with the same force and effect as if it were not such Trustee. All moneys held by the Trustee, as such, may be deposited by such Trustee in its banking department on demand or, if and to the extent directed by the Authority and acceptable to such Trustee, on time deposit, provided that such moneys on deposit be available for use at the time when reasonably expected to be needed. Such Trustee shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar condition or as required by law.

All moneys held under the Indenture by the Trustee shall be (1) either (A) continuously and fully insured by the Federal Deposit Insurance Corporation, or (B) continuously and fully secured by lodging with the Trustee or any Federal Reserve Bank, as custodian, as collateral security, such securities as are described in clauses (a) through (c), inclusive, of the definition of "Permitted Investments" in the Definitions section having a market value (exclusive of accrued interest) not less than the amount of such moneys, or (2) held in such other manner as may then be required by applicable Federal or State of California laws and regulations and applicable state laws and regulations of the state in which such Trustee is located, regarding security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Fiduciaries to give security under this subsection for the deposit of any moneys with them held in trust and set aside by them for the payment of the principal amount or Redemption Price of, or interest on, any Bonds or to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

All moneys deposited with the Trustee shall be credited to the particular Fund to which such moneys belong.

## **Investment of Certain Funds**

Moneys held in the Revenue Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Permitted Investments which mature not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Funds. Moneys held in the Debt Service Reserve Account shall be invested and reinvested by the Trustee in Permitted Investments which mature, or which may be drawn upon, not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Account, but, except for investments which permit the Trustee to make withdrawals without penalty, at any time upon not more than two Business Days notice, to provide moneys for payments to be made from such Account, not later than five years from the time of such investment. The Trustee shall make all such investments of moneys held by it and shall sell or otherwise liquidate any such investment and take all actions necessary to draw funds under any such investment, including the giving of necessary notices of the drawing of any moneys under any investment, in each case in accordance with directions of an Authorized Authority Representative, which directions shall be consistent with the Indenture and applicable law, and which directions can either be written or oral; provided that if such directions are oral they shall be promptly confirmed in writing by such Authorized Authority Representative. In the absence of any such written investment directions, the Trustee shall, unless otherwise provided in

this section, invest such moneys in the money market funds described in clause (f) of the definition of "Permitted Investments."

Except as otherwise provided in a Supplemental Indenture, interest or other income (net of that which (i) represents a return of accrued interest paid in connection with the purchase of any investment or (ii) is required to effect the amortization of any premium paid in connection with the purchase of any investment) earned on any moneys or investments in the Funds created under the Indenture, except the Project Fund and the Costs of Issuance Fund, shall be paid into the Interest Account.

In making any investment in any Permitted Investments with moneys in any Fund established under the Indenture, the Trustee may combine such moneys with moneys in any other Fund but solely for the purposes of making such investment in such Investments and provided that any amount so combined shall be separately accounted for. The Trustee may act as principal or agent in the acquisition or disposition of investments.

Nothing in the Indenture shall prevent any Permitted Investments acquired as investments of moneys in any Fund from being issued or held in book-entry form on the books of the Department of the Treasury or the Federal Reserve System of the United States.

#### **Sale of Investments**

Obligations purchased as an investment of moneys in any Fund shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

Except as otherwise provided in the Indenture, the Trustee may sell at the best price reasonably obtainable, or present for redemption, any obligation purchased as an investment whenever it shall be directed by the Authority so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. Any obligation purchased as an investment may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another, provided that such obligation is an appropriate Permitted Investment for the purposes of the Fund to which it is to be transferred. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

#### **Compliance with Indenture**

The Authority shall punctually pay the Bonds and the other Obligations in strict conformity with the terms of the Indenture and the Bonds and other Obligations, and shall faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Indenture required to be observed and performed by it, and shall not fail to make any payment required by the Indenture for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of any party to observe or perform any agreement, condition, covenant or term contained in any contract or agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with any such contract or agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of any party or any force majeure, including acts of God,

tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

### **Punctual Payment and Performance**

The Authority will punctually pay the interest on and principal of and redemption premium, if any, to become due on every Bond issued under the Indenture or payments due (excluding Termination Payments under a Qualified Swap Agreement the rights and obligations of which have been assigned to the Authority) from the Revenues in strict conformity with the terms of the Indenture and of the Bonds or a Qualified Swap Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms to be observed or performed by it contained in the Indenture and in the Bonds or a Qualified Swap Agreement.

### **Against Encumbrances**

The Authority will not mortgage or otherwise encumber, pledge or place any charge upon any of the Revenues, except as provided in the Indenture, and will not issue any bond, note, or other evidence of indebtedness payable from or secured by the Revenues on a basis which is: (i) in any manner prior or superior to the lien on, pledge of and security interest in the Revenues securing the Outstanding Bonds and other Obligations pursuant to the Indenture; (ii) except for Obligations with respect to the Revenues, in any manner on a parity with the lien on, pledge of and security interest in the Revenues securing the Outstanding Bonds pursuant to the Indenture; or (iii) in any manner subordinate to the lien on, pledge of and security interest in the Revenues securing the Outstanding Bonds and the other Obligations pursuant to the Indenture.

### **Extension or Funding of Claims for Interest**

In order to prevent any claims for interest after maturity, the Authority will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any Bonds or other Obligations and will not, directly or indirectly, be a party to or approve any such arrangements by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Authority, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

### **Accounting Records and Reports**

The Authority 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 the Revenues, and such books shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions. Not more than one hundred eighty (180) days after the close of each Fiscal Year, the Authority will furnish or cause to be furnished to the Trustee audited financial statements for such Fiscal Year prepared by an Independent Certified Public Accountant. The Authority will also keep or cause to be kept such other information as required under the Tax Certificate, and the Trustee shall have no duty to review or examine such statements.

### **Prosecution and Defense of Suits**

The Authority will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Revenues or to the extent involving the failure of the Authority to fulfill its obligations under the Indenture; provided, that the Trustee or any affected Owner at its election may appear in and defend any such suit, action or proceeding. The Authority will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of any such failure by the Authority, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Indenture, except for any loss, cost, damage or expense resulting from the active or passive negligence, willful misconduct or breach of duty by the Trustee.

### **Protection of Security and Rights of Owners**

The Authority will preserve and protect the security of the Bonds and other Obligations and the rights of the Owners and providers or Owners of other Obligations, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Bonds by the Authority, such Bonds shall be incontestable by the Authority.

### **Tax Covenants**

The Authority will not use or permit the use of any proceeds of Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations and will not take or permit to be taken any other action or actions which would cause any Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code, "private activity bonds" within the meaning of Section 141(a) of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and any applicable requirements thereunder and under Section 103(c) of the Code. The Authority will observe and will not violate the requirements of Section 148 of the Code and any applicable regulations thereunder, and the Authority will comply with all requirements of Sections 148 and 149(b) of the Code and any applicable regulations thereunder to the extent applicable to the Bonds. In the event that at any time the Authority is of the opinion that for purposes of this section it is necessary to restrict or to limit the yield on the investment of any money held by the Trustee under the Indenture, the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

The Authority will comply with the provisions and procedures of the Tax Certificate, and the Trustee shall only be obligated to follow the directions of the Authority agreed to be followed by it under the Indenture.

The Authority will not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code and any applicable regulations thereunder or which would affect the exemption of interest on the Bonds from State personal income taxes.

Notwithstanding any provisions of this section, if the Authority provides the Trustee with an Opinion of Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest with respect to the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of this section, and, notwithstanding the provisions of the

Indenture regarding Application of Proceeds, the tax covenants under the Indenture shall be deemed to be modified to that extent.

#### **Amendments to 2005 Contract**

The Authority will not supplement, amend, modify or terminate any of the terms of the 2005 Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee, which consent shall be given only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the Owners or providers of other Obligations or result in any material impairment of the security given for the payment of the Bonds or the other Obligations, or (b) the Trustee first obtains the written consent of: (i) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such supplement, amendment, modification or termination, and (ii) if such supplement, amendment or modification or termination materially adversely affects any provisions of the Qualified Swap Agreements, such Providers; provided, that no such supplement, amendment, modification or termination shall reduce the amount of 2005 Installment Payments to be made to the Authority by the City pursuant to the 2005 Contract, or extend the time for making such 2005 Installment Payments, or permit the creation of any lien prior to the lien created by the 2005 Contract on the Revenues of the Water System without the written consent of the Owners of all the Bonds then Outstanding and the Providers of all Qualified Swap Agreements. Notwithstanding any contrary provision of the 2005 Indenture, so long as the Insurer is not in default under the Bond Insurance Policy, the Authority shall not supplement, amend, modify or terminate any of the terms of the 2005 Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Insurer; and such written consent of the Insurer and such providers shall be full authority to the City and the Authority to supplement, amend, modify or terminate the 2005 Contract to the extent of such written consent, with or without the consent of the Trustee or any Owner of Bonds. The Authority shall provide each rating agency then rating the Bonds notice of any amendment to the 2005 Contract, together with a copy of the proposed amendment, at least fifteen (10) days in advance of the effective date thereof.

#### **Continuing Disclosure**

The Authority will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed by it and dated the date of the original execution and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof; provided, that notwithstanding any other provisions of the Indenture, failure of the Authority to comply with such Continuing Disclosure Certificate shall not be considered an Event of Default under the Indenture; and provided further, that any Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this section.

#### **Further Assurances**

The Authority shall adopt, make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds and providers or Owners of other Obligations of the rights and benefits provided in the Indenture.

## **Amendments Permitted**

(a) Subject to the provisions of subsection (c) of this section, the provisions of the Indenture or of any Supplemental Indenture and the rights and obligations of the Authority and of the Owners of the Outstanding Bonds and of the Fiduciaries may be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, with the written consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, when the written consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; or if less than all of the Outstanding Bonds are affected, the written consent of the Owners of at least a majority in aggregate principal amount of all affected Outstanding Bonds; provided that if such modification, amendment or supplement shall, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, and, with respect to Bonds which are Tender Indebtedness if the conditions of subsection (c) of this section are satisfied, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any the calculation of Outstanding Bonds for purposes of this section. No such modification, amendment or supplement shall (1) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification, amendment or supplement without the consent of the Owners of all of the Bonds then Outstanding; or (2) modify the rights or obligations of the Trustee without the consent of such Trustee.

It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Prior to the entry into any Supplemental Indenture by the Authority and the Trustee for any of the purposes of this section, the Authority shall cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to the Owners of all Outstanding Bonds (or the affected Outstanding Bonds) at their addresses appearing on the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the office of the Trustee for inspection by each Owner of an Outstanding Bond.

Whenever, at any time after the date of the mailing of notice of the proposed entry into a Supplemental Indenture pursuant to this subsection, the Authority shall have received an instrument or instruments in writing executed in accordance with the provisions of the Indenture regarding the Execution of Documents and Proof of Ownership by or on behalf of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, or if less than all of the Outstanding Bonds are affected, by the Owners of not less than a majority in aggregate principal amount of the affected Outstanding Bonds, which instrument or instruments shall refer to the proposed Supplemental Indenture described in the notice of the proposed Supplemental Indenture and shall consent to such Supplemental Indenture in substantially the form referred to in such notice, thereupon, but not otherwise, the Authority and the Trustee may enter into such Supplemental Indenture in substantially such form, without liability or responsibility to any Owner of any Bond, whether or not such Owner shall have consented thereto.

(b) The Indenture and any Supplemental Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the Outstanding Bonds may also be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or



Supplemental Indentures, which the Authority and the Trustee may enter into with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement but without the consent of any Owners of Bonds (but with the consent of any affected Trustee), so long as such modification, amendment or supplement shall not materially, adversely affect the interests of the Owners of the Outstanding Bonds, including without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority contained in the Indenture or a Supplemental Indenture other covenants and agreements thereafter to be observed, to pledge, provide or assign any security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture or a Supplemental Indenture, or in regard to matters or questions arising under the Indenture or a Supplemental Indenture, as the Authority may deem necessary or desirable; or

(iii) to modify, amend or supplement the Indenture or a Supplemental Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute.

(c) Notwithstanding anything to the contrary in this section, the provisions of the Indenture or any Supplemental Indenture may also be modified, amended or supplemented by a Supplemental Indenture or Supplemental Indentures, including amendments which would otherwise be described in subsection (a) of this section, without the consent of the Owners of Bonds constituting Tender Indebtedness if either (i) the effective date of such Supplemental Indenture is a date on which such Bonds are subject to mandatory tender for purchase pursuant to the Indenture or (ii) the notice described in the third paragraph of subsection (a) of this section is given to Owners of such Bonds at least thirty (30) days before the effective date of such Supplemental Indenture, and on or before such effective date, the Owners of such Bonds have the right to demand purchase of such Bonds pursuant to the Indenture.

(d) For purposes of this section, it shall not be necessary that consents of the Owners of any particular percentage of Outstanding Bonds be obtained but it shall be sufficient for purposes of this section if the consent of the Owners of a majority in aggregate principal amount of the combination of affected Outstanding Bonds shall be obtained.

(e) Notwithstanding anything to the contrary contained in this section, if authorized by the Supplemental Indenture authorizing the issuance of a Bond constituting Tender Indebtedness, any premium due on the redemption of such Bond and the date or dates when such Bond is subject to redemption may be modified or amended as provided in such Supplemental Indenture if either: (i) the effective date of such modification or amendment is a date on which such Bond is subject to mandatory tender for purchase pursuant to such Supplemental Indenture; or (ii) notice of such modification or amendment has been mailed to the Owner of such Bond at the address set forth in the Bond Register at least thirty (30) days before the effective date of such modification or amendment and on or before such effective date, the Owner of such Bond has the right to demand purchase of such Bond pursuant to such Supplemental Indenture.

#### **Effect of Supplemental Indenture**

Upon the Authority and the Trustee entering into any Supplemental Indenture pursuant to the provisions of the Indenture regarding Amendments to Indenture, the Indenture shall be deemed to be modified, amended or supplemented in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Fiduciaries and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced subject in all respects to such modification, amendment and supplement, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes. Upon the Authority and the Trustee entering into any Supplemental Indenture pursuant to the provisions of the Indenture regarding Amendments to Indenture, no Owner of any Bond shall have any right to object to the entry into such Supplemental Indenture by the Authority and the Trustee, or to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the entry into such Supplemental Indenture, or to enjoin or restrain the Authority or the Trustee from entering into the same or to enjoin or restrain the Authority or the Trustee from taking any action pursuant to the provisions thereof whether or not such Owner gave his consent to such Supplemental Indenture.

### **Bonds Owned by Authority**

For purposes of the provisions of the Indenture regarding Amendments to Indenture, Bonds owned or held by or for the account of the Authority, or any funds of the Authority, shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the provisions of the Indenture regarding Amendments to Indenture, and the Authority shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the provisions of the Indenture regarding Amendments to Indenture as an Owner of Bonds. At the time of any consent or other action taken under the provisions of the Indenture regarding Amendments to Indenture, the Authority shall furnish the Trustee a certificate of an Authorized Authority Representative upon which the Trustee may rely, describing all Bonds so to be excluded.

### **Notation on Bonds**

Bonds authenticated and delivered after the effective date of any Supplemental Indenture entered into by the Authority and the Trustee as in the provisions of the Indenture regarding Amendments to Indenture provided may bear a notation by endorsement or otherwise in a form approved by the Authority as to such action, and in that case upon demand of the Owner of any Bond Outstanding on such effective date and presentation of the Bond for the purpose at the Principal Office of the Trustee or upon any transfer or exchange of any Bond Outstanding on such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action.

### **Consent of Providers or Owners of Obligations**

The Indenture may not be amended in a manner which materially affects the rights of a provider or owner of any Obligations (excluding the Owners of Bonds) under the Indenture without the prior written consent of such provider or owner of such Obligations.

### **Trustee and Paying Agent**

*Resignation of Trustee.* The Trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than 60 days written notice to

the Authority, each Credit Provider and each Reserve Financial Guaranty Provider, specifying the date when such resignation shall take effect; provided that no such resignation shall take effect until a successor shall have been appointed in accordance with the provisions of the Indenture regarding the Appointment of Successor Trustee and the Financial Qualifications of Successor Trustee.

***Removal of Trustee.*** The Trustee may be removed (i) with the consent (to the extent required by a Supplemental Indenture) of each Credit Provider and each Reserve Financial Guaranty Provider, at any time when no Event of Default has occurred and is continuing and when no event has occurred which, with notice or the passage of time, would become an Event of Default which has not been cured, by an instrument in writing signed by an Authorized Authority Representative and filed with the Trustee or (ii) with the consent (to the extent required by a Supplemental Indenture) of each Credit Provider and each Reserve Financial Guaranty Provider, at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority or (iii) with the consent (to the extent required by a Supplemental Indenture,) of each Credit Provider and each Reserve Financial Guaranty Provider, at any time by an instrument in writing signed by an Authorized Authority Representative and filed with the Trustee, for any breach of its fiduciary duties under the Indenture; provided that no such removal shall be effective until 30 days have lapsed from the filing of such instrument with the Trustee and until a successor shall have been appointed in accordance with the provisions of the Indenture regarding the Appointment of Successor Trustee and the Financial Qualifications of Successor Trustee.

***Appointment of Successor Trustee and Financial Qualifications of Successor Trustee.*** In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, a successor may be appointed by the Owners of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Authority, with (to the extent required by a Supplemental Indenture) the consent of each Credit Provider and each Reserve Financial Guaranty Provider, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners of the Bonds or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Authority and the predecessor Trustee; provided, nevertheless, that unless a successor Trustee shall have been appointed by the Owners of the Bonds as aforesaid, the Authority, by a duly executed written instrument signed by an Authorized Authority Representative shall forthwith appoint a Trustee to replace such resigning Trustee or to fill such vacancy until a successor Trustee shall be appointed by the Owners of the Bonds as authorized in this section. Any successor Trustee appointed by the Authority shall, immediately and without further act, be superseded by the Trustee appointed by the Owners of the Bonds. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this section within 45 days after the Trustee shall have given to the Authority written notice as provided in the provisions of the Indenture regarding the Resignation of Trustee or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, removal, or for any other reason whatsoever, the Trustee (in the case of its resignation under the provisions of the Indenture regarding Resignation of Trustee) or the Owner of any Bond (in any case) may apply to any court of competent jurisdiction to appoint a successor

Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

The Trustee appointed under the provisions of the Indenture regarding the Trustee or any successor to the Trustee shall be a bank or trust company organized under the laws of any state of the United States or national banking association, doing business and having its principal corporate trust office in New York, New York, or Chicago, Illinois, or Los Angeles, California, or San Francisco, California, duly authorized to exercise trust powers and subject to examination by federal or state authority. Each successor Trustee shall have capital stock and surplus aggregating at least \$75,000,000, or have all of its obligations under the Indenture guaranteed by a bank or trust company organized under the laws of the United States, or any state thereof, with a capital stock and surplus or net worth of \$75,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture. If such bank, national banking association, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this section the combined capital and surplus of such bank, trust company, or national banking association shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published.

***Resignation or Removal of Paying Agent and Appointment of Successor.*** Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 60 days written notice to the Authority, the Trustee, each Credit Provider, each Reserve Financial Guaranty Provider and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized Authority Representative. Any successor Paying Agent shall be appointed by the Authority with the approval of the Trustee (and each Credit Provider and each Reserve Financial Guaranty Provider required by a Supplemental Indenture) and shall be a commercial bank or trust company organized under the laws of any state of the United States or a national banking association, having capital stock and surplus aggregating at least \$25,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture. If such bank, national banking association, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this section the combined capital and surplus of such bank, trust company, or national banking association shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published.

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

### **Payment of Bonds**

(a) If the Authority shall pay, or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds the principal amount or Redemption Price, if applicable, of the Bonds, and interest due or to become due on the Bonds, at the times and in the manner stipulated therein and in the Indenture, together with all other sums payable by the Authority under the Indenture, including all fees and expenses of the Trustee, then and in that case, subject to the provisions of subsection (b) of this section, the Indenture, and the pledge of and lien on the Revenues and all

money in the Revenue Fund and in the funds or accounts so specified and provided for in the Indenture and all covenants, agreements and obligations of the Authority contained therein, shall cease and terminate and shall be completely discharged and satisfied and the Authority shall be released therefrom and the Trustee shall assign and transfer to or upon the order of the Authority all property (in excess of the amounts required for the foregoing) then held by the Trustee under the Indenture free and clear of any liens or encumbrances hereon pursuant to the Indenture and shall execute such documents as may be reasonably required by the Authority in this regard.

(b) Notwithstanding the termination, satisfaction and discharge of the Indenture or the satisfaction discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, compliance by the Authority of the covenants contained in the provisions of the Indenture regarding Tax Covenants and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Authority, the Trustee and the Owners and the Trustee shall continue to be obligated to hold in trust any monies and investments then held by the Trustee for the payment of the principal or Redemption Price of, and interest on, the Bonds, to pay to the Owners, but only from the monies and investments so held by the Trustee, the principal or Redemption Price of, and interest on, the Bonds as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the satisfaction discharge of the Indenture in respect of any Bonds, those provisions of the Indenture regarding compensation relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the Authority.

Prior to the defeasance of any Bonds bearing interest at a variable rate becoming effective under the provisions of the Indenture regarding Defeasance, the Trustee shall have received a Rating Confirmation from each Rating Agency.

(c) Notwithstanding the termination, satisfaction and discharge of the Indenture with respect to any Bonds, so long as any other Obligations remain Outstanding the Indenture shall remain in effect and shall be binding upon the Authority, the Trustee and the providers and Owners of such Obligations.

#### **Bonds Deemed Paid**

Bonds (or portions of Bonds) for the payment or redemption of which moneys shall have been set aside and shall be held in trust by an Escrow Agent (through deposit pursuant to a deposit of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof, as applicable, shall be deemed to have been paid within the meaning and with the effect expressed in the provisions of the Indenture regarding Payment of Bonds. Any Outstanding Bond (or any portion thereof such that both the portion thereof which is deemed paid and the portion which is not deemed paid pursuant to this section shall be in an Authorized Denomination) shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the provisions of the Indenture regarding Payment of Bonds (except that the obligations under the Indenture set forth in the above section and the giving of the notices of the redemption of Bonds to be redeemed as provided in the provisions of the Indenture regarding Redemption of Bonds shall continue) if (1) in case said Bond (or portion thereof) is to be redeemed on any date prior to maturity, the Authority shall have given the Trustee irrevocable instructions to give notice of redemption of such Bond (or portion thereof) on said date as provided in the provisions of the Indenture regarding Redemption of Bonds, (2) there shall have

been deposited with an Escrow Agent either moneys in an amount which shall be sufficient, or Federal Securities, the principal of and the interest on which when due shall provide moneys which, together with the moneys, if any, held by such Escrow Agent for such purpose, shall be sufficient, in each case as evidenced by an Accountant's Certificate, to pay when due the principal amount of, and any redemption premiums on, said Bond (or portion thereof) and interest due and to become due on said Bond (or portion thereof) on and prior to the redemption date or maturity date thereof, as the case may be, and (3) if such Bond (or portion thereof) is not to be paid or redeemed within 60 days of the date of the deposit required by (2) above, the Authority shall have given the Trustee, in form satisfactory to it, instructions to mail, as soon as practicable, by first class mail, postage prepaid, to the Owner of such Bond, at the last address, if any, appearing upon the Bond Register, a notice that the deposit required by (2) above has been made with an Escrow Agent and that said Bond (or the applicable portion thereof) is deemed to have been paid in accordance with this section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount of, and any redemption premiums on, said Bond. Any notice given pursuant to clause (3) of this section with respect to Bonds which constitute less than all of the Outstanding Bonds and maturity shall specify the letter and number or other distinguishing mark of each such Bond. Any notice given pursuant to clause (3) of this section with respect to less than the full principal amount of a Bond shall specify the principal amount of such Bond which shall be deemed paid pursuant to this section and notify the Owner of such Bond that such Bond must be surrendered as provided in the provisions of the Indenture regarding the Defeasance of Portion of Bond. The receipt of any notice required by this section shall not be a condition precedent to any Bond being deemed paid in accordance with this section and the failure of any Owner to receive any such notice shall not affect the validity of the proceedings for the payment of Bonds in accordance with this section. Neither Federal Securities nor moneys deposited with an Escrow Agent pursuant to this section, nor principal or interest payments on any such Federal Securities, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal amount of, and any redemption premiums on, said Bonds and the interest thereon; provided that any cash received from principal or interest payments on such Federal Securities deposited with an Escrow Agent, (A) to the extent such cash shall not be required at any time for such payment, as evidenced by an Accountant's Certificate, shall be paid over upon the written direction of an Authorized Authority Representative, including a transfer to the Authority free and clear of any trust, lien, pledge or assignment securing said Bonds, and (B) to the extent such cash shall be required for such payment at a later date, shall, to the extent practicable, at the written direction of an Authorized Authority Representative, be reinvested in Federal Securities maturing at times and in amounts, which together with the other funds to be available to the Escrow Agent for such purpose, shall be sufficient to pay when due the principal amount of, and any redemption premiums on, said Bonds and the interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, as evidenced by an Accountant's Certificate.

Nothing in the Indenture shall prevent the Authority from substituting for the Federal Securities held for the payment or redemption of Bonds (or portions thereof) other Federal Securities which, together with the moneys held by the Escrow Agent for such purpose, as evidenced by an Accountant's Certificate, shall be sufficient to pay when due the principal amount of, and any redemption premiums on, the Bonds (or portions thereof) to be paid or redeemed, and the interest due on the Bonds (or portions thereof) to be paid or redeemed at the times established with the initial deposit of Federal Securities for such purpose provided that the Authority shall deliver to the Escrow Agent a Favorable Opinion of Bond Counsel with respect to such substitution.

### **Defeasance of Portion of Bond**

If there shall be deemed paid pursuant to the provisions of the Indenture regarding the Bonds Deemed Paid less than all of the full principal amount of a Bond, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner of such Bond, a new Bond or Bonds for the principal amount of the Bond so surrendered which is deemed paid pursuant to the provisions of the Indenture regarding Bonds Deemed Paid and another new Bond or Bonds for the balance of the principal amount of the Bond so surrendered, in each case of like maturity and other terms, and in any of the Authorized Denominations.

### **Discharge of Liability on Bonds**

Upon the deposit with an Escrow Agent, in trust, at or before maturity or the applicable redemption date, of money or Federal Securities in the necessary amount (as provided in the provisions of the Indenture regarding Payment of Bonds and Bonds Deemed Paid, as applicable) to pay or redeem Outstanding Bonds (or portions thereof), and to pay the interest thereto to such maturity or redemption date, as applicable, (provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in provisions of the Indenture regarding Redemption of Bonds or provision satisfactory to the Trustee shall have been made for giving such notice), all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, except that the Authority shall remain liable for such payment but only from, and the Bondowners shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date, as applicable) out of, the money and Federal Securities deposited with the Escrow Agent as aforesaid for their payment, subject, however, to the provisions of Sections 8.08 and 11.02; provided that no Bond which constitutes Tender Indebtedness shall be deemed to be paid within the meaning of the Indenture unless the Purchase Price of such Bond, if tendered for purchase in accordance with the Indenture, could be paid when due from such moneys or Federal Securities (as evidenced by an Accountant's Certificate) or a Credit Support Instrument is provided in connection with such Purchase Price.

### **Bonds Paid by the Bond Insurer**

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Revenues and all covenants, agreements and other obligations of the Authority to the registered Owners shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such registered Owners.

### **Events of Default**

Each of the following shall constitute an Event of Default under the Indenture:

(i) if default shall be made in the payment of the principal or Redemption Price of or Sinking Fund Installment for, or interest on, any Outstanding Bond or Obligation, when and as the same shall become due and payable, whether on an Interest Payment Date, at maturity, by call for redemption, or otherwise;

(ii) if default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Outstanding Bonds, and such default shall continue for a period of 120 days after written notice thereof to the Authority by the Trustee or to the Authority and to the Trustee by the Owners of not less than 10% in principal amount of the Bonds Outstanding; provided, however, if such default is such that it can be corrected by the Authority but not within the applicable period specified above, it shall not constitute an Event of Default if corrective action is instituted by the Authority within thirty (30) days of the Authority's receipt of the notice of the default required by this paragraph and diligently pursued until the default is corrected; or

(iii) if an Event of Default (as that term is defined in the 2005 Contract) has occurred under the 2005 Contract;

(iv) if an event of default shall have occurred under any Obligation; or

(v) an Event of Bankruptcy shall have occurred and be continuing with respect to the Authority.

#### **Accounting and Examination of Records After Default**

The Authority covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and accounts of the Authority shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys.

The Authority covenants that if an Event of Default shall have happened and shall not have been remedied, the Authority, upon demand of the Trustee, shall account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Indenture for such period as shall be stated in such demand.

#### **Application of Revenues and Other Moneys After Default**

Notwithstanding anything to the contrary contained in the Indenture, including the provisions of the Indenture regarding tender of bonds, the Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon the demand of the Trustee, shall cause to be paid over to the Trustee by the first Business Day of each month, all Revenues with respect to the preceding month.

During the continuance of an Event of Default, the Trustee shall apply all Revenues received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture regarding Events of Default and Remedies which are held by the Trustee pursuant and subject to the terms and conditions of the Indenture, as follows and in the following order of priority:

First: To the payment of the reasonable and proper fees, charges, expenses and liabilities of the Trustee.

Second: To the payment of the principal and Redemption Price of and interest on the Outstanding Bonds and any other Obligations; provided however, that in the event the amount of Revenues available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available Revenues to the payment of the principal and redemption price of and interest on all Outstanding Obligations then due



and payable ratably (based on the respective amounts to be paid), without any discrimination or preferences.

Third: To the transfer to the Debt Service Reserve Account for the Bonds and to each debt service reserve fund for other Outstanding Obligations, the amount, if any, necessary so that the amount on deposit in the Debt Service Reserve Account shall equal the Debt Service Reserve Requirement and the amount in each debt service reserve fund for other Outstanding Obligations shall equal the amount required to be on deposit in such debt service reserve fund under the applicable Issuing Instrument; provided that that in the event the amount of Revenues available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available Revenues to the transfer to the Debt Service Reserve Account and each debt service reserve fund for other Outstanding Obligations ratably (based on the respective amounts to be paid), without any discrimination or preferences.

If and whenever all overdue installments of interest on all Outstanding Bonds and Outstanding Obligations, together with the reasonable and proper charges, expenses and liabilities of the Trustee and any other fiduciary for Obligations, and all other sums payable for the account of the Authority under the Indenture, including the principal and Redemption Price of all Outstanding Bonds and Outstanding Obligations and unpaid interest on all Outstanding Bonds and Outstanding Obligations which shall then be payable, shall be paid for by the account of the Authority, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture, the Outstanding Bonds and the Outstanding Obligations shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over all unexpended Revenues in the hands of the Trustee (except Revenues deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Authority and the Trustee shall be restored, respectively, to their former positions and rights under the Indenture. No such payment by the Trustee nor such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

The Trustee may in its discretion establish special record dates for the determination of the Owners of Bonds for various purposes of the Indenture, including without limitation, payment of defaulted interest and giving direction to the Trustee.

#### **Right to Accelerate Upon Default**

Notwithstanding anything contrary in the Indenture or in the Bonds, upon the occurrence of an Event of Default, the Trustee may, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, and shall, at the direction of each Credit Provider whose is permitted to so direct the Trustee under a Supplemental Indenture or a Credit Support Agreement or the Owners of a majority in principal amount of Outstanding Bonds (other than Bonds owned by or on behalf of the Authority), with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, by written notice to the Authority, declare the principal of the Outstanding Bonds to be immediately due and payable, whereupon the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable.

### **Appointment of Receiver**

If an Event of Default shall happen and shall not have been remedied, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds under the Indenture, the Trustee shall be entitled to make application for the appointment of a receiver or custodian of the Revenues, pending such proceedings, with such power as the court making such appointment shall confer.

### **Enforcement Proceedings**

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, proceed, and upon the written request of the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, shall proceed, to protect and enforce its rights and the rights of the Owners of the Outstanding Bonds by a suit or suits in equity or at law, whether for damages or the specific performance of any covenant contained in the Indenture, to enforce the security interest in, pledge of and lien on the Revenues granted pursuant to the Indenture, or in aid of the execution of any power granted in the Indenture or any remedy granted under applicable provisions of the laws of the State of California, or for an accounting by the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its own name as trustee of an express trust.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners of the Bonds.

If the Trustee or any Owner or Owners of Outstanding Bonds have instituted any proceeding to enforce any right or remedy under the Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Owner or Owners, then and in every such case the Authority, the Trustee and the Owners shall, subject to any determination in such proceeding, be restored severally and respectively to

their former positions under the Indenture, and thereafter all rights and remedies of the Trustee and the Owners shall continue as though no such proceeding had been instituted.

### **Restriction on Owner's Action**

(a) Except as otherwise provided in paragraph (b) of this section, no Owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the provisions of the Indenture regarding Events of Default and Remedies, and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the applicable laws of the State of California or to institute such action, suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the ratable benefit of all Owners of the Outstanding Bonds, subject only to the provisions of the Indenture regarding Credit Providers.

(b) Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay on the respective due dates thereof and at the places therein expressed, but solely from the Revenues and the other moneys pledged under the Indenture, the principal amount, or Redemption Price if applicable, of the Bonds, and the interest thereon, to the respective Owners thereof, or affect or impair the right, which is also absolute and unconditional, of any Owner to institute suit for the enforcement of any such payment.

### **Remedies Not Exclusive**

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute whether effective on or after the effective date of the Indenture. The assertion or employment of any right or remedy, under the Indenture or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

### **Effect of Waiver and Other Circumstances**

No delay or omission of the Trustee or any Owner of a Bond to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by the provisions of the Indenture regarding Events of Default and Remedies to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Owners of the Bonds.

The Owners of not less than sixty percent in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds, waive any Event of Default and its consequences. No such waiver shall extend to any subsequent or Event of Default or impair any right consequent thereon unless the provisions of this subsection (b) have been satisfied with respect to such subsequent Event of Default.

#### **Notice of Default**

The Trustee shall, within thirty (30) days after obtaining knowledge thereof, mail written notice of the occurrence of any Event of Default of which the Trustee has knowledge to each Credit Provider, each Reserve Financial Guaranty Provider and each Owner of Bonds then Outstanding at such Owner's address, if any, appearing in the Bond Register.

#### **Assurance Upon Default**

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined therein, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in the Indenture, and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

#### **Acceleration Rights**

Upon the occurrence of an Event of Default, the Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer or a majority of the Owners with the consent of the Bond Insurer, by written notice to the Authority and the Bond Insurer, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Obligations thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding.

#### **Consent of Bond Insurer**

Any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer. The Bond Insurer reserves the right to charge the Authority a fee for any consent or amendment to the Indenture while the Bond Insurance Policy is outstanding.

#### **Consent of Bond Insurer in lieu of Holder Consent**

Unless otherwise provided in the Indenture, the Bond Insurer's consent shall be required in lieu of Owner consent, when required, for the following purposes: (i) execution and delivery of any supplemental Indenture or any amendment, supplement or change to or modification of the 2005 Contract (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Owner consent.

### **Consent of Bond Insurer in the Event of Insolvency**

Any reorganization or liquidation plan with respect to the Authority must be acceptable to the Bond Insurer. In the event of any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Owners who hold the Bond Insurer-insured Bonds absent a default by the Bond Insurer under the applicable Bond Insurance Policy insuring such Bonds.

### **Bond Insurer As Third Party Beneficiary**

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

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## APPENDIX B

### AUCTION PROCEDURES

#### **Section 1.01 Orders by Existing Owners and Potential Owners.**

- (a) Prior to the Submission Deadline on each Auction Date:
- (i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:
- (A) the principal amount of Outstanding Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period, and/or
- (B) the principal amount of Outstanding Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or
- (C) the principal amount of Outstanding Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period;
- (ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) of this subsection (a) is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) of this subsection (a) is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) of this subsection (a) is herein referred to as a "Sell Order."

- (b)(i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:
- (A) the principal amount of Outstanding Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Outstanding Bonds to be determined as set forth in subsection (a)(v) of Section 1.04 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Outstanding Bonds to be determined as set forth in subsection (b)(iv) of Section 1.04 hereof if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Outstanding Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Outstanding Bonds as set forth in subsection (b)(iv) of Section 1.04 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Outstanding Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Outstanding Bonds as set forth in subsection (a)(vi) of Section 1.04 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple thereof shall be rounded down to the nearest \$25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and



(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the City of the occurrence of an Event of Default resulting from a failure by the Corporation to pay principal, premium or interest on any Bond when due and a failure of the Bond Insurer to pay when due a claim properly made under the Bond Insurance Policy in respect thereof, but shall resume two Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default and failure has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

**Section 1.02 Submission of Orders by Broker-Dealers to Auction Agent.**

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including electronic communication acceptable to both parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying (in writing, if requested) with respect to each Order:

- (i) the name of the Bidder placing such Order;
- (ii) the aggregate principal amount of Bonds that are the subject of such Order;
- (iii) to the extent that such Bidder is an Existing Owner:
  - (A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;
  - (B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and
  - (C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and
- (iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) 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 of one percent (0.001 %).

(c) If an Order or Orders covering all of the Outstanding Bonds held by an 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 Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Outstanding Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of

Outstanding Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of Outstanding Bonds held by such Existing Owner;

(ii)(A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Outstanding Bonds held by such Existing Owner over the principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A), if more than one Bid for Bonds of the Existing Owner with the same rate is submitted on behalf of an Existing Owner, such Bids shall be considered valid Bids of an Existing Owner up to the excess of the principal amount of Outstanding Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Outstanding Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner; and

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Outstanding Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a separate Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(f) 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.

(g) Neither the Corporation, the Authority, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

**Section 1.03 Determination of Auction Rate.**

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for the Bonds (whether or not an Auction is actually held on such Auction Date), the Auction Agent shall advise the Broker-Dealer and the Trustee by telephone or other electronic communication acceptable to the parties, promptly confirmed in writing if requested, of the Minimum Auction Rate, the Maximum Auction Rate, the No Auction Rate, and the Auction Index.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealer (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above the Auction Agent shall advise the Trustee by telephone (promptly confirmed in writing), telex, facsimile transmission of or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period.

(d) In the event the Auction Agent shall fail to calculate the Auction Rate for any Auction Period, the Auction Rate for such Auction Period shall be the No Auction Rate (which No Auction Rate shall be determined by the Trustee if the Auction Agent fails to determine such rates); provided, however, that if the Auction Procedures are suspended pursuant to Section 1.01 (c)(iv), the Auction Rate for the next succeeding Auction Period shall be the Default Rate.

(e) In the event of a failed conversion of Auction Bonds to an Interest Mode that is not the Auction Mode, or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven day Auction Period.

(f) In the event that the Bonds are not rated or if the Bonds are no longer maintained in book entry form by the Securities Depository, then the Auction Rate for the Bonds will be the Maximum Auction Rate.

**Section 1.04 Allocation of Bonds.**

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(vi) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Bonds for purchase among Potential Owners so that the principal amount of Auction purchased on such Auction Date by any Potential Owner shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing Bonds on such Auction Date.

#### **Section 1.05 Notice of Auction Rate.**

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to Bonds for which an Auction was held on such Auction Date:

(i) the Auction Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of Outstanding Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

#### **Section 1.06 Auction Index.**

(a) The Auction Index on any Auction Date means the "AA" Financial Commercial Paper Rate. "AA" Financial Commercial Paper Rate" means, on any date of determination, (i) for Auction Periods of 35 days or less, the interest equivalent of commercial paper having a maturity of 30 days, (ii) for Auction Periods greater than 35 days and up to 75 days, the interest equivalent of commercial paper having a maturity of 60 days, (iii) for Auction Periods greater than 75 days and up to 105 days, the interest equivalent of commercial paper having a maturity of 90 days, and (iv) for Auction Periods greater than 105 days, the interest equivalent of commercial paper having a maturity of 270 days, as each such rate is published on the Business Day prior to

such date by the Board of Governors of the Federal Reserve System on its World Wide Web site <http://www.federalreserve.gov/releases/cp/histrates.txt>, or any successor publication (“H.15(519)”) under the caption “AA financial.” In the event that such publication has not been published in a timely manner, the “AA” Financial Commercial Paper Rate shall be calculated by the Broker-Dealer, and shall be the Bond equivalent yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on the determination date of three leading dealers of U.S. dollar commercial paper in The City of New York (which may include the Broker-Dealers) selected by the Corporation, for U.S. dollar commercial paper having a maturity of 30, 60 or 90 days, as applicable, placed for financial City’s whose Bond rating is “AA” or the equivalent, from a nationally recognized securities rating agency; provided, however, that if the dealers selected as aforesaid by the Auction Agent are not quoting as mentioned in this sentence (and if the Auction Agent, in its discretion, determines that such quotations cannot be obtained from any three leading dealers of U.S. dollar commercial paper in the City of New York) such rate shall be the same rate as in effect for the immediately preceding Interest Period. For purposes of this definition, the “interest equivalent” of a rate stated on a discount basis (a “discount rate”) for commercial paper of a given day’s maturity shall be equal to the product of (A) 100 times (B) the discount rate times (C) the quotient (rounded upwards to the next higher one-thousandth (.001) or 1%) of (x) the applicable number of days in a year (365 or 366) divided by (y) the difference between (1) 360 and (2) the product of the discount rate (expressed in decimals) times the applicable number of days in which such commercial paper matures.

(b) If for any reason on any Auction Date the Auction Index shall not be determined as hereinabove provided in this Section, the Auction Index shall be the Auction Index for the Auction Period ending on such Auction Date.

(c) The determination of the Auction Index as provided herein shall be conclusive and binding upon the Authority, the Corporation, the Trustee, the Bond Insurer, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

#### **Section 1.07 Miscellaneous Provisions Rewarding Auctions.**

(a) In this Exhibit B, each reference to the purchase, sale or holding of “Bonds” shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Trust Agreement and the definitions contained therein and the definitions contained herein, including without limitation the definitions of Default Rate, Maximum Auction Rate, Minimum Auction Rate, No Auction Rate, Auction Index, Auction Multiple and Auction Rate, may be amended pursuant to the Trust Agreement by obtaining the consent of the Owners of all Outstanding Bonds bearing interest at an Auction Rate and the Bond Insurer as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered Owners of the Outstanding Bonds as required by the Trust Agreement, (i) the Auction Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Authority, the Bond Insurer and the Trustee an Opinion of Special Counsel to the effect that such amendment will not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the Owners of all affected Outstanding Bonds bearing interest at an Auction Rate.

(c) During an Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial

owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this Section 1.07 if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

**Section 1.08 Changes in Auction Period or Auction Date.**

(a) Changes in Auction Period.

(i) During any Auction Rate Period, the Corporation, with the consent of the Bond Insurer may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to Bonds among daily, seven days, 28 days, 35 days, three months, six months and Flexible Auction Periods in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds; provided, however, that in the case of a change from a Flexible Auction Period, the date of such change shall be the Interest Payment Date immediately following the last day of such Flexible Auction Period. The Corporation shall initiate the change in the length of the Auction Period by giving written notice to the Bond Insurer, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period will change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven days, 28 days, 35 days, three months or six months or a Flexible Auction Period and shall be for all of the Bonds in an Auction Rate Period.

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

(iv) The change in length of the Auction Period shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Bond Insurer consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds except to the extent such Existing Owner submits an Order with respect to such Bonds. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) above is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.



(v) On the conversion date selected for conversion from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order.

(b) **Changes in Auction Date.** During any Auction Rate Period, the Auction Agent, with the written consent of the Bond Insurer, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Bonds. The Bond Insurer shall not consent to such change in the Auction Date unless it shall have received from the Auction Agent not less than three nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Bond Insurer, the Corporation, the Authority, the Broker-Dealers and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends and the day on which a Flexible Auction Period ends and the Interest Payment Date relating to a Flexible Auction Period will be adjusted accordingly.

(c) In connection with any change described in this Section 1.08, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agreement.

**Section 1.09 Adjustment in Applicable Percentages During the Auction Rate Periods.**  
While the Bonds are in an Auction Rate Period:

(a) The Broker-Dealer (or if there is more than one Broker-Dealer, all Brokers-Dealers acting together) shall adjust the Auction Multiple used in determining the Maximum Auction Rate and the percentage of the Auction Index used in determining the Default Rate, the Minimum Auction Rate or the No Auction Rate, if any such adjustment is necessary, in the judgment of the Broker-Dealer, to reflect any Change of Tax Preference Law such that Bonds paying the Maximum Rate, the Minimum Rate, the No Auction Rate or the Default Rate shall have market values as such Bonds did before such Change of Tax Preference Law. In making any such adjustment, the Broker-Dealer shall take the following factors, as in existence both before and after such Change of Tax Preference Law, into account:

- (1) short-term taxable and tax-exempt market rates and indices of such short-term rates;
- (2) the market supply and demand for short-term tax-exempt securities;
- (3) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the Bonds;
- (4) general economic conditions; and
- (5) economic and financial factors present in the securities industry that may affect or that may be relevant to the Bonds.

(b) The Broker-Dealer shall communicate its determination to adjust the Auction Multiple used in determining the Maximum Auction Rate and the percentage of the Auction Index used in determining the Default Rate, the Minimum Auction Rate or the No Auction Rate, pursuant to subsection (a) of this Section by means of a written notice delivered at least ten (10) days prior to the Auction Date on which the Broker-Dealer desires to effect the changes to the Corporation, the Trustee, the Bond Insurer and the Auction Agent. Such notice shall be effective only if it is accompanied by a form of Opinion of Bond Counsel to the effect that such adjustment is authorized by the Trust Agreement, is permitted under the Act and will not adversely affect the validity or enforceability in accordance with their terms of any Bonds or adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds, to the extent that such interest is then entitled to such exclusion.

(c) An adjustment in the respective percentages described in (a) and (b) above shall take effect on an Auction Date only if:

(1) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day immediately preceding such Auction Date, a certificate from the Broker-Dealer by telecopy or similar means, (A) authorizing the adjustment of the Auction Multiple used in determining the Maximum Auction Rate and the percentage of the Auction Index used in determining the Default Rate, the Minimum Auction Rate or the No Auction Rate, which percentages shall be specified in such authorization, and (B) confirming that Bond Counsel expects to be able to give an opinion on or prior to such Auction Date to the effect that the adjustment in the percentages is authorized by this Section, is permitted under the Act and will not have an adverse effect on the validity of the Bonds or adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds, to the extent that such interest is then entitled to such exclusion;

(2) the Trustee shall not have delivered to the Auction Agent by 12:15 p.m., New York City time, on such Auction Date, notice that an Event of Default consisting of a failure by the City to pay the principal of or any interest on the Bonds when due and a failure of the Bond Insurer to pay when due a claim properly made under the Bond Insurance Policy has occurred; and

(3) the Trustee, the Auction Agent and the Bond Insurer receive, by 9:30 a.m., New York City time, on such Auction Date, an Opinion of Bond Counsel to the effect that the adjustment in the percentages is authorized by the Trust Agreement, is permitted under the Act and will not have an adverse effect on the validity of the Bonds or adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds, to the extent that such interest is then entitled to such exclusion.

If any of the conditions referred to in (a), (b) or (c) above is not met, the existing Auction Multiple used in determining the Maximum Auction Rate and the percentage of the Auction Index used in determining the Default Rate, the Minimum Auction Rate or the No Auction Rate, shall remain in effect, and the rate of interest on Bonds for the next succeeding Auction Rate Period shall be determined in accordance with the Auction Procedures.

#### **Section 1.10 Auction Agent.**

(a) The Auction Agent shall be appointed by the Trustee, at the direction of the Corporation, with the consent of the Bond Insurer, to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument delivered to the City, the Trustee, the Authority, the Bond Insurer and each Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the City and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

**Section 1.11 Qualifications of Auction Agent; Resignation; Removal.**

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by this Trust Agreement and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Trust Agreement by giving at least ninety (90) days notice to the City, the Corporation, the Bond Insurer and the Trustee. The Auction Agent may be removed at any time by the Corporation by written notice, delivered to the Auction Agent, the Bond Insurer, the City and the Trustee. Upon any such resignation or removal, the Trustee, at the direction of the Corporation, shall appoint a successor Auction Agent acceptable to the Bond Insurer meeting the requirements of this Section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent (a) may resign by giving forty-five (45) days notice to the City, the Corporation, the Bond Insurer and the Trustee even if a successor Auction Agent has not been appointed and (b) shall give written notice of non-payment as soon as practicable to the Bond Insurer and shall not resign for at least forty-five (45) days to afford the Bond Insurer the opportunity to cure the non-payment.

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## APPENDIX C

### CITY OF PITTSBURG GENERAL INFORMATION

The District is located in the City of Pittsburg Contra Costa County. The financial and economic data for the City are presented for information purposes only. The Bonds are not a debt or obligation of the City or the County, but are a limited obligation of the City secured solely by the funds held pursuant to the Fiscal Agent Agreement.

#### General Description

The City of Pittsburg (the "City") is located in the eastern portion of Contra Costa County (the "County") at the confluence of the San Joaquin and Sacramento Rivers about 40 miles northeast of San Francisco. Originally a coal shipping port, the City was founded in 1849, and incorporated in 1903 as a general law city. In the 1940's and early 1950's, the City was a major commercial and industrial center for the County and the eastern ports of the greater San Francisco Bay Area. During World War II and the Korean War it was a major military embarkation point. Today, the City is part of the second largest industrial center in the County.

#### Population

The State Department of Finance estimates the 2005 population of the City to be 62,605. The City anticipates continued population increases as a result of planned residential development. The following table summarizes the City's population in 1990 and from 2001 through 2005.

#### CITY OF PITTSBURG POPULATION ESTIMATES

<u>Calendar Year</u>	<u>City of Pittsburg</u>	<u>County of Contra Costa</u>	<u>State of California</u>
1990	47,250	797,600	29,758,213
2001	58,000	975,100	34,385,000
2002	59,800	980,900	35,000,000
2003	61,100	994,900	35,591,000
2004	61,791	1,008,944	36,271,091
2005	62,605	1,020,898	36,810,358

Source: California Department of Finance for January 1.

## Employment

The County is included in the Oakland Metropolitan Statistical Area. The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2000 through 2004. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

**OAKLAND METROPOLITAN STATISTICAL AREA  
(Contra Costa County)  
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT, EMPLOYMENT  
BY INDUSTRY  
(ANNUAL AVERAGES)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Civilian Labor Force</u> <sup>(1)</sup>	501,000	508,000	512,300	511,600	507,700
Employment	483,200	487,500	483,100	480,500	480,100
Unemployment	17,800	20,500	29,200	31,100	27,600
Unemployment Rate	3.6%	4.0%	5.7%	6.1%	5.4%
<u>Wage and Salary Employment:</u> <sup>(2)</sup>					
Agriculture	2,200	2,100	2,100	2,000	900
Natural Resources, Mining & Construction	28,800	30,100	28,000	27,500	29,200
Manufacturing	23,400	22,800	21,900	20,600	21,000
Wholesale Trade	9,200	9,700	10,100	9,300	9,100
Retail Trade	42,700	43,200	43,400	42,200	43,200
Trans., Warehousing, & Utilities	8,900	8,900	9,300	7,900	7,200
Information	17,400	16,800	16,000	13,800	14,000
Finance and Insurance	26,300	28,600	30,800	32,400	32,300
Real Estate, Rental & Leasing	7,000	7,200	7,500	7,300	7,600
Professional and Business Services	54,100	48,800	48,000	45,100	45,900
Educational and Health Services	38,300	39,500	40,300	40,400	41,600
Leisure and Hospitality	25,900	26,600	29,100	29,800	30,200
Other Services	11,200	11,500	13,600	13,300	14,100
Federal Government	6,700	6,400	6,400	6,300	6,300
State Government	900	900	900	900	800
Local Government	40,600	42,300	43,200	43,000	42,100
Total All Industries	336,600	338,300	343,200	334,300	338,000

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: Labor Division of the California State Employment Development Department.

## Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2000 through 2004. Figures for not yet available for 2005:

### EFFECTIVE BUYING INCOME AS OF JANUARY 1, 2000 THROUGH 2004

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1999	City of Pittsburg	\$ 851,928	\$43,886
	Contra Costa County	21,772,470	53,234
	California	590,376,663	39,492
	United States	4,877,786,658	37,233
2000	City of Pittsburg	\$ 982,971	\$49,717
	Contra Costa County	24,823,698	60,189
	California	652,190,282	44,464
	United States	5,230,824,904	39,129
2001	City of Pittsburg	\$ 912,806	\$46,909
	Contra Costa County	23,902,953	56,507
	California	650,521,407	43,532
	United States	5,303,481,498	38,365
2002	City of Pittsburg	\$ 892,195	\$44,884
	Contra Costa County	24,571,388	54,448
	California	647,879,427	42,484
	United States	5,340,682,818	38,035
2003	City of Pittsburg	\$ 966,668	\$45,433
	Contra Costa County	25,962,828	54,862
	California	674,721,020	42,924
	United States	5,466,880,008	38,201
2004	City of Pittsburg	\$ 988,830	\$46,396
	Contra Costa County	27,273,658	56,165
	California	705,108,410	43,915
	United States	5,692,909,567	39,324

Source: Sales & Marketing Management Survey of Buying Power.

## Major Employers

The City is part of the second largest industrial center in the County. Most of the industrial plants are located outside the City limits on continuous parcels. The leading group classes of products are: steel, chemicals, and retail. The ten largest employers in the Pittsburg area are as follows.

**CITY OF PITTSBURG  
TEN LARGEST EMPLOYERS  
(NON-GOVERNMENT MANUFACTURING EMPLOYERS)  
FISCAL YEAR 2004-05**

<u>Employers</u>	<u>Type of Business</u>	<u>Number of Employees</u>
USS-POSCO Industries	Primary Metal Industry	1,000
DOW Chemical Company	Chemical Product/Production	380
WalMart	General Merchandise Retail	220
Home Depot	Retain Building Materials/Garden	180
Target	General Merchandise Retail	170
Safeway	Retail Food Store	150
American Color Graphics	Commercial Printing	140
Ramar International Corporation	Meat Packaging	120
Best Buy	Converted Paper and Paperboard Products	100
Redwood Painting	Painting and Paper Hanging	100

Source: Pittsburg Chamber of Commerce.

## Commercial Activity

During the first three quarters of calendar year 2004, the total taxable transactions in the City were reported to be \$498,254,000, or 16.1% greater than total taxable transactions of \$429,194,000 that were reported in the City during the first three quarters of calendar year 2003. A summary of historic taxable sales within the City during the past five years is shown in the following table. Annual figures are not yet available for 2004.



**CITY OF PITTSBURG  
TAXABLE TRANSACTIONS  
(FIGURES IN THOUSANDS)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Retail Stores					
Apparel Stores	\$20,62	\$ 21,333	\$ 21,737	\$ 21,205	\$ 21,035
General Merchandise Stores	90,651	85,154	93,184	89,747	83,911
Food Stores	25,279	29,542	34,485	33,150	30,535
Eating and Drinking Places	34,968	37,813	41,706	45,076	49,069
Home Furnishings and Appliances	4,545	6,898	10,083	18,476	28,698
Bldg. Materials and Farm Implmnts.	65,976	71,447	78,303	89,778	89,410
Auto Dealers and Auto Supplies	92,858	135,290	202,888	182,572	99,215
Service Stations	11,935	13,606	12,765	10,898	22,647
Other Retail Stores	<u>42,234</u>	<u>47,151</u>	<u>70,278</u>	<u>101,904</u>	<u>69,718</u>
Retail Store Totals	388,708	448,234	565,429	592,806	494,238
All Other Outlets	<u>80,487</u>	<u>96,048</u>	<u>116,864</u>	<u>114,417</u>	<u>105,081</u>
TOTAL ALL OUTLETS	<u>\$469,195</u>	<u>\$544,282</u>	<u>\$682,293</u>	<u>\$707,223</u>	<u>\$599,319</u>

Source: State Board of Equalization.

**Construction Trends**

Provided below are the building permits and valuations for the City of Pittsburg for calendar years 2000 through 2004.

**CITY OF PITTSBURG  
TOTAL BUILDING PERMIT VALUATIONS  
(VALUATIONS IN THOUSANDS)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Permit Valuation</u>					
New Single-family	\$42,077.1	\$74,740.9	\$56,349.8	\$92,996.8	\$38,622.6
New Multi-family	12,211.8	0.0	0.0	15,905.9	709.3
Res. Alterations/Additions	<u>2,379.8</u>	<u>2,734.1</u>	<u>4,672.2</u>	<u>5,195.8</u>	<u>4,925.2</u>
Total Residential	56,668.6	77,475.0	61,002.1	114,098.5	44,257.0
New Commercial	2,057.0	1,642.9	9,749.3	10,364.8	442.0
New Industrial	2,250.0	2,400.0	0.0	2,440.7	7,828.3
New Other	358.0	635.9	611.3	820.0	1,136.5
Com. Alterations/Additions	<u>7,904.3</u>	<u>7,039.5</u>	<u>11,574.3</u>	<u>6,699.4</u>	<u>9,763.6</u>
Total Nonresidential	12,569.3	11,718.3	21,934.9	20,325.0	19,170.4
<u>New Dwelling Units</u>					
Single Family	263	417	296	482	213
Multiple Family	<u>204</u>	<u>0</u>	<u>0</u>	<u>296</u>	<u>10</u>
TOTAL	467	417	296	778	223

Source: Construction Industry Research Board, *Building Permit Summary*

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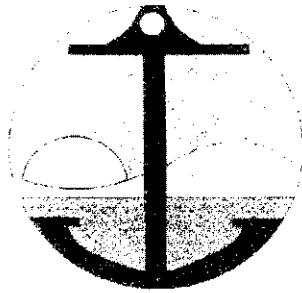
**APPENDIX D**  
**AUDITED FINANCIAL STATEMENTS**

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# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2004

CITY OF PITTSBURG, CALIFORNIA



PREPARED

BY

THE FINANCE DEPARTMENT

**Marie Simons**  
Director of Finance

**Thua Pham**  
Finance Division Manager – Accounting

**Dean Hedgewald**  
Finance Division Manager – Revenues

\*\*\*\*\*

**City of Pittsburg  
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CITY OF PITTSBURG  
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December 17, 2004

Honorable Mayor  
Members of the City Council  
And Citizens of Pittsburg

**Comprehensive Annual Financial Report**

Presented herein is the Comprehensive Annual Financial Report for the City of Pittsburg (the City) for the fiscal year ended June 30, 2004. This report presents fairly, in all material respects, the financial position and changes in financial position of the City as of and for the fiscal year ended June 30, 2004 (FY2003-04). City management is responsible for the accuracy of the data, the fairness and completeness of the presentation, and the inclusion of all disclosures that are necessary to enable the reader to understand the City's operations. This Comprehensive Annual Financial Report (CAFR) has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Major Changes in Reporting**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which revised the City's financial reporting requirements. Governments comparable in size to the City of Pittsburg were required to implement GASB Statement No. 34 for the fiscal year ended June 30, 2003 and it is the second fiscal year the City of Pittsburg complies with the GASB requirements. The major changes that resulted from GASB 34 include:

- New government-wide financial statements that are designed to provide readers with a broad overview of the City in a manner similar to a private-sector business. The statements cover all of the City's activities (except fiduciary activities) and include the statement of net assets and the statement of activities. The statement of net assets reports what the City owns (assets), what it owes (liabilities) and what is left over after assets have been used to satisfy liabilities (net assets). The statement of activities reports the City's expenses and revenues, as well as other changes in its net assets during the year.
- Fund financial statements report the finances of fund groups within the City's reporting entity - its governmental, proprietary and fiduciary funds. Reconciliation that describes the adjustments necessary to reconcile the governmental funds financial statements with the governmental activities column of the government-wide financial statements are included because the two types of statements measure the City's finances differently.
- Infrastructure assets are included in the government-wide statement of net assets. Governmental fund infrastructure assets are roads, curbs, gutters, medians, sidewalks,

streetlights, and traffic signals. Financial information on infrastructure assets had not previously been required for governmental funds, but was required for proprietary funds (water, sewer and storm underground pipes, reservoirs, etc.).

- GASB Statement No. 34 establishes criteria to identify and report certain governmental funds and proprietary funds as major funds for presentation in the fund financial statements.
- The general fixed assets and the general long-term debt account groups no longer exist. The assets and liabilities previously reported in those account groups are reported in the government-wide statements.
- Funds reported in the past as expendable and nonexpendable trust funds have been reclassified as special revenue funds or agency funds.
- Management's discussion and analysis (MD&A) is required supplementary information and provides information and analysis that users need to interpret the basic financial statements. This transmittal letter is designed to complement MD&A, and therefore, should be read with it. The City's MD&A can be found immediately following the Independent Auditors' Report.

#### The Reporting Entity and Its Services

The City was incorporated on June 25, 1903 and Pittsburg is a full service general law city providing a full range of municipal services, including police, water and sewer, streets, cultural and recreational facilities, golf course, public works and parks, planning, redevelopment, economic development, planning, zoning, building inspection, code enforcement, housing assistance, marina operations, energy distribution, engineering and general administration. Fire services are provided by Contra Costa County.

The financial statements included in this CAFR present the City (the primary government) with all the City funds, the City of Pittsburg Redevelopment Agency (the Agency), the Housing Authority of the City of Pittsburg (the Housing Authority), and the Pittsburg Power Company (Pittsburg Power) as component units. These three component units are separate legal entities; however, the members of the City Council also serve as members of the Housing Authority board, the Agency board, and the Pittsburg Power board. Therefore, financial information for the Housing Authority, the Agency, and the Pittsburg Power is blended with the City's financial information.

#### Economic Conditions and Outlook

Located along the Sacramento-San Joaquin River Delta, Pittsburg is situated on the north side of the beautiful Mount Diablo Recreation Area. Pittsburg resides in the Eastern part of Contra Costa County and is a part of the Oakland Metropolitan Statistical Area. Most statistics for Pittsburg also include the unincorporated area of Bay Point.

### City of Pittsburg General Fund Statement of Revenues and Expenditures and Changes in Fund Balance Budget and Actual For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$2,555,000	\$2,505,000	\$2,605,455	\$50,353
Sales tax	7,400,000	6,800,000	6,605,075	(194,925)
Franchise tax	2,007,375	2,007,575	2,064,216	56,841
Other taxes	899,708	999,706	881,083	(18,625)
Intergovernmental revenues	5,487,000	4,638,000	4,863,443	225,443
Permits, licenses, and fees	1,130,475	1,216,478	1,297,477	999
Fees and forfeitures	207,500	207,500	282,689	75,189
Service fees	2,195,604	2,319,904	2,305,326	(14,578)
Use of money and property	515,068	515,068	310,710	(204,358)
Other revenues	165,185	165,185	264,916	99,731
<b>Total revenues</b>	<b>22,537,916</b>	<b>21,404,218</b>	<b>21,580,269</b>	<b>176,070</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
City Council	102,606	102,606	76,151	26,455
City Manager and City Clerk	747,313	747,313	703,645	41,668
City Attorney	375,000	375,000	371,957	3,043
Human resources	867,739	850,529	802,794	47,735
Finance and services	1,998,083	2,685,094	2,144,314	540,780
Community services	3,149,787	5,967,102	5,678,053	289,049
Public safety	15,077,815	15,067,815	14,378,106	691,709
Public works - administration	180,417	193,917	178,776	15,191
Public works - streets	1,735,312	1,815,312	1,649,311	176,001
Public works - Swimming Center	164,299	184,299	137,802	46,597
Public works - others	166,618	166,618	136,728	29,890
General non-departmental	1,780,723	2,093,024	2,016,902	76,132
Capital outlay and improvements	63,588	84,283	51,690	32,593
<b>Total expenditures</b>	<b>28,429,400</b>	<b>30,343,022</b>	<b>28,326,179</b>	<b>2,016,843</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets (Note 14.E)		810,000	1,215,000	405,000
Transfers in	7,475,537	8,875,037	7,708,175	(1,166,862)
Transfers (out)	(1,664,054)	(2,103,062)	(2,103,062)	
<b>Total other financing sources (uses)</b>	<b>5,811,483</b>	<b>7,521,975</b>	<b>6,820,108</b>	<b>(701,862)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(\$59,999)</b>	<b>(\$1,416,834)</b>	<b>74,217</b>	<b>\$1,491,051</b>
<b>FUND BALANCE:</b>				
Beginning of year			7,883,561	
End of year			\$7,957,778	

See accompanying notes to basic financial statements



**City of Pittsburg**

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**

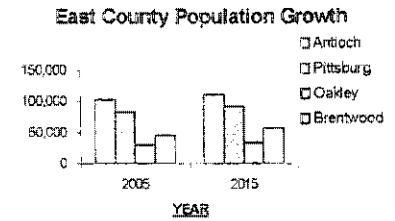
**Redevelopment Agency Special Revenue Fund**

**For the year ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	<b>REVENUES:</b>			
Incremental property taxes	\$28,000,000	\$26,200,000	\$32,493,123	\$6,293,123
Use of money and property		312,000	442,681	100,681
Other revenues			385,451	385,451
<b>Total revenues</b>	<b>28,000,000</b>	<b>26,512,000</b>	<b>33,321,255</b>	<b>6,779,255</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government	1,686,652	1,743,415	1,589,699	154,216
Community services	235,655	5,144,773	1,481,383	3,663,290
General nondepartmental	6,210,100	6,237,480	5,779,099	458,281
<b>Total expenditures</b>	<b>8,132,407</b>	<b>13,125,668</b>	<b>8,849,181</b>	<b>4,276,887</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>19,867,593</b>	<b>13,386,332</b>	<b>24,472,074</b>	<b>11,086,145</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(15,674,182)	(15,674,182)	(14,860,131)	814,051
Transfers in		34,015	34,013	
<b>Total other financing sources (uses)</b>	<b>(15,674,182)</b>	<b>(15,640,167)</b>	<b>(14,826,118)</b>	<b>848,065</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$4,193,411</b>	<b>(\$2,254,237)</b>	<b>9,645,959</b>	<b>\$11,870,196</b>
<b>FUND BALANCE:</b>				
Beginning of year			30,722,519	
End of year			<b>\$40,368,478</b>	

<b>POPULATION GROWTH</b>			
<b>ABAG - PROJECTIONS 2005</b>			
	2005	2015	CHANGE
<b>Pittsburg *</b>	<b>82,900</b>	<b>92,300</b>	<b>9,400</b>
Antioch	103,100	112,500	9,400
Brentwood	45,700	57,800	11,900
Oakley	29,800	34,500	4,700
<b>East County:</b>	<b>281,500</b>	<b>298,900</b>	<b>35,400</b>
Contra Costa County:	1,016,300	1,102,300	86,000

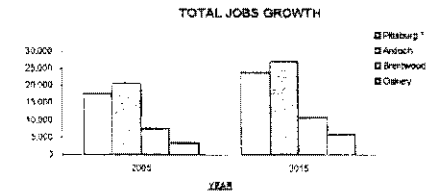
*\*Includes City and Sphere of Influence*



From New York of the Pacific to Black Diamond and finally known as Pittsburg, this is a city that values achievement and innovation. Pittsburg's 2005 estimated population from the Association of Bay Area Governments (ABAG) Projections 2005 was at 82,900 and at 92,300 by the year 2015. Pittsburg is one of just 39 cities in the State with an Enterprise Zone, offering businesses tax and other incentives to relocate here.

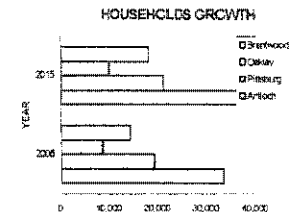
<b>TOTAL JOBS</b>			
<b>ABAG - PROJECTIONS 2005</b>			
	2005	2015	CHANGE
<b>Pittsburg *</b>	<b>17,580</b>	<b>23,810</b>	<b>6,250</b>
Antioch	20,590	26,920	6,330
Brentwood	7,610	10,860	3,250
Oakley	3,370	5,940	2,570
<b>East County:</b>	<b>49,150</b>	<b>67,530</b>	<b>18,400</b>
Contra Costa County:	373,000	439,020	66,020

*\*Includes City and Sphere of Influence*



The City offers a number of programs and incentives to attract new businesses, help existing businesses, as well as help residents find employment. The East County One-Stop Career Center provides businesses and residents with employment, training and business services.

<b>HOUSEHOLDS</b>			
<b>ABAG - PROJECTIONS 2005</b>			
	2005	2015	CHANGE
<b>Pittsburg</b>	<b>19,330</b>	<b>21,180</b>	<b>1,850</b>
Antioch	33,330	36,540	3,210
Brentwood	14,360	18,100	3,740
Oakley	8,700	10,010	1,310
<b>East County:</b>	<b>75,720</b>	<b>85,830</b>	<b>10,110</b>
Contra Costa County:	368,770	401,570	32,800



According to ABAG Projections 2005, Contra Costa County is projected to gain additional 295,121 households, a 32% increase between 2000 and 2030. The furthest eastern in the county, Brentwood, Antioch, Pittsburg, Oakley and Rural East Contra Costa, as ABAG projected, account for 47% of the county's absolute growth in households from 2000 through 2015. Pittsburg and Bay Point, an unincorporated community within Pittsburg's Sphere of Influence, are expected to have considerable household growth as well as Oakley, Hercules, and Antioch. The Pittsburg/Bay Point BART station is fueling the City's growth. This Subregional Areas' share of the household growth falls to 31%, however, from 2015 through 2030.

EMPLOYED RESIDENTS			
ABAG - PROJECTIONS 2005			
	2005	2015	CHANGE
Pittsburg*	32,780	40,840	7,060
Antioch	44,960	53,300	8,340
Brentwood	17,680	24,210	6,530
Oakley	13,410	18,950	5,540
East County	109,810	135,300	25,490
Contra Costa County:	458,800	541,800	82,200

\*Includes City and Sphere of Influence



While the national economic picture will cause the county's economy to slow, some employment growth is expected in the first fifteen years from 2000 to 2015. The cities of Antioch, Pittsburg, and Hercules are expected to see more job growth as a result of ABAG Smart Growth Policy assumptions.

As ABAG projections report, between the years 2000 and 2015, the largest growth will be in the Health, Educational, and Recreational sector, which will add 35,040 jobs in Contra Costa County, an increase of 30% over the year of 2000 total. During that period, Financial and Professional Service employment will increase 27% by 24,420 jobs. Other Jobs category will actually add almost 11,500 jobs in the county during this 15-year period, a 19% increase. From 2015 to 2030, the county will add 104,840 jobs, a 24% increase. Leading areas are the Health, Educational, and Recreational sector, which is expected to add approximately 26%, or 39,210 jobs. The Financial and Professional Service sector adds fewer jobs at 31,390 but it has a higher percentage increase at 28%.

Nationwide, the Gross Domestic Product (GDP) grew at annual rate of 4.0 percent in the three (3) months ended September 30, 2004 as the Department of Commerce reported, which indicates that growth in the nation's economic output will probably slow to a more modest but healthy pace in 2005, and the underlying economy is solidly expanding.

For the City of Pittsburg, although sales tax revenue in the fiscal year 2003-04 was down primarily due to the nationwide economic trend and losing its number one sales tax generator (Adtranz), the future looks bright for the City's economy as the Bay Area as a whole. According to the analysis report from The Contra Costa Times newspaper, the overall Bay Area economy is bouncing back, particularly in the job market. During 2004, the Bay Area added 17,000 jobs, in which nearly 12,000 jobs were added in the East Bay area. Employment trends in the Bay Area and East Bay were far brighter during 20004 to enter 2005.

Sales tax has been recovering and is growing with a number of new and expanded businesses either opening or planning for expansion.

In 2004, the retail businesses, Walgreen's Drug Store and La Superior Market, have opened. McGuire Harley Davison Dealership opened in on July 4 and was ahead of its sales projection. Winter Honda and Chevrolet dealers have expanded and their projected annual sales are of \$80 million. Highlands Square Shopping Center is under renovation phase and Atlantic Plaza Shopping Center will soon follow. The Mazzei Auto dealership is open with projected sales of \$70 million; the City is negotiating to expand this dealership to add at least one more dealer.

The following businesses are under the expanding phases:

- Home Depot Center will expand with a new 40,000 square foot retail building and two additional retail pads plus a large gas station/car wash.
- A 96 room Hampton Inn Suites Hotel is currently going through the approval process and plans to be under construction in June 2005.
- A 32-acre shopping center is being planned at the base of the San Marco Development.
- Two new large sit down restaurants in Delta Gateway Center along with 9,000 square foot building with 4 tenants will be soon announced.

Besides, there are 23 projects planned for the downtown area over the next three years and mostly will include some retail components.

In the industrial, Empire Business Park has begun its development with over 200,000 square feet leased. This development when completed will be up to 750,000 square feet for lease.

-The BRENDA Transportation (Italian Rail Manufacturer) has opened and was awarded a \$185 million light rail contract with the City of Los Angeles. It has just increased their space to 200,000 square feet in anticipate a contract with the City of Miami, Florida. This business would benefit Pittsburg with approximately 400 new jobs.

-Hunter Paine has leased 125,000 feet and is under construction. The first assembly line will begin in March 2005.

In fiscal year 2004-05, the sales tax is projected to grow in excess of 6 percent compared to the actual amount (\$6.6 million) in fiscal year 2003-04 and this growing indication will continue well into the future.

#### Major Initiatives

*For The Fiscal Year:* The Redevelopment Agency of the City of Pittsburg (the Agency) and the Economic Development Department continued rapid development in residential, commercial, and industrial areas.

Since the increase in funding capacity, the Agency has been in the planning stages for several new developments that will materialize in the near future. A few of the Agency highlights for the fiscal year 2003-04 include the following:

- A First Time Homebuyer Program (the "Homebuyer Program") was established to provide

down payment assistance to individuals and families of very low and moderate income. \$750,000 was allocated to the Homebuyer Program.

- ❖ \$36,000 was initially allocated to Pacific Community Services Inc. (PCSI), which provides housing services to Pittsburg residents. The counseling services range from tenant training to home ownership training, low interest mortgage, down payment, and rent payment assistance. Since the demand for affordable housing continues to grow, the Agency increased the funding in fiscal year 2003-04 to \$50,000. The new housing counseling contract entered into for fiscal years 2004-2005 and 2005-2006 is for \$100,000 (\$50,000 each fiscal year).
- ❖ \$145,374 of the Housing Funds were used to pay for Mt. Diablo Habitat's fees ordinarily imposed directly by the City on a project of similar nature, including parkland dedication fees, traffic impact fees, and permit and plan-check fees.

During fiscal year 2003-2004, the Agency amended the Redevelopment Plan by deleting four parcels out of the Project Area. The parcels have been a detriment to the developing Project Area. As a result of the Plan Deletion, the Agency shall save approximately \$1.5M in tax increment.

The construction of a Senior Center was completed in the third quarter of the fiscal year and has opened to public since July 2004. The Senior Center would benefit the Pittsburg seniors and general community, improve quality of life, and provide multi-services programs. All the recreational and health programs for Pittsburg seniors have been successful and attracted a large number of participants everyday since the opening.

*For The Future:* In addition to the many capital improvement projects under construction, City Engineering Department continues to update the City Standard Details and Specifications.

The City is now under contract with the Bay Area World Trade Center. The City has prepared an International Strategic Plan to assist marketing Pittsburg businesses to the China market.

The Agency's tax increment has increased for the last five fiscal years. It is expected to further increase another 8% in fiscal year 2004-05 to \$37.5 million. Since the increased funding capacity, the Agency has identified several projects for fiscal year 2004-2005:

- ❖ \$5 Million has been allocated to the 10<sup>th</sup> Street Corridor Project. This project entails the redevelopment of the downtown gateway on the corner of 10<sup>th</sup> Street and Railroad Avenue, creating approximately 8,100 sq. ft. of commercial space and 28 residential units. Other portions of 10<sup>th</sup> Street and the surrounding areas have also been identified as part of the redevelopment of the severely blighted area.
- ❖ \$2.9 Million is to fund the Black Diamond Project. The project consists of the redevelopment of the vacant and underutilized properties from 5<sup>th</sup> to 8<sup>th</sup> Streets and Black Diamond Street to Railroad Avenue. The Black Diamond Project is comprised of a mixed-use development: approximately 207 for-sale residential units and 36,000 sq. ft. of commercial space.
- ❖ The Agency has entered into another contract with the Contra Costa County Employment and Human Service Department on behalf of the Workforce Development Board to provide business-counseling services to the Pittsburg community. \$10,000 has been allocated for this program.

- ❖ Public Improvements of approximately \$11.3 Million:
  - W. Leland Road extension
  - Herb White Way widening
  - Pavement reconstruction
  - Signal controller and system master
  - 20" main on Crestview
  - 16" main on Harbor
  - Downtown infrastructure (water, sewer, and storm drain)
  - Rebuilding Montezuma Slough pump station
  - Reclaimed water for parks irrigation
  - Neighborhood preservation
- ❖ \$75,000 has been allocated for the Enterprise Zone fee waivers. This program is to attract businesses, encourage commercial rehabilitation of existing structures, and create employment opportunities to Pittsburg residents.
- ❖ Unencumbered funds from the Commercial Rehabilitation Loan Program have been rolled over from fiscal year 2003-2004 to 2004-2005. Furthermore, the Agency applied for and received \$145,000 in CDDBC funding to assist with the loan program.
- ❖ \$100,000 has been allocated to Downtown Code Enforcement to help alleviate the blighting conditions in Pittsburg's downtown area.
- ❖ \$150,000 has been allocated to Downtown Marketing to attract reinvestment in the downtown area as well as community interest.
- ❖ Approximately \$1 Million has been allocated to Economic Development Loans to provide incentives to businesses wishing to locate in Pittsburg.
- ❖ \$1 Million has been allocated to Lease Commercial Property Rehab to enable the Agency to rehabilitate vacant or underutilized commercial building and sub-lease out to viable businesses.

Acquisition is also an important activity that the Agency exercises in order to assist in redeveloping a particular site or assembling various parcels to develop a larger site. The Agency acquired the following properties during the fiscal year:

- ❖ 1611 Railroad Avenue (.085 acres) - part of the Railroad Avenue Redevelopment. Improvements on Railroad Avenue will increase the property value in the surrounding areas.
- ❖ A small portion of land was acquired to assist with the completion of the Americana Park. Americana Park is located in a new residential subdivision.
- ❖ Marina Park property (approx. 10 acres) - site assembly for the Marina Walk II project. The site is currently vacant and does not generate tax increment. Approximately 120 single-family residential units are to be developed on the site. Once the development is complete, the Agency's tax increment revenue will increase as a direct result of the development.

Besides the above public projects and community programs, the Agency has planned to issue three Tax Allocation Bonds in fiscal year 2004-05 to fund the redevelopment activities, the low moderate housing income programs/projects, and to refund the Tax Allocation Bonds series 1996 for better interest rates.

Cal Trans continued its modifications to State Route 4 as well as the City with major street improvement projects, including Pittsburg/Antioch highway improvements, and State Route 4 Flood Relief Project also known as Kirker Creek Improvements.

Finance Department has continued the process of converting the current accounting system to the new Eden financial system. The new system with its flexibility and user-friendly feature is expected to produce more useful financial information for analyzing, reporting, and management decision and to cope with the changes in new financial reporting module. The new system implementation is scheduled to complete by the end of fiscal year 2004-2005.

#### **OTHER INFORMATION**

The City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

#### **Single Audit and Compliance**

As a recipient of federal and state financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the Finance staff of the City. In management's opinion, the City's internal controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions. Also, the results of the City's single audit for the fiscal year ended June 30, 2004 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

#### **Budgetary Controls**

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the general fund, special revenue funds and capital projects funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. The City also applies and maintains encumbrance accounting system as a technique of accomplishing budgetary control. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

#### **Appropriations Limit**

Proposition 4, the "Cann" initiative, was passed by California voters in 1978 and is intended to limit governmental appropriations. The appropriations limit is calculated each year based upon fiscal year 1978-79 appropriations, which are modified by the composite consumer price index, and population changes which have occurred in subsequent years. The City's appropriation limit and

estimated appropriations subject to limit for fiscal year 2002-03 and 2003-04 amounted to \$43,774,800 and \$65,266,060, respectively. The Redevelopment Agency and Housing Authority appropriations are not subject to the above limitations.

#### **Cash Management**

Cash temporarily idle during the year was invested in the Local Agency Investment Fund (LAIF) administered by the Treasurer of the State of California, obligations of the United States Treasury, Federal Agency Coupons and Discount Notes, Medium Term Notes, and Certificates of Deposit. These investments are allowed under an investment policy adopted by the City Council, which defines eligible investments and maturities of the City's investment portfolio, and requires securities to be held by the City or by a qualified custodial institution and registered in the name of the City. The quarterly return on LAIF pooled investments at June 30, 2004 was 1.44 %, down - 0.33% compared to the same period of last fiscal year (June 30, 2003) of 1.77%. Total LAIF interest earnings were \$1,240,957 for the fiscal year 2003-04, down \$75,364 or 5.7% from the fiscal year 2002-03. At June 30, 2004, 76.62% of the City's pooled cash and investments were in LAIF. Remaining investments were held in the government's name either by the counter party financial institution's trust department or by a Securities and Exchange Commission brokerage firm.

#### **Risk Management**

The City is self-insured for the first \$25,000 of each loss and maintains excess liability insurance through Contra Costa County Municipal Risk Management Insurance Authority (CCCMRMIA). The City is not insured for liability occurrences over \$15 million per occurrence. The City also maintains statutory excess workers' compensation insurance through CCCMRMIA.

#### **Independent Audit**

Maze & Associates, CPAs, an independent public accounting firm, has examined the financial statements of the City and its affiliated agencies. Their opinion on the City's financial statements and supplemental information is included within this report.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Pittsburg for its Comprehensive Annual Financial Reports (CAFR) for the four fiscal years ended June 30, 2000, 2001, 2002, and 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

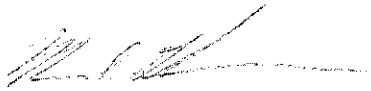
A Certificate of Achievement is valid for a period of one year only. We believe that our current (CAFR) continues to meet the Certificate Achievement Program's requirements.

#### **Acknowledgements**

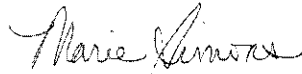
The preparation of this report could not have been accomplished without the concerted effort and dedication of all the employees of the Pittsburg Finance Department. Special thanks and acknowledgement is due to Thua Pham, Finance Division Manager - (Accounting) for his perseverance and dedication to the City because he bore the primary responsibility of getting this report completed in compliance with GASB requirements. We would also like to thank the Mayor

and members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

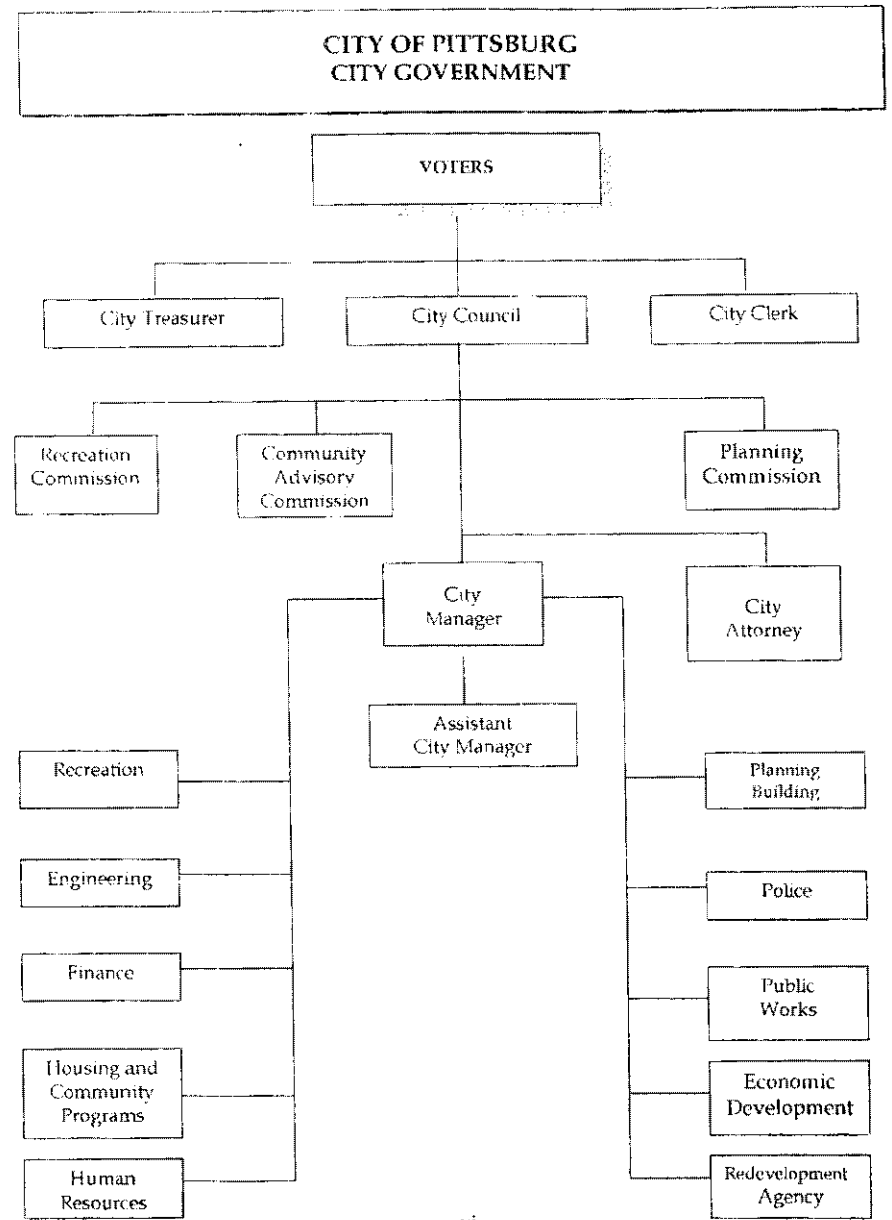
Respectfully submitted,



Marc S. Grisham  
City Manager



Marie Simons  
Director of Finance



OFFICIALS OF THE CITY OF PITTSBURG, CALIFORNIA

AND

THE REDEVELOPMENT AGENCY OF THE CITY OF PITTSBURG

FISCAL YEAR 2003 - 2004

CITY OF PITTSBURG

CITY COUNCIL

Aleida Rios, Mayor  
Nancy Parent, Vice Mayor  
Michael Kee  
William G. Glynn  
Yvonne Beals

Administration and department heads

City Manager .....	Marc S. Grisham
Assistant City Manager .....	Vacant
City Clerk .....	Lillian J. Pride
City Attorney .....	Ruthann Ziegler
Human Resources Director .....	Marc Fox
Finance Director .....	Marie Simons
Planning/Building Director .....	Randolph Jerome
Engineering Director .....	Joseph Sbranti
Economic Development Director .....	Brad Nail
Recreational Services Director .....	Paul Flores
Public Works Director .....	John Fuller
Public Safety Director .....	Aaron Baker
Treasurer .....	James F. Holmes

REDEVELOPMENT AGENCY OF THE CITY OF PITTSBURG

BOARD OF DIRECTORS

Aleida Rios, Chairperson  
Nancy Parent, Vice Chair  
Michael Kee  
William G. Glynn  
Yvonne Beals

ADMINISTRATION

Marc S. Grisham, Executive Director  
Marie Simons, Finance Director  
Garrett D. Evans, Redevelopment Agency Director  
Lillian J. Pride, Secretary

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Pittsburg, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Ruthann Ziegler*

President

*Garrett D. Evans*

Executive Director

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

City of Pittsburg,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

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*William R. White*  
President

*Jeffrey R. Erwin*  
Executive Director

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**MAZE &  
ASSOCIATES**

ACCOUNTING CORPORATION  
1921 San Miguel Drive - Suite 100  
Walnut Creek, California 94596  
(925) 938-0002 • FAX (925) 938-0139  
E-Mail: maze@mazeassociates.com  
Website: www.mazeassociates.com

**INDEPENDENT AUDITOR'S REPORT ON  
BASIC FINANCIAL STATEMENTS**

The Honorable Mayor and Members of the City Council  
City of Pittsburg, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pittsburg as of and for the year ended June 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of June 30, 2003 were audited by other auditors whose opinion dated December 12, 2003 was qualified with respect to capital assets.

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

In accordance with *Government Auditing Standards*, we have also issued reports dated December 17, 2004 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pittsburg at June 30, 2004 and the respective changes in the financial position and cash flows where applicable thereof and the respective budgetary comparisons for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic statements of the City of Pittsburg. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 17, 2004

*Maze & Associates*  
A Professional Corporation



OFFICE OF THE CITY CLERK  
CITY OF PITTSBURGH

December 17, 2004

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Pittsburgh (the City), we offer readers this discussion and analysis of the City's financial performance for the fiscal year ended June 30, 2004. The accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures in this report, are the responsibility of the City. The report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standard Board (GASB). We encourage readers to consider the information presented here in conjunction with additional information which can be found in the introductory section of this report and with the City's financial statements, which follow this discussion.

**CITY OF PITTSBURGH**

*Our independent annual financial report*  
**June 30, 2004**



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**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the fiscal year 2003-04 by \$166M (*net assets*). Of this amount, \$37.5M (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets of \$166M increased by \$11.0M from fiscal year 2002-03 of \$155M, representing a \$10M increase in governmental -\$5M decrease in business-type activities and a \$1.5M restatement due to compensated absences. The increase in the governmental activities is mostly attributable to the acquisition of the capital assets. The decrease in business-type activities is due to the increase in long-term liabilities for new revenue bonds issuance of \$3M along with the decrease in the non-current assets of \$7M.
- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$108M, a decrease of \$6.7M in comparison with the prior fiscal year of \$114.7M. Approximately \$44.3M or 41% of this amount is available for spending at the government's discretion on operating activities. The decrease is a result of the gap between the revenues received and the expenses paid for services and capital assets acquisition during the fiscal year.
- As of June 30, 2004, the fund balance for the General Fund was \$7.96M, of which \$747,168 was for miscellaneous inventory reserves, encumbrances, prepaid expenses, and special activities. The remaining balance of \$7.21M is available for spending at the government's discretion. The encumbrance reserve of \$395,554 is reappropriated in next year's budget leaving an appropriable fund balance of \$7.61 for fiscal year 2004-2005.
- Compared to the prior fiscal year, the City's total non-current liabilities decreased \$5.3M, which was the result of Tax Allocation Bonds decrease of \$5.2M, the increase in compensated absences of \$1.6M, and \$1.7M decrease in other long-term liabilities.



## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Pittsburg's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Pittsburg's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Pittsburg's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Pittsburg is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation and compensated time leaves).

Both of the government-wide financial statements distinguish functions of the City of Pittsburg that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Pittsburg include legislative and legal, general government, public safety, public works, community development, and recreation. The business-type activities of the City include Water, Sewer, Marina, Golf Course, Island Energy, and Pittsburg Power Company operations.

The Government-wide Financial Statements include not only the City itself but also the Redevelopment Agency, Housing Authority, and the Pittsburg Power Company. Financial information for these component units are blended with the financial statements of the primary government itself.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Pittsburg, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Pittsburg can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. However, this information does not encompass the additional long-term focus of the government-wide statements, reconciliations that explain the relationship (or differences) between governmental funds

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and governmental activities following each of the governmental funds statements.

The City of Pittsburg maintains twenty-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for seven (7) funds that are considered to be major funds. These 7 funds consist of General, Low/Moderate Income Housing I, Redevelopment Special Revenue, Housing Authority (Section 8), Redevelopment Debt Service, Capital Improvement, and Redevelopment Capital Projects. Data from the other nineteen (19) governmental funds which are combined into a single, aggregated presentation are considered non-major funds.

A budgetary comparison statement has been provided for the funds that have an adopted budget to demonstrate compliance with this budget.

**Proprietary funds.** The City of Pittsburg maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Enterprise funds are used to account for the Water, Sewer, Marina, Golf Course, Island Energy, and Pittsburg Power Company operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Pittsburg's various functions. The City uses internal service funds to account for its fleet of vehicles maintenance, building maintenance, information system management, risk management/insurance, and employee fringe benefits activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, the Sewer Fund, and the Marina Fund; all of which are considered to be major funds. Data from the other three enterprise funds are combined into a single, aggregated presentation. Conversely internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The seven Assessment District Bonds Funds, the Environmental Impact Fee Fund, and the Other Impact Fees Fund are held as fiduciary funds by the City.

**Notes To The Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Pittsburg's progress in funding its obligation to provide pension benefits to its employees.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Pittsburg, combined net assets (government and business-type activities) totaled \$166M at the close of the fiscal year ended June 30,

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2004. This is an increase of \$9.5M or 6.1% from previous fiscal year.

Thirty-four percent (34%) or \$56.8M of the net assets reflect its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Pittsburg uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole. The following table reflects the summary of Net Assets for the fiscal year ended June 30, 2004 with the comparative data for the fiscal year ended June 30, 2003.

	Governmental Activities	Business-Type Activities	June 30, 2004 Total	June 30, 2003 Total
Current Assets	\$132,837,167	\$15,894,831	\$148,531,998	\$150,543,260
Non-current assets	2,329,342		2,329,342	2,474,926
Capital assets	224,133,325	83,452,790	307,586,115	298,192,153
Total Assets:	<u>359,099,834</u>	<u>99,347,621</u>	<u>458,447,455</u>	<u>451,210,339</u>
Current liabilities	20,422,029	3,757,367	24,179,396	22,421,049
Non-current liabilities	234,648,796	33,815,130	268,463,926	273,794,863
Total Liabilities:	<u>255,070,825</u>	<u>37,572,497</u>	<u>292,643,322</u>	<u>296,215,912</u>
Investments in Capital Assets				
Net of related debt		56,818,181	56,818,181	33,239,260
Restricted	68,567,367	3,248,963	71,816,330	86,793,299
Unrestricted	35,538,694	1,932,189	37,470,883	34,961,868
Total Net Assets:	<u>\$104,106,061</u>	<u>\$61,999,333</u>	<u>\$166,105,394</u>	<u>\$164,994,427</u>

The largest portion of the City of Pittsburg's net assets \$72M or 43% represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$37M) or 23% may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the fiscal year 2003-04, the City of Pittsburg was able to report positive balances in all three categories of net assets.

#### Changes in Net Assets

In the fiscal year 2003-04, the City's expenses for the governmental activities exceeded program revenues by \$51.6M resulting in the use of that amount in general revenues. The City's expenses cover a range of services. Total governmental expenses by activities were \$70.3M in fiscal year 2003-04. The largest expenses were incurred for Community Services (\$19.2), Public Safety (\$14.9M), Interest on Long-term Debt (\$10.9M), and Public Works

(\$10.8M). These expenses do not include capital outlays, which are now reflected in the City's capital assets. Further analysis is provided within the governmental and business-type sections below.

#### City of Pittsburg's Changes in Net Assets Fiscal Year Ended June 30, 2004 With comparative data for fiscal year ended June 30, 2003

	Governmental Activities	Business-Type Activities	June 30, 2004 Total	June 30, 2003 Total
<b>Revenues:</b>				
<i>Program Revenues:</i>				
Charges for services	\$5,837,933	\$19,626,300	\$25,464,233	\$24,141,316
Operating grants and contributions	10,101,536		10,101,536	13,092,118
Capital grants and contributions	2,691,559		2,691,559	4,482,654
<i>General Revenues:</i>				
Property taxes	38,100,202		38,100,202	31,866,248
Sales and other taxes	9,550,374		9,550,374	8,379,413
Intergovernmental	10,748,653		10,748,653	13,727,680
Investment earnings - unrestricted	2,055,800	312,016	2,367,816	2,447,969
Miscellaneous	2,708,700		2,708,700	210,308
Total Revenues:	<u>81,794,757</u>	<u>19,938,316</u>	<u>101,733,073</u>	<u>98,347,706</u>
<b>Expenses:</b>				
General government	2,553,095		2,553,095	2,643,275
City council	76,514		76,514	96,461
City manager and city clerk	734,857		734,857	969,396
City attorney	371,957		371,957	438,711
Human resources	829,192		829,192	854,439
Finance and services	2,211,382		2,211,382	1,765,072
Community services	19,186,689		19,186,689	25,354,308
Public safety	14,875,512		14,875,512	15,028,840
Public works	10,773,507		10,773,507	11,347,272
General non-departmental	7,795,668		7,795,668	9,343,103
Interest on long-term debt	10,863,858		10,863,858	12,092,327
Enterprise operations		20,349,343	20,349,343	23,001,706
Total Expenses:	<u>70,272,231</u>	<u>20,349,343</u>	<u>90,621,574</u>	<u>102,934,910</u>
Increase (decrease) in Net assets				
before other revenues and transfers	11,522,526	(411,027)	11,111,499	(4,587,204)
Gain (loss) on disposal of assets		(532)	(532)	(526,883)
Transfers	65,572	(65,572)		
Change in Net assets	11,588,098	(477,131)	11,110,967	(5,114,087)
Net assets - beginning of year, as restated	92,517,963	62,476,464	154,994,427	161,672,504
Prior period adjustment				(1,563,990)
Net assets - end of year	<u>\$104,106,061</u>	<u>\$61,999,333</u>	<u>\$166,105,394</u>	<u>\$154,994,427</u>

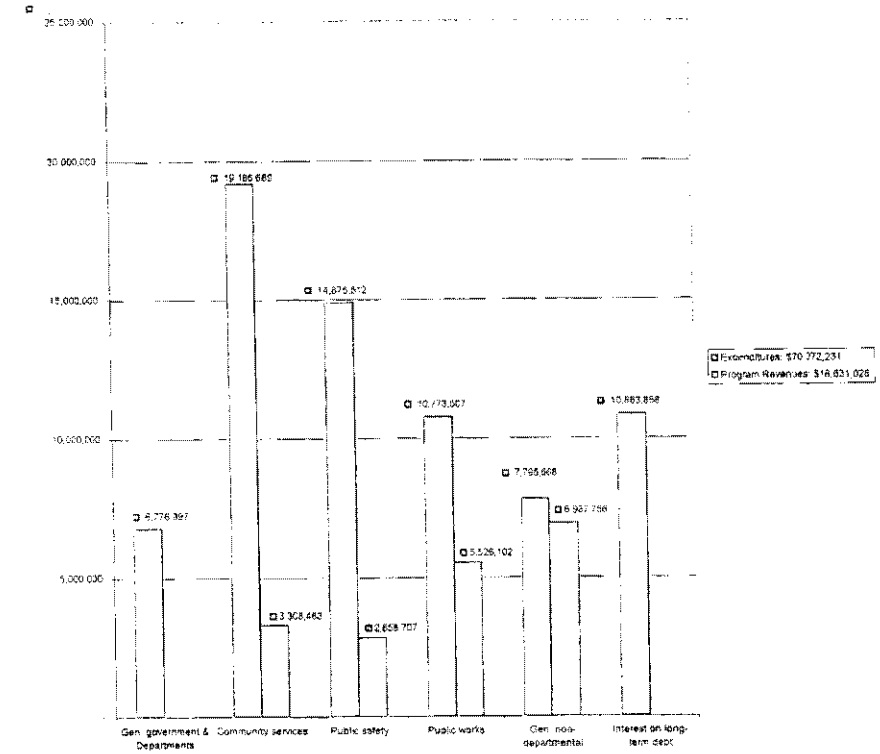
#### Governmental Activities

Governmental activities shows an increase of \$11.6M, in which \$9.5M or 81.9% accounted for the increase in net assets for the fiscal year 2003-04. A comparison of the cost of services by function for the City's governmental activities is shown below, along with the revenues used to cover the

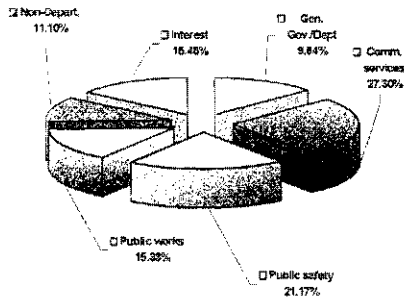
net expenses of the governmental activities, and with the comparative data from fiscal year 2002-03.

	June 30, 2004 Governmental Activities	June 30, 2003 Governmental Activities
<b>Expenses Net of Program Revenues:</b>		
General government/departments	(\$6,776,997)	(\$6,767,354)
Community services	(15,878,226)	(12,569,360)
Public safety	(12,016,805)	(14,804,182)
Public works	(5,247,405)	(5,092,815)
General non-departmental	(857,912)	(7,294,122)
Interest on long-term debt	(10,863,858)	(12,092,327)
<b>Total Governmental Activities</b>	<b>(51,841,203)</b>	<b>(58,420,160)</b>
<b>General Revenues and Transfers:</b>		
Property taxes	38,100,202	31,886,248
Sales and other taxes	9,550,374	8,379,413
Intergovernmental	10,746,653	13,727,680
Investment earnings - unrestricted	2,055,800	2,118,358
Miscellaneous	2,708,700	
Gain (loss) on disposal of assets		(562,362)
Transfers	65,572	(552,425)
<b>Total General Revenues</b>	<b>63,229,301</b>	<b>54,976,912</b>
<b>Change in Net Assets</b>	<b>\$11,588,098</b>	<b>(\$3,443,248)</b>

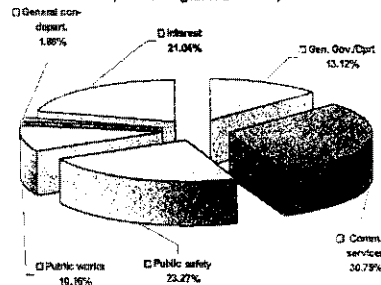
**Expenses and Program Revenues - Governmental Activities**



Governmental Expenses by Activities

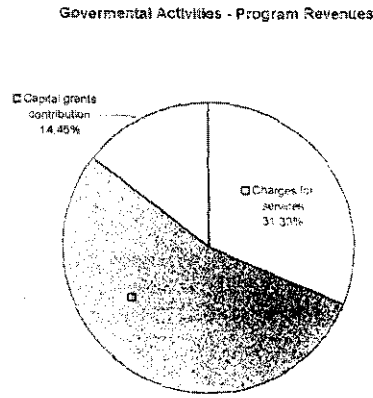
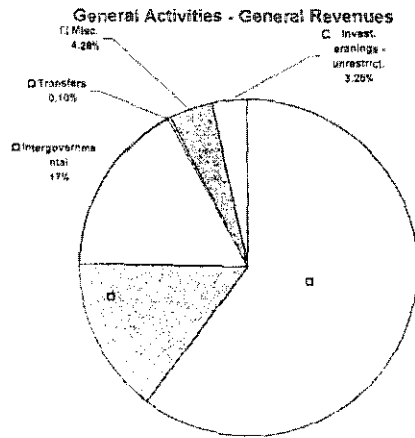


Net Cost of Governmental Activities (Net of Program Revenues)

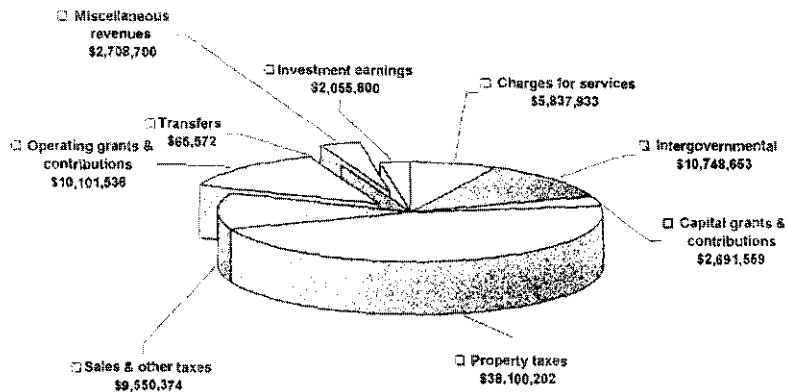


Total program revenues from governmental activities were \$18.6M in fiscal year 2003-04. Per GASB 34, program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the government's general revenues. As reflected in the pie chart below, 31.33% of the governmental program revenues came from Charges for Services, which includes licenses and permits, plan checking fees, developer fees and several other revenues. Program revenues under the Operating Grants and Contributions category including restricted revenues such as Gas Tax, Measure C Tax, Asset Seizure fund and Federal/State Grants, which account for 54.22% of the total program revenues, and 14.45% came from Capital Grants and Contributions.

General revenues are all other revenues not categorized as program revenues such as property taxes, sales taxes, intergovernmental, and investment earnings. Total general revenues from governmental activities were \$63.23M in fiscal year 2003-04. The largest percentage of general revenues, 60.26% or \$38.1M, received during the fiscal year was Property Taxes.



Revenues by Source - Governmental Activities



### Business-type activities

Net assets for business-type activities were \$62M, a net decrease of \$0.5M from prior fiscal year. Total program revenues for business-type activities were \$19.6M that came from Charges for Services. Total expenses for the business-type activities were \$20.3M for the fiscal year 2003-04.

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Pittsburg uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Pittsburg's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spending* resources. Such information is useful in assessing the City of Pittsburg's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Pittsburg's governmental funds reported combined ending fund balances of \$108M, a decrease of \$6.6M, in comparison with the prior year. Approximately 28.3 percent of this total amount or \$30.6M constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts, purchase orders of the prior period, and debt service requirements for the following fiscal years (\$63.1M) and 2) continue on the special activities and capital improvement projects (\$14.3M).

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was \$7,957,778 with \$747,168 reserved for miscellaneous inventory reserves, encumbrances, prepaid expenses, and special activities. The unreserved amount of \$7,210,610 including encumbrances of \$395,554 is available to be used at the government's discretion.

### General Fund Budgetary Highlights

The final amended budget totaled \$32.45M, including \$2.35M in amendments to originally adopted budget. The amendments can be briefly summarized as follows:

- Appropriations of \$439,013 were approved for transfers-out to:
  - Budget Stabilization Fund of (\$425,000) for future budget needs.
  - Redevelopment Agency of The City of Pittsburg to subsidize the study efforts for updating zoning codes (\$5,850), general plan (\$8,341), and inclusive housing feasibility (\$19,822).
  - Lighting and Landscape fund of \$200,000 to cover unfunded costs from prior years, Fringe Benefit fund (140,000 for increased benefit costs), and a reduction of a transfer to the Economic Development fund of \$360,000 to balance the budget.
- Appropriations of \$1,323,000 were approved to carry over the uncompleted projects from fiscal year 2002-03 that included the Auto Pylon Sign Project (\$680,000), and the new Eden automated accounting system (\$643,000).
- Appropriations of \$590,622 were approved for:

- Finance Department of \$46,011 professional services carried-over from fiscal year 2002-03 budget for GASB 34 compliance costs of engineering and auditing works.
- Economic Development Department of \$72,500 for Global Trade Center activities.
- Recreation Department of \$36,300 part-time salaries to increase services for After School programs which were reimbursed by Pittsburg Unified School District (PUSD).
- Public Works Department of \$103,500 professional services, (\$13,500) for Administration, and (\$90,000) for Streets repair costs.
- Non-Departmental of \$312,311 for Sales Tax Share from Mazzei auto dealer with the City of Antioch (\$161,076), Contra Costa Employee Retirement Association legal settlement (\$105,542), Crossing Guard payments to PUSD (\$25,000), carry-over of (\$9,193) from fiscal year 2002-03 for Centennial Celebration payments, and (\$11,500) to balance the increasing costs of contractual/professional services (professional services increase of +\$50,000 and contingencies account decrease of -\$38,500).

The amendment of general fund total estimated revenues were \$1M over the adopted budget estimates. It resulted from the increase of \$1,339,500 which was approved in transfers-in from other funds, the increase of \$446,300 in various department services, of \$810,000 in sales of property, and the decrease of \$1,600,000 in Sales Tax (\$600,000), and in Vehicle In-Lieu Tax (\$1,000,000).

The purpose of this \$1,339,500 budget increase in transfers-in was to carry-over the remaining fund of the uncompleted projects from fiscal year 2002-03 of \$1,227,000 and the cost reimbursement of \$112,500 as follows:

**\*Fund carried-over \$1,227,000:**

- \$680,000 from Pittsburg Power Company fund.
- \$200,000 from Water and Sewer funds
- \$347,000 from Redevelopment Agency of the City of Pittsburg.

**\*Cost reimbursement \$112,500:**

- \$72,500 from Economic Development fund for Global Center activities.
- \$40,000 from Assessment District Funds for administration overhead expenses.

At the end of the fiscal year, the total actual expenses in general fund had \$2.02M under the total amended budget. This is the result of unfinished projects of \$531,556 (\$459,056, new accounting system in Finance Department), of \$72,500 in community services (Global Center), and the budget control efforts from all the City departments, which reduced the expenses of \$1,485,453. On the revenue side, the actual revenues were \$525,792 under the amended revenue estimates. It was the result of decreasing in sales tax collection (\$194,925), in the budgeted amount of transfers-in for the uncompleted projects (\$719,612) and reducing the amount of transfers-in of (\$387,250), while all other revenue categories increased by \$775,995.

**Proprietary funds.** The City of Pittsburg's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Water Fund, Sewer Fund, and Marina Funds are the major funds according to GASB 34 criteria.

Total net assets of these three funds at the end of the year were \$46.2M increased of \$0.4M from prior fiscal year, in which \$45.7 M were invested in capital assets net of related debt. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City of Pittsburg's business-type activities.

**Capital Asset and Debt Administration**

**Capital assets.** The City of Pittsburg's investment in capital assets for its Governmental and Business Type activities as of June 30, 2004, amounts to \$308M (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges, water lines, sewer and storm systems, and the golf course. The total increase in the City's investment in capital assets net of depreciation for the current fiscal year was \$9.4M or 3.15% (a 6.3% increase for governmental activities and a 1.93% decrease for business-type activities).

- Major capital asset increase during the fiscal year was mostly for street improvements. During the fiscal year, the City acquired \$722,154 in machinery and equipment (with the retirement of \$970,941 for trades-in, sales, interdepartmental transfers, and disposition of useless equipment), spent \$17,420,229 (with adjustments between functional activities of \$225,334) for improvement projects, and demolition of a building of \$75,000. The net increase in governmental activities after depreciation was \$11M and \$1.6M decrease in business-type activities (net increase \$9,376,986).

**City of Pittsburg's Capital Assets  
(Net of depreciation)**

	As of June 30, 2004		June 30, 2004	June 30, 2003
	Governmental Activities	Business-Type Activities	Total	Total
<b>Non-depreciable assets:</b>				
Land	\$31,544,743	\$ -	\$31,544,743	\$31,619,743
Construction in progress	21,671,610	26,520	21,698,130	20,045,169
Total non-depreciable assets	<u>53,216,353</u>	<u>26,520</u>	<u>53,242,873</u>	<u>51,664,912</u>
<b>Depreciable assets (net of depreciation):</b>				
Buildings	31,911,058	-	31,911,058	25,247,734
Improvements other than buildings	6,730,104	8,932,612	15,662,716	14,858,488
Machinery and equipment	2,318,834	540,305	2,859,139	2,817,534
Infrastructure	129,956,976	73,953,353	203,910,329	203,603,485
Total depreciable assets (net)	<u>170,916,972</u>	<u>83,426,270</u>	<u>254,343,242</u>	<u>246,527,241</u>
Total capital Assets	<u>\$224,133,325</u>	<u>\$83,452,790</u>	<u>\$307,586,115</u>	<u>\$298,192,153</u>

**Debt Service Administration.** A complete detail of all outstanding debt is contained in Note 7 accompanying the Financial Statements. At the end of the fiscal year, the City had total long-term debt outstanding of \$273M. Of this amount, \$237M in the governmental activities represent the Redevelopment Agency Tax Allocation Bonds secured solely by the Agency's tax increments. \$35M in the business-type activities represent two revenue bonds in Water and Sewer funds (\$25.6M), three State Department of Boating and Waterways loans in Marina fund (\$9.1M), one capital start-up costs loan in Island Energy fund (\$224,770), and the three capital leases in Golf Course fund (\$429,839). All of the long-term debt in the business-type activities are secured solely by specified revenue sources.

The City maintained its Aaa rating from Standard & Poor's Corporation and AAA rating from Fitch for obligation debt. The S&P's rating for the Redevelopment Agency is AAA and Fitch's rating is AAA.

**City of Pittsburg's Long-term Debt**  
*June 30, 2004*

	Governmental		Business-Type		Total
	Activities		Activities		
	FY 2002-03	FY 2003-04	FY 2002-03	FY 2003-04	
Tax Allocation Bonds	\$ 234,291,357	\$ 230,051,357			\$ 230,051,357
-Unamortized Premium	7,521,462	7,073,439			7,073,439
Marina Construction Loans			\$ 9,713,807	\$ 9,067,042	9,067,042
Island Energy Start-up Costs Loan			324,770	224,770	224,770
Capital Leases			531,299	429,839	429,839
Revenue Bonds			25,615,000	25,605,000	25,605,000
<b>Total Long-Term Debt</b>	<b>\$ 241,812,819</b>	<b>\$ 237,124,796</b>	<b>\$ 36,184,876</b>	<b>\$ 35,326,651</b>	<b>\$ 272,451,447</b>

## BASIC FINANCIAL STATEMENTS

### Economic Factors and Next Year's Budget

The economy at both the national and State level continue to grow at an optimistic rate. The temporary boosts such as the income tax cuts and mortgage-refinancing boom helped spur the economy expansion. The Bay Area job market bounced back in 2004 and the East Bay Area was far brighter with nearly 12,000 jobs added in 2004.

During the fiscal year 2003-04, the local economy was slightly impacted by decreasing sales tax; however, the prospect looks promised in retail expansion and in industrial growth for the future. We will continue to be challenged by the rising costs of workers compensation, health benefits, and retirement, which is partly caused by the lower performance of the investments of the Public Employees Retirement System (PERS). Besides this adversary situation, the City's future economy looks bright with the property tax base remaining healthy and growing. The City's property taxes increased by 3.0% and the Redevelopment Agency's tax increments by 20.9% compared to the prior fiscal year. The City of Pittsburg, a portion of the East Bay Area, continues to attract a large percentage of home-buyers due in large part to the marketable median prices for existing homes.

We have adopted a balanced budget for fiscal year 2004-05, taking all the known factors into account. Compared to the fiscal year 2003-04 Amended Budget, the fiscal year 2004-05 Adopted Budget shows a slight increase in estimated revenues of 1.02% while the expenditure appropriations have a decrease of 1.08%.

### Requests for Information

This financial report is designed to provide a general overview of the City of Pittsburg's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Pittsburg, Finance Department, 65 Civic Avenue, Pittsburg, California 94565.

CITY OF PITTSBURG

*Comprehensive Annual Financial Report  
June 30, 2004*



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**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

CITY OF PITTSBURG

Comprehensive Annual Financial Report  
June 30, 2004



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City of Pittsburgh  
Basic Financial Statements  
For the year ended June 30, 2004

STATEMENT OF NET ASSETS  
AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities are required by Government Accounting Standards Board Statement 34. Their purpose is to summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City, the Redevelopment Agency of the City of Pittsburgh, and the Pittsburgh Public Financing Authority, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for activities.

These new financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*; the term General Purpose Financial Statements is no longer used.



City of Pittsburgh  
Statement of Net Assets  
June 30, 2004

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and investments (Note 2)	\$93,580,664	\$10,260,129	\$103,840,793
Restricted cash and investments (Note 2)	21,517,271	2,022,385	23,539,656
Receivables:			
Accounts	3,141,839	3,597,672	6,739,511
Interest	725,528	14,645	740,173
Loans/Notes (Note 2)	15,299,724		15,299,724
Supplies	37,836		37,836
Inventory		175,437	175,437
Prepaid items and other assets	77,052	48,772	125,824
<b>Total current assets</b>	<b>182,637,167</b>	<b>15,894,631</b>	<b>198,531,798</b>
<b>Noncurrent assets</b>			
Deferred charges	2,329,342		2,329,342
Capital assets (Note 6)			
Land and nondepreciable assets	33,218,358	26,520	33,244,878
Capital assets, net of accumulated depreciation	170,916,972	83,426,270	254,343,242
<b>Total capital assets</b>	<b>204,135,322</b>	<b>83,452,790</b>	<b>287,588,112</b>
<b>Total noncurrent assets</b>	<b>206,464,667</b>	<b>83,452,790</b>	<b>289,917,457</b>
<b>Total Assets</b>	<b>389,101,834</b>	<b>99,347,421</b>	<b>488,449,255</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	6,860,094	1,968,817	8,828,911
Salaries payable	753,302	129,783	883,085
Interest payable	4,157,575	468,017	4,625,592
Refundable deposits	815,256	347,781	1,163,037
Taxes payable		29,210	29,210
Loans payable (current)	2,074,658		2,074,658
Due to Other Agencies	12,281		12,281
Claims and judgments payable - due within one year (Note 11.C)	215,573		215,573
Compensated absences - due within one year (Note 11)	119,915	31,484	151,399
Deferred revenue (Note 4)	713,375	369	713,744
Long-term debt - due within one year (Note 7)	4,100,000	1,746,706	5,846,706
<b>Total current liabilities</b>	<b>20,422,029</b>	<b>3,757,367</b>	<b>24,179,396</b>
<b>Noncurrent liabilities</b>			
Compensated absences - due in more than one year (Note 11.E)	1,624,000	225,165	1,849,165
Long-term debt - due in more than one year (Note 7)	233,024,796	33,579,945	266,604,741
<b>Total noncurrent liabilities</b>	<b>234,648,796</b>	<b>33,805,110</b>	<b>268,453,906</b>
<b>Total Liabilities</b>	<b>255,070,825</b>	<b>37,562,477</b>	<b>292,633,302</b>
<b>NET ASSETS (Note 11.K)</b>			
Invested in capital assets, net of related debt		56,818,181	56,818,181
Restricted for:			
Capital projects	4,800,000		4,800,000
Debt service	49,090,499	2,022,385	51,112,884
Facility fee reserve	10,999,421		10,999,421
Specific projects and programs	14,476,868	127,157	14,604,025
<b>Total Restricted Net Assets</b>	<b>69,366,788</b>	<b>2,249,663</b>	<b>71,616,451</b>
Unrestricted	35,528,693	1,932,180	37,460,873
<b>Total Net Assets</b>	<b>\$104,106,061</b>	<b>\$41,999,333</b>	<b>\$146,105,394</b>

See accompanying notes to financial statements

CITY OF PITTSBURGH  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

Function/Program	Expense	Program Revenues			Net (Expense) Revenue and		Total
		Charter or Fees	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Governmental Activities</b>							
General government	\$2,553,093				(82,553,093)		(82,553,093)
City Council	76,514				(76,514)		(76,514)
City Manager and City Clerk	751,859				(751,859)		(751,859)
City Attorney	371,957				(371,957)		(371,957)
Human Resources	822,192				(822,192)		(822,192)
Finance and services	2,211,352				(2,211,352)		(2,211,352)
Community services	19,186,689	\$1,191,250	\$1,119,041	\$796,172	(15,898,226)		(15,898,226)
Public safety	11,875,612	2,725,211	7,845	122,448	(11,890,809)		(11,890,809)
Public works	10,773,509	2,016,172	1,776,861	1,772,274	(5,244,405)		(5,244,405)
Central and departmental	2,298,644		6,937,256		(4,638,612)		(4,638,612)
Interest and long term debt	10,263,556				(10,263,556)		(10,263,556)
<b>Total Governmental Activities</b>	<b>76,272,231</b>	<b>5,612,933</b>	<b>10,101,256</b>	<b>2,668,550</b>	<b>(71,661,127)</b>		<b>(71,661,127)</b>
<b>Business-type Activities</b>							
Water Utility	10,877,426	11,323,819				446,393	446,393
Sewer Utility	2,617,061	2,615,766				(1,295)	(1,295)
Moraine	1,716,365	1,782,012				66,647	66,647
Golf Course	1,932,612	1,455,264				(477,348)	(477,348)
Island Energy	1,473,828	2,606,866				1,133,038	1,133,038
Pittsburgh Power	63,745	443,669				379,924	379,924
<b>Total Business-type Activities</b>	<b>29,281,337</b>	<b>19,626,700</b>				<b>773,042</b>	<b>773,042</b>
<b>Total</b>	<b>\$95,553,568</b>	<b>\$21,239,633</b>	<b>\$10,101,256</b>	<b>\$2,668,550</b>	<b>(51,692,185)</b>	<b>(723,043)</b>	<b>(52,415,228)</b>
<b>General revenues</b>							
Taxes							
Property taxes					78,119,202		78,119,202
Licenses and other user					9,552,374		9,552,374
Intergovernmental					10,748,651		10,748,651
Investments, earnings, interest and					1,055,909	512,116	1,568,025
Miscellaneous					2,708,739		2,708,739
Gain (loss) on disposal of assets						(632)	(632)
Transfers (Note 5.C)					(6,572)	(68,572)	(75,144)
<b>Total general revenues and transfers</b>					<b>93,229,303</b>	<b>215,912</b>	<b>93,445,215</b>
<b>Change in Net Assets</b>							
					11,548,098	(477,131)	11,070,967
<b>Net Assets Beginning of Year, as stated (Note 15)</b>							
					82,317,965	61,476,464	143,794,429
<b>Net Assets End of Year</b>							
					<b>\$104,106,061</b>	<b>\$61,999,333</b>	<b>\$166,105,394</b>

See accompanying notes to financial statements

CITY OF PITTSBURG

*Comprehensive Annual Financial Report  
June 30, 2004*



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**FUND FINANCIAL STATEMENTS**

City of Pittsburg  
Basic Financial Statements  
For the year ended June 30, 2004

FUND FINANCIAL STATEMENTS

CASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account groups.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2004. Individual non-major funds may be found in the Supplemental section.

*General Fund* is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources which are not accounted for in another fund.

*Low/Moderate Income Housing 1 Special Revenue Fund* - accounts for the allocation of the costs of low/moderate income housing programs qualified for the Housing Set Aside efforts owed to the Agency.

*Redevelopment Agency Special Revenue Fund* - accounts for the tax increment revenue received and expenditures to carry out general operation within project areas.

*Housing Authority (Section 8) Special Revenue Fund* - was established to administer grants from Housing and Urban Development Department (HUD) to subsidize the rental costs of low-income families.

*Redevelopment Agency Debt Service Fund* - accounts for the accumulation of resources for payment of principal, interest and related costs of the Agency's long-term debt.

*Capital Improvement Capital Projects Fund* - accounts for all capital improvement projects in the City. Revenues received from various sources are used for related operations.

*Redevelopment Agency Capital Projects Fund* - accounts for the funds used to carry out all the operations for capital improvement projects within the Redevelopment Areas, using the tax increments to pay for the project costs.

CITY OF PITTSBURG

Comprehensive Annual Financial Report  
June 30, 2004



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**City of Pittsburgh**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

	General Fund	Low/Moderate Income Housing 1	Redevelopment Agency Special Revenue	Housing Authority (Section 8)	Redevelopment Agency Debt Service
<b>ASSETS</b>					
Cash and investments (Note 2)	\$8,733,284		\$33,978,445	\$704,734	\$27,356,710
Restricted cash and investments (Note 2)					21,517,271
Receivables:					
Accounts	1,471,590		842	155,593	
Interest	99,309		100,500	604	524,915
Loans/Notes (Note 3)			10,525,148		
Due from other funds (Note 5.A)	1,509,345		8,100,000		
Supplies	273,071				
Prepaid items and other assets	53,885		645		
<b>Total assets</b>	<b>\$12,140,487</b>		<b>\$52,705,580</b>	<b>\$861,131</b>	<b>\$49,398,896</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$1,601,615		\$3,516,700	\$28,381	\$8,397
Salaries payable	554,649		42,818	15,817	
Refundable deposits	708,278		73,209		
Loans payable (current)					
Due to Other Agency					
Due to other funds (Note 5.A)		\$8,100,000			
Compensated absences (Note 1.1)	103,167			7,748	
Deferred revenue (Note 4)	1,215,000		8,704,375	151,384	
<b>Total liabilities</b>	<b>4,182,709</b>	<b>8,100,000</b>	<b>12,337,102</b>	<b>203,330</b>	<b>8,397</b>
<b>Fund Balances (Deficit) (Note 9.A):</b>					
Reserved	722,510		8,865,521		49,390,499
Unreserved, designated	24,658			657,801	
Unreserved (deficit) - major funds	7,210,610	(8,100,000)	31,502,957		
Unreserved (deficit), reported in nonmajor funds:					
Special revenue					
Capital projects					
<b>Total fund balances (deficits)</b>	<b>7,957,778</b>	<b>(8,100,000)</b>	<b>40,368,478</b>	<b>657,801</b>	<b>49,390,499</b>
<b>Total liabilities and fund balances</b>	<b>\$12,140,487</b>		<b>\$52,705,580</b>	<b>\$861,131</b>	<b>\$49,398,896</b>

See accompanying Notes to Basic Financial Statements

Capital Improvement	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
\$1,572,329	\$4,031,061	\$14,033,362	\$90,409,925
			21,517,271
348,579	89,772	1,058,222	3,124,598
			725,528
		2,738,717	13,263,865
			9,609,346
			273,071
5,000	1,274	310	64,114
<b>\$1,925,908</b>	<b>\$4,125,107</b>	<b>\$17,830,611</b>	<b>\$138,987,720</b>
<b>\$740,795</b>	<b>\$354,282</b>	<b>\$391,199</b>	<b>\$6,643,369</b>
		79,819	687,103
		33,769	815,256
		2,371,658	2,374,658
		12,281	12,281
	1,215,000	294,348	9,609,348
			110,915
		601,834	10,672,593
<b>740,795</b>	<b>1,571,282</b>	<b>3,781,908</b>	<b>30,925,523</b>
	2,284,021	1,822,357	63,084,908
			682,459
			30,813,567
1,185,113	269,801	4,938,907	6,393,824
<b>1,185,113</b>	<b>2,353,825</b>	<b>14,048,703</b>	<b>108,062,197</b>
<b>\$1,925,908</b>	<b>\$4,125,107</b>	<b>\$17,830,611</b>	<b>\$138,987,720</b>

**CITY OF PITTSBURG**  
*Comprehensive Annual Financial Report*  
*June 30, 2004*



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**City of Pittsburgh**  
**Reconciliation of the**  
**Governmental Funds Balance Sheet**  
**with the Statement of Net Assets**  
**June 30, 2004**

Total fund balances reported on the governmental funds balance sheet	\$108,062,197
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
<b>CAPITAL ASSETS</b>	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds	222,150,750
<b>LONG TERM ASSETS AND LIABILITIES</b>	
The assets and liabilities below are mature and payable in the current period and therefore are not reported in the Funds	
Long-term debt	(207,114,294)
Interest payable	(4,157,575)
Bond issuance costs	2,729,342
Non-current portion of compensated absences	(1,586,850)
<b>ACCURAL OF NON-CURRENT ITEMS</b>	
The amounts below included in the Statement of Activities do not provide or treat the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (re charge)	
Deferred revenue	\$,744,218
<b>ALLOCATION OF INTERNAL SERVICE FUND ACTIVITIES</b>	
<b>ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS</b>	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and control services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets:	
Cash and investments	3,171,044
Accounts receivable	17,124
Loans receivable	35,819
Inventory	48,765
Prepaid/other assets	12,938
Capital assets	5,167,575
Accounts payable	(225,725)
Salaries payable	(68,190)
Claims and judgments payable	(215,573)
Compensated absences	(37,150)
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<u>\$104,106,061</u>

See accompanying notes to financial statements.

**City of Pittsburgh**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2004**

	General Fund	Low/Moderate Income Housing I	Redevelopment Agency Social Revenue	Housing Authority (Section 8)
<b>REVENUES:</b>				
Property taxes	52,605,353		832,493,123	
Sales tax	6,635,075			
Franchise tax	2,094,216			
Other taxes	881,083			
Intergovernmental revenues (grants, income, and fees)	1,867,443			\$11,596,334
Fines and forfeitures	1,297,477			
Special assessments	282,689			
Service fees	2,478,926		442,681	3,151
Use of money and property	310,710		585,454	58,303
Other revenues	36,1916			
<b>Total revenues</b>	<b>21,580,288</b>		<b>33,321,258</b>	<b>11,657,785</b>
<b>EXPENDITURES:</b>				
Current:				
General Government			1,558,609	729,144
City Council	76,151			
City Manager and City Clerk	705,640			
City Attorney	371,957			
Human resources	802,794			
Finance and services	2,144,314			
Community services	3,678,053		1,481,383	10,939,905
Public safety	11,376,406			
Public works - administration	178,726			
Public works - streets	1,619,311			
Public works - Swimming Center	137,802			
Public works - others	36,728			
General non-departmental	2,016,902		5,279,069	
Capital outlay and improvements	51,680			
Debt service:				
Principal retirement				
Interest and fiscal charges				
<b>Total expenditures</b>	<b>28,326,179</b>		<b>8,849,161</b>	<b>11,669,049</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(6,745,891)</b>		<b>24,472,077</b>	<b>(11,261)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets (Note 14.E)	1,215,000			1,215,000
Transfers in (Note 5.C)	7,706,175		31,013	37,091,967
Transfers out (Note 5.C)	(2,110,067)		(14,860,131)	(38,535,695)
<b>Total other financing sources (uses)</b>	<b>6,820,108</b>		<b>(14,829,118)</b>	<b>(248,728)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>74,217</b>		<b>9,845,959</b>	<b>(11,261)</b>
<b>FUND BALANCES (DEFICITS) (Note 1.N. and 9):</b>				
Beginning of year	7,883,561	(\$5,100,000)	30,722,519	669,062
End of year	7,957,778	(\$5,100,000)	540,368,478	657,801

See accompanying Notes to Basic Financial Statements

Redevelopment Agency Debt Service	Capital Improvement	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
			\$3,000,726	\$38,130,202
				8,635,075
				2,094,216
				881,083
	\$5,665,411	969,849	2,720,711	23,541,746
			1,101,191	7,431,671
				392,689
			2,016,372	2,016,472
				2,305,336
\$1,260,982		7,801	225,035	2,218,357
75,000		35,667	631,137	1,510,475
<b>1,335,983</b>	<b>5,665,411</b>	<b>799,314</b>	<b>9,687,273</b>	<b>61,087,314</b>
			215,252	2,371,095
				76,151
				705,640
				371,957
				802,794
				2,144,314
			164,087	19,396,128
			308,737	14,581,893
				178,726
			7,531,306	5,181,617
				137,802
		434		157,182
		81,731	251,407	8,028,139
	9,712,964	9,568,430	615,072	19,949,056
				4,210,000
				9,454,364
				88,340,894
(12,388,415)	(6,128,284)	(8,993,687)	2,111,849	(6,353,579)
				1,215,000
		7,306,307	2,040,981	37,091,967
		(283,114)	(5,594,137)	(38,535,695)
	7,308,307	9,561,997	(3,553,153)	(248,728)
(17,908,371)	1,180,113	588,240	(111,994)	(6,610,407)
67,328,870	5,000	1,965,485	14,190,017	114,664,503
\$49,390,499	\$7,185,113	\$2,553,825	\$14,048,703	\$108,062,197

**City of Pittsburg**  
**Reconciliation of the**  
**Net Change in Fund Balances-Total Governmental Funds**  
**with the Statement of Activities**  
**For the Year Ended June 30, 2004**

The schedule below reconciles the Net Change in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	(50,602,107)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
<b>CAPITAL ASSET TRANSACTIONS</b>	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. The capital outlay expenditures are therefore added back to fund balance. Depreciation expense is deducted from the fund balance (Depreciation expense is not of internal service fund depreciation 502,501 which has already been allocated to internal funds.)	37,510,014
Retirements of capital assets	313,915
Gain on sale of capital asset	1,215,050
<b>LONG TERM DEBT AND PAYMENTS</b>	
Payment of debt principal is added back to fund balance.	4,230,000
Interest expense	(2,402,269)
Amortization of bond premium	108,027
Amortization of bond insurance costs	145,781
<b>ACQUISITION OF NON-CURRENT ITEMS</b>	
The amounts below included in the statement of Activities do not provide or require the use of current financial resources and therefore are not reported as revenues or expenditures of governmental funds (see change):	
Receipt of loans receivable principal	(194,095)
New loans made	1,177,785
Deferred revenue	11,603,000
Compensated absences	(177,421)
<b>ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY</b>	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenues (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they serve those activities.	
Change in Net Assets - All Internal Service Funds	1,052,211
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<u>\$11,886,092</u>

See accompanying notes to financial statements

**City of Pittsburg**  
**General Fund**  
**Statement of Revenues and Expenditures**  
**and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$2,555,000	\$2,555,000	\$2,605,353	\$50,353
Sales tax	7,400,000	6,800,000	6,605,075	(194,925)
Franchise tax	2,007,375	7,007,375	2,064,216	56,841
Other taxes	899,708	899,708	881,083	(18,625)
Intergovernmental revenues	5,482,000	4,638,000	4,863,443	225,443
Permits, licenses, and fees	1,130,478	1,296,478	1,297,477	999
Fees and forfeitures	207,500	207,500	282,689	75,189
Service fees	2,195,604	2,319,934	2,305,326	(14,578)
Use of money and property	515,068	515,068	310,710	(204,358)
Other revenues	165,185	165,185	364,916	199,731
<b>Total revenues</b>	<u>22,557,916</u>	<u>21,404,218</u>	<u>21,580,288</u>	<u>176,070</u>
<b>EXPENDITURES:</b>				
Current:				
City Council	102,606	102,606	76,151	26,455
City Manager and City Clerk	747,313	747,313	705,645	41,668
City Attorney	375,000	375,000	371,957	3,043
Human resources	867,739	850,529	802,794	47,735
Finance and services	1,998,083	2,685,094	2,144,314	540,780
Community services	5,149,787	5,967,202	5,678,053	289,049
Public safety	15,077,815	15,067,815	14,376,106	691,709
Public works - administration	180,417	183,917	178,726	5,191
Public works - streets	1,735,312	1,825,312	1,649,311	176,001
Public works - Swimming Center	184,399	184,399	137,802	46,597
Public works - others	166,618	166,618	156,728	29,890
General non-departmental	1,780,723	2,093,004	2,016,902	76,132
Capital outlay and improvements	63,588	84,263	51,690	32,593
<b>Total expenditures</b>	<u>28,429,400</u>	<u>30,343,022</u>	<u>28,326,179</u>	<u>2,016,843</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets (Note 14.E)		810,000	1,215,000	405,000
Transfers in	7,475,537	8,515,037	7,708,175	(1,106,862)
Transfers (out)	(1,664,051)	(2,103,067)	(2,103,057)	
<b>Total other financing sources (uses)</b>	<u>5,811,483</u>	<u>7,221,970</u>	<u>6,820,108</u>	<u>(701,862)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(\$59,999)</u>	<u>(\$1,416,834)</u>	<u>74,217</u>	<u>\$1,491,051</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>7,883,561</u>	
End of year			<u>\$7,987,778</u>	

See accompanying notes to basic financial statements

City of Pittsburgh  
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Redevelopment Agency Special Revenue Fund  
For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Incremental property taxes	\$28,000,000	\$26,200,000	\$32,493,123	\$6,793,123
Use of money and property		342,000	- 442,681	100,681
Other revenues			385,454	385,454
<b>Total revenues</b>	<b>28,000,000</b>	<b>26,542,000</b>	<b>33,321,258</b>	<b>6,779,258</b>
<b>EXPENDITURES:</b>				
Current:				
General government	1,686,652	1,743,415	1,588,699	154,716
Community services	235,655	5,144,773	1,481,383	3,663,390
General nondepartmental	6,210,100	6,237,880	5,779,099	458,781
<b>Total expenditures</b>	<b>8,132,407</b>	<b>13,126,068</b>	<b>8,849,181</b>	<b>4,276,887</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>19,867,593</b>	<b>13,415,932</b>	<b>24,472,077</b>	<b>11,056,145</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(15,674,182)	(15,674,182)	(14,860,131)	814,051
Transfers in		34,013	34,013	
<b>Total other financing sources (uses)</b>	<b>(15,674,182)</b>	<b>(15,640,169)</b>	<b>(14,826,118)</b>	<b>814,051</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$4,193,411</b>	<b>(\$2,224,237)</b>	<b>9,645,959</b>	<b>\$11,870,196</b>
<b>FUND BALANCE:</b>				
Beginning of year			30,722,519	
End of year			<u>\$40,368,478</u>	

City of Pittsburgh  
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Housing Authority (Section 8) Special Revenue Fund  
For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental revenues	\$11,433,277	\$11,888,207	\$11,596,334	(\$291,873)
Use of money and property	6,000	5,000	3,151	(2,849)
Other revenues	52,250	52,250	58,203	6,053
<b>Total revenues</b>	<b>11,491,527</b>	<b>11,946,457</b>	<b>11,657,788</b>	<b>(288,689)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	858,096	858,596	739,144	119,452
Community services	10,519,340	11,056,020	10,939,805	118,115
<b>Total expenditures</b>	<b>11,377,436</b>	<b>11,916,616</b>	<b>11,669,049</b>	<b>247,567</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>113,591</b>	<b>29,841</b>	<b>(11,261)</b>	<b>(41,102)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$113,591</b>	<b>\$29,841</b>	<b>(11,261)</b>	<b>(\$41,102)</b>
<b>FUND BALANCE:</b>				
Beginning of year			669,062	
End of year			<u>\$657,801</u>	



City of Pittsburgh  
Basic Financial Statements  
For the year ended June 30, 2004

MAJOR PROPRIETARY FUNDS

The proprietary funds account for activities that are financed and operated in a manner similar to private business enterprises. The City Council has determined that the costs of providing the following services to the public be recovered primarily through user charges.

*Water Utility Fund* - This fund accounts for the revenues and expenditures associated with management, operation, and maintenance of water treatment and distribution system to water customers of the City of Pittsburgh. It also accounts for the maintenance of water plant, distribution reservoirs, and water lines.

*Sewer Utility Fund* - This fund accounts for the revenues and expenditures associated with the maintenance and repair of 126 miles of sewer mains, sewer lift stations, sewer laterals within the City's right-of-way.

*Marina Fund* - This fund accounts for the revenues received from Marina berth rentals, from sales of gasoline, and expenditures from operation and maintenance.

CITY OF PITTSBURGH

Comprehensive Annual Financial Report  
June 30, 2004



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City of Pittsburgh  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004

	Major Enterprise Funds			Total
	Water Utility	Sewer Utility	Maps	
<b>ASSETS</b>				
Current assets				
Cash and investments (Note 2)	\$1,428,744	\$4,627,179	\$644,172	\$6,680,095
Restricted cash and investments (Note 2)	1,061,142	961,243		2,022,385
Receivables:				
Accounts	2,095,622	671,633	16,715	2,783,970
Interest	6,635	7,992		14,627
Loans (Note 3)	17,810		43,488	61,298
Inventory	14,384	265		14,649
Prepaid items and other assets	4,523,928	3,838,510	380,310	8,742,748
Total current assets	13,568,165	13,238,172	1,104,695	27,910,932
Noncurrent assets:				
Advance to other funds (Note 5.B)		525,000		525,000
Capital assets (Note 6):				
Land & nondepreciable assets	49,751,252	13,739,914	7,714,497	71,205,663
Depreciable assets, net	49,752,252	14,114,911	7,714,597	71,581,760
Total noncurrent assets	99,503,504	28,393,825	15,429,094	143,326,423
Total assets	113,071,669	140,632,047	16,533,789	270,237,505
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	761,232	31,410	36,842	829,484
Salaries payable	65,007	16,768	13,515	95,290
Interest payable			408,017	408,017
Retainable deposits	1,000		45,451	46,451
Taxes payable				
Deferred revenue			749	749
Claims and judgments payable - due within one year (Note 11.C)				
Compensated absences payable - due within one year (Note 11.D)	17,335	896	6,185	24,416
Long-term debt - due within one year (Note 7)	3,000,000	370,000	678,989	3,948,989
Long-term debt - due within one year (Note 7)	1,086,614	539,064	1,171,418	2,797,096
Total current liabilities	5,000,238	949,078	1,661,706	7,611,022
Noncurrent liabilities:				
Advance from other funds (Note 5.B)	525,000			525,000
Compensated absences payable - due in more than one year (Note 11)	9,973	26,640	30,975	67,688
Long-term debt - due in more than one year (Note 7)	13,830,000	11,315,000	8,371,173	33,516,173
Long-term debt - due in more than one year (Note 7)	14,045,411	11,361,660	8,422,118	33,829,189
Total noncurrent liabilities	28,405,484	22,692,700	16,824,266	67,922,450
Total liabilities	33,405,722	33,641,778	18,486,032	85,533,532
<b>NET ASSETS (Note 1.X)</b>				
Invested in capital assets, net of related debt	36,000,252	1,944,914	7,734,697	45,679,863
Restricted for debt service purposes	1,061,142	961,243		2,022,385
Restricted for special purposes	2,237	779		3,016
Residual for liability reserves	54,676	577,743		622,419
Unrestricted	1,534,267	4,718,021	68,907,220	16,920,508
Total net assets	\$39,126,674	\$8,402,700	\$68,742,624	\$116,271,998

See accompanying Notes to Basic Financial Statements

	Non-Major Enterprise Funds		Governmental Activities	
	Funds	Total	Enterprise Funds	Internal Service Funds
Current assets				
Cash and investments (Note 2)	\$1,003,073	\$10,280,126	3,322,385	\$5,171,044
Restricted cash and investments (Note 2)				
Receivables:				
Accounts	601,514	1,557,462	1,645	1,441
Interest				
Loans (Note 3)	11,834	375,457		58,656
Inventory	3,113	18,772		12,978
Prepaid items and other assets	3,967,222	26,119,240		3,315,547
Total current assets	6,585,756	34,360,957	5,077,430	9,673,666
Noncurrent assets:				
Advance to other funds (Note 5.B)	653,000	1,200,000		
Capital assets (Note 6):				
Land & nondepreciable assets	2,520	26,620		3,172,573
Depreciable assets, net	33,18,507	\$3,426,270		3,172,573
Total noncurrent assets	35,700,527	5,652,890		6,345,146
Total assets	42,286,283	39,913,847	5,077,430	16,018,812
Current liabilities:				
Accounts payable	249,319	1,068,317	220,735	66,199
Salaries payable	34,433	129,283	408,317	
Interest payable			542,281	
Retainable deposits	273,340	25,210		
Taxes payable	25,243	669		
Deferred revenue				215,872
Claims and judgments payable - due within one year (Note 11.C)				
Compensated absences payable - due within one year (Note 11.D)	5,078	33,484	792	
Long-term debt - due within one year (Note 7)	230,887	1,746,206		
Long-term debt - due within one year (Note 7)	18,241	3,357,267		378,206
Total current liabilities	423,097	4,981,166	1,678,124	1,064,277
Noncurrent liabilities:				
Advance from other funds (Note 5.B)	675,000	1,200,000		
Compensated absences payable - due in more than one year (Note 11)	16,626	276,186		86,336
Long-term debt - due in more than one year (Note 7)	42,772	3,879,845		
Long-term debt - due in more than one year (Note 7)	1,135,411	35,013,130		36,206
Total noncurrent liabilities	2,269,809	39,979,061		42,522,672
Total liabilities	2,692,906	44,960,227	1,678,124	43,586,949
<b>NET ASSETS (Note 1.X)</b>				
Invested in capital assets, net of related debt	1,115,414	5,618,181	2,722,396	11,457,875
Restricted for debt service purposes				
Restricted for special purposes	9,055	177,157		68,228
Residual for liability reserves	1,669,421	1,932,189		2,722,962
Unrestricted	415,510,584	61,660,353		15,988,273
Total net assets	\$1,540,005	\$12,388,860	\$2,722,396	\$19,537,338

**City of Pittsburgh**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the year ended June 30, 2004**

	Water Enterprise Funds		
	Water Utility	Newer Utility	Sewer
<b>OPERATING REVENUE:</b>			
Contract services	\$11,032,156	\$2,497,073	
Other fees	25,843	112,274	573,186
Contracted operations	2,340	2,340	28,256
Gas and oil sales	7,607	3,817	12,484
Sub-contracting revenue	31,322,207	2,215,734	3,184,011
<b>Total operating revenues</b>	<b>44,738,573</b>	<b>5,123,241</b>	<b>6,801,937</b>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	1,592,145	36,226	513,452
Equipment supplies	4,896,316	25,635	406,210
Travel	8,414	4,171	241
Utilities	502,332	1,216	322,728
Maintenance materials	410,577	2,657	210,586
Depreciation and amortization	444,841	40,872	323,110
Insurance premiums	646,165	179,111	192,765
Insurance deductible	523,837	112,815	
Other operating expenses	1,340,536		133,631
<b>Total operating expenses</b>	<b>11,991,021</b>	<b>1,209,609</b>	<b>1,326,539</b>
<b>OPERATING INCOME (LOSS):</b>	<b>32,747,552</b>	<b>3,913,632</b>	<b>5,475,398</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Investment earnings	97,487	136,222	6,340
Interest and fiscal charges	(772,224)	(87,857)	(4,617)
Amortization of bond insurance	(52)	(72,614)	
Gain/loss on disposal of assets	(8,571)		(796,577)
<b>Total nonoperating revenues (expenses)</b>	<b>(783,310)</b>	<b>(124,249)</b>	<b>(864,804)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS:</b>	<b>31,964,242</b>	<b>3,789,383</b>	<b>4,610,594</b>
<b>TRANSFERS:</b>			
Transfers in (Inter-C)	42,060		1,065,000
Transfer out (New S.C.)	(413,151)	(53,151)	(44,007)
<b>Total transfers</b>	<b>(371,091)</b>	<b>(53,151)</b>	<b>1,020,993</b>
<b>Change in net assets</b>	<b>31,593,151</b>	<b>3,736,232</b>	<b>3,589,691</b>
<b>NET ASSETS (Nete 1.8):</b>			
Beginning of year	\$6,679,869	\$ 436,012	(1,667,663)
End of year	\$38,272,362	\$3,202,232	\$1,172,233

See accompanying Notes to Basic Financial Statements

	Newer Utility Enterprise Funds	Total Enterprise Funds	Governmental Activities - Special Service Funds
<b>OPERATING REVENUE:</b>			
Contract services	\$11,032,156	\$17,445,219	57,024,415
Other fees	25,843	156,758	27,966
Contracted operations	2,340	1,566,466	
Gas and oil sales	7,607	70,215	4,513
Sub-contracting revenue	31,322,207	31,627,736	65,962,283
<b>Total operating revenues</b>	<b>44,738,573</b>	<b>81,416,834</b>	<b>123,981,181</b>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	1,592,145	1,917,294	5,521,152
Equipment supplies	4,896,316	6,413,971	12,533,675
Travel	8,414	13,640	22,317
Utilities	502,332	476,422	3,113,133
Maintenance materials	410,577	1,142,971	1,545,593
Depreciation and amortization	444,841	1,214,842	2,272,561
Insurance premiums	646,165	1,761,309	1,761,309
Insurance deductible	523,837	1,423,546	2,372,091
Other operating expenses	1,340,536	1,983,127	1,123,419
<b>Total operating expenses</b>	<b>11,991,021</b>	<b>17,247,114</b>	<b>44,411,640</b>
<b>OPERATING INCOME (LOSS):</b>	<b>32,747,552</b>	<b>64,169,720</b>	<b>79,569,541</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Investment earnings	97,487	313,202	61,751
Interest and fiscal charges	(772,224)	(7,084,028)	(6,421)
Amortization of bond insurance	(52)	(72,614)	(1,187)
Gain/loss on disposal of assets	(8,571)	(8,571)	(1,187)
<b>Total nonoperating revenues (expenses)</b>	<b>(783,310)</b>	<b>(6,951,911)</b>	<b>(7,049,144)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS:</b>	<b>31,964,242</b>	<b>57,217,809</b>	<b>72,520,397</b>
<b>TRANSFERS:</b>			
Transfers in (Inter-C)	42,060	2,321,400	1,626,240
Transfer out (New S.C.)	(413,151)	(2,386,921)	(500,000)
<b>Total transfers</b>	<b>(371,091)</b>	<b>(66,521)</b>	<b>1,126,240</b>
<b>Change in net assets</b>	<b>31,593,151</b>	<b>56,551,288</b>	<b>71,400,157</b>
<b>NET ASSETS (Nete 1.8):</b>			
Beginning of year	\$6,679,869	\$ 436,012	(1,667,663)
End of year	\$38,272,362	\$3,202,232	\$1,172,233

City of Pittsburgh  
Statement of Cash Flows  
Proprietary Funds  
For the year ended June 30, 2004

	Major Enterprise Funds		
	Water Utility	Sewer Utility	Maple Avenue
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$1,312,277	\$5,201,076	\$1,183,467
Cash payments to suppliers of goods and services	(7,410,278)	(969,601)	(165,494)
Cash payments to employees for salaries	(2,774,492)	(55,222)	(53,317)
Other operating revenues	37,400	2,152,101	172,900
Net cash provided (used) by operating activities	(8,835,093)	6,338,354	1,487,166
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	(42,693)		1,052,477
Transfers out	(401,183)	(371,133)	(14,007)
Net cash provided (used) by noncapital financing activities	(443,876)	(371,133)	1,038,470
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from long-term debt	216,000	(470,000)	(494,351)
Principal paid on long-term debt	(172,328)	(917,453)	(658,115)
Interest paid on long-term debt	(3,984,249)	(379,609)	(3,605,144)
Cost of bond discounts	(1,873,136)	(8,934)	(1,882,070)
Net cash provided (used) by capital and related financing activities	(4,113,713)	(1,876,006)	(6,549,680)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on investments	52,783	(34,224)	3,341
Net cash provided (used) by investing activities	52,783	(34,224)	3,341
Net increase (decrease) in cash and cash equivalents	(12,196,023)	3,853,801	(4,062,114)
CASH AND CASH EQUIVALENTS:			
Beginning of year	2,178,486	9,047,787	311,156
End of year	\$2,489,896	\$5,178,422	\$64,177
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$1,146,927	\$1,798,246	\$1,111,166
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Prepaid utility	894,836	(4,853)	(26,411)
Change in operating assets and liabilities:			
Accounts receivable	(380)	2,485	
Utility receivable			64,230
Liabilities from other funds inventory	(2,774)	(143)	
Prepaid items	(271)	(625,000)	(7,220)
Advance to other funds	(230,184)	21,063	4,476
Salaries and wages payable	10,068	6,114	(18,130)
Interest payable		1,424	400
Accounts payable	(44,273)		
Due to other agencies			14,125
Due to other funds	3,650	7,017	
Capital assets	(303,000)	775,000	
Deferred items debited			28,430
Interest claims payable	1,736,014	895,721	512,254
Pro adjustments	(5,218,074)	(4,073,181)	(4,121,214)
Net cash provided (used) by operating activities			

We are reviewing Notes to Basic Financial Statements

	Major Enterprise Funds		Governmental Activities
	Water Utility	Sewer Utility	
<b>Net cash provided (used) by operating activities</b>			
Operating income (loss)	\$1,146,927	\$1,798,246	\$1,111,166
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Prepaid utility	894,836	(4,853)	(26,411)
Change in operating assets and liabilities:			
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Liabilities from other funds inventory	(2,774)	(143)	
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Advance to other funds	(230,184)	21,063	4,476
Salaries and wages payable	10,068	6,114	(18,130)
Interest payable		1,424	400
Accounts payable	(44,273)		
Due to other agencies			14,125
Due to other funds	3,650	7,017	
Capital assets	(303,000)	775,000	
Deferred items debited			28,430
Interest claims payable	1,736,014	895,721	512,254
Pro adjustments	(5,218,074)	(4,073,181)	(4,121,214)
Net cash provided (used) by operating activities			

City of Pittsburg  
 Basic Financial Statements  
 For the year ended June 30, 2004

FIDUCIARY FUNDS

The Fiduciary funds accounts for resources received and held by the City in a fiduciary capacity. Disbursements are made in accordance with the trust agreement or applicable legislative enactment for each fund.

*Agency Funds* - These funds were created to account for all the Assessment District Bonds, Environmental and Other Impact Fees. Special assessments received are used to meet the debt service requirements and to pay for the administrative costs. The environmental impact fees are collected, and utilized for environmental improvement projects and the other impact fees are utilized for other improvement projects.

City of Pittsburg  
 Statement of Fiduciary Net Assets  
 Agency Funds  
 June 30, 2004

ASSETS	
Cash and investments (Note 2)	\$2,181,475
Cash and investments held by fiscal agent (Note 2)	6,219,036
Assessment receivable	21,621,726
Interest receivable	22,319
Total assets	<u>530,044,552</u>
LIABILITIES	
Accounts payable	584,215
Deferred assessments	2,261,996
Due to other parties	260,341
Due to bondholders	27,315,600
Total liabilities	<u>530,044,552</u>

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the City of Pittsburg, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**A. Reporting Entity**

The City was incorporated under the General Laws of the State of California and enjoys all the rights and privileges pertaining to such "General Law" cities. The City uses the City Council/Manager form of government. The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The following is a brief review of the component units included in the accompanying basic financial statements of the City:

Redevelopment Agency of the City of Pittsburg

The Redevelopment Agency (Agency) was established in November 1981 pursuant to the State of California Health and Safety Codes, Section 33000, entitled "Community Redevelopment Law." Its purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City.

Housing Authority

The Housing Authority (Authority) was established to account for Federal funds for low income housing under both certificate and voucher programs. The Authority is reported in the special revenue funds of the City. No separate financial report is issued by the Authority.

Public Infrastructure Financing Authority

The Public Infrastructure Financing Authority (PIFA) was established by a Joint Exercise of Powers Agreement dated December 5, 1994, by and among the City and the Agency, and is qualified to issue bonds under the Mello-Roos Local Bond Pooling Act of 1985. The PIFA was formed to finance the acquisition of certain public improvements and refinance prior outstanding special assessment district debt with City commitment.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The City is the primary governmental unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The Agency and Authorities have been accounted for as "blended" component units of the City. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. Balances for the Agency and Authorities are reported as separate funds in the special revenue, debt service, and capital projects funds. The following specific criteria are used in determining that the Agency and Authorities are blended component units:

- The members of the City Council also act as the governing bodies of the Agency and Authorities.
- The Agency and Authorities are managed by employees of the City. A portion of the City's salary and overhead expenses are billed to the Agency and Authorities each year.
- The City, the Agency, and Authorities are financially interdependent. The City makes loans to the Agency to use for redevelopment purposes and the Authorities for operational purposes. Property tax and other revenues of the Agency and Authorities are used to repay the loans to the City.

Detailed financial statements are available for the Agency from the City's Finance Department.

**B. Basis of Accounting and Measurement Focus**

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

Government-Wide Financial Statements

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary Activities of the City are not included in these statements.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables including the corresponding deferred revenues. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The City is the primary governmental unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The Agency and Authorities have been accounted for as "blended" component units of the City. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. Balances for the Agency and Authorities are reported as separate funds in the special revenue, debt service, and capital projects funds. The following specific criteria are used in determining that the Agency and Authorities are blended component units:

- The members of the City Council also act as the governing bodies of the Agency and Authorities.
- The Agency and Authorities are managed by employees of the City. A portion of the City's salary and overhead expenses are billed to the Agency and Authorities each year.
- The City, the Agency, and Authorities are financially interdependent. The City makes loans to the Agency to use for redevelopment purposes and the Authorities for operational purposes. Property tax and other revenues of the Agency and Authorities are used to repay the loans to the City.

Detailed financial statements are available for the Agency from the City's Finance Department.

**B. Basis of Accounting and Measurement Focus**

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

Government-Wide Financial Statements

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary Activities of the City are not included in these statements.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables including the corresponding deferred revenues. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all NCCA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, charges for services, Federal and State grants, sales taxes and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the City applies all GASB pronouncements currently in effect as well as Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.



**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Fiduciary Fund Financial Statements*

Fiduciary fund financial statements include a Statement of Net Assets. The City's fiduciary funds represent agency funds and an expandable trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Expandable Trust Funds involve measurement of results of operations. The Fiduciary funds are accounted for on the accrual basis of accounting as are the Proprietary funds explained above.

**C. Use of Restricted/Unrestricted Net Assets**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

**D. Cash and Investments**

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB No. 31, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investment is allocated to all funds on the basis of monthly cash and investment balances.

The City participates in an investment pool managed by the State of California, titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying basic financial statements.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Property Taxes**

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. Accordingly, the City accrues only those taxes which are receivable from the county within sixty days after year-end.

Lien Date	January 1
Levy Date	July 1
Due Date	Secured: November 1 and February 1 Unsecured: July 1
Collection Date	Secured: December 10 and April 10 Unsecured: August 31

Property taxes levied are recorded as revenue when received, in the fiscal year of levy, because of the adoption of the "alternate method of property tax distribution," known as the Tector Plan, by the City and Contra Costa County. The Tector Plan authorizes the Auditor/Controller of Contra Costa County to allocate 100% of the secured property taxes billed, but not yet paid.

**F. Interfund Balances/Internal Balances**

Advances to and advances from other funds represent interfund loans in the fund financial statements. Advances between funds are offset by a fund balance reservation or by deferred revenue in the applicable governmental funds to indicate that they are not expendable available financial resources.

Any unpaid interest due to lack of funds in the borrowing fund increases the principal owed and is reported in the lending fund as deferred revenue.

All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances."

**G. Capital Assets**

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

City policy has set the capitalization thresholds for reporting capital assets as follows:

• General Capital Assets	\$5,000
• Infrastructure Capital Assets	\$25,000

Depreciation is recorded on a straight-line method over the useful lives of the assets as follows:

• Building	40 years
• Improvements other than Buildings	30 years
• Equipment, machinery, and vehicles	5 - 20 years
• Infrastructure	30-75 years

The Governmental Accounting Standards Board (GASB) Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure assets in its Government-Wide Financial Statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include:

- Street system
- Site amenities such as parking and landscaped areas used by the City in the conduct of its business.

Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the Government-Wide Financial Statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the City has elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City conducted a valuation of its infrastructure assets as of July 1, 2002. This valuation determined the original cost using one of the following methods:

- 1) Use of historical records where available.
- 2) Standard unit costs appropriate for the construction/acquisition date of the asset.
- 3) Present replacement cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date.

The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date was computed on a straight-line method using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interest accrued during capital assets construction, if any, is capitalized for the business type activities and proprietary funds as part of the asset cost.

**H. Long-Term Debt**

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

The Governmental Fund Financial Statements do not present long-term debt, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Proprietary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

**I. Compensated Absences**

City employees have vested interests in varying levels of vacation compensation. If vacation is not used by the employee during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's then prevalent rate at the time of retirement or termination and compensated at 100% of accumulated hours. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually.

For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Compensated absences at June 30, 2004 are presented as follows:

	Governmental Activities	Business-Type Activities	Total
Compensated Absences:			
Due within one year	\$110,915	\$31,484	\$142,399
Due in more than one year	1,624,000	235,185	1,859,185
Total	<u>\$1,734,915</u>	<u>\$266,669</u>	<u>\$2,001,584</u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund when it becomes current.

**J. Deferred Revenue**

Government-Wide Financial Statements

Deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are long-term loans receivable and prepaid charges for services.

Fund Financial Statements

Deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, interest on interfund advances receivable, long-term assessments and long-term loans receivable.

**K. Net Assets and Fund Equity**

**Government-Wide Financial Statements**

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

**Fund Financial Statements**

Fund Equity – Reservations and designations of fund balances of governmental funds and unrestricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

Reservations and designations used by the City are as follows:

Reserved for Encumbrances represents commitments for materials and services on purchase orders and contracts which are unperformed.

Reserved for Supplies represents assets set aside as inventory and not available to be used to meet expenditures in the current period.

Reserved for Capital Projects represents funds reserved for capital and improvement projects.

Reserved for Debt Service represents amounts accumulated in accordance with a bond indenture or similar covenant.

Reserved for Prepaid Items represent funds that have already been expended and are not available as a resource to meet expenditures of the current year.

Reserved for Loans Receivable represents funds reserved for the receipt of loans.

Reserved for Advances represents funds that are to be received from other funds on a long-term basis.

Designated for Leisure Services and Others represents funds donated to the Leisure Services Department for specified uses.

Designated for Grants represents funds received from various State and Federal award programs which have been set aside to fulfill the requirements of the award.

Designated for Roads represents Gas Tax funds set aside for the improvement and maintenance of roadways.

**L. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires City management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*M. Budgetary Principles*

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Public hearings are conducted at locations throughout the City to obtain public comments. The City Council annually adopts the budget for the ensuing fiscal year prior to July 1<sup>st</sup>.
2. The City Manager is authorized to transfer budgetary amounts within a single fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
3. Legally adopted budgets and formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds and capital projects funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through bond indenture provisions. The debt service, trust and agency funds are not budgeted.
4. Budgets for the General, special revenue and capital projects funds are adopted on a basis consistent with GAAP.
5. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2003, based on the calculations by City Management, proceeds of taxes did not exceed the appropriations limit.
6. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year which were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. The City Manager must approve adjustments to departmental budgets; however, management may amend the budgeted amounts within departmental expenditure classifications.
7. Appropriations lapse at the end of the fiscal year and then are rebudgeted for the coming year.
8. Budgeted appropriations for the various governmental funds become effective each July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

9. Budgets are adopted for all funds except for the Low/Moderate Income Housing I Special Revenue Fund and the Kirker Creek Drainage Fees Capital Projects Fund.

Under encumbrance accounting, purchase orders, contracts, and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Since encumbrances do not yet constitute expenditures or liabilities, encumbrances outstanding at year-end are reported as reservations of fund balances.

*N. New and Closed Funds*

During fiscal year 2003-2004, the City separated the Low/Moderate Income Housing Special Revenue Fund into two funds: (i) Low/Moderate Income Housing I Special Revenue Fund, which accounts for the allocation of the costs of the low/moderate income housing programs qualified for the housing set aside efforts owed to the Agency, and (ii) Low/Moderate Income Housing II Special Revenue Fund, which accounts for the housing activity in the Los Medanos II and III areas.

The City also opened two new funds: (i) San Marco Police District Special Revenue Fund and (ii) Other Impact Fees Agency Fund.

The West Leland Assessment District 97-01 Capital Projects Fund is closed as of June 30, 2004.

**NOTE 2-CASH AND INVESTMENTS**

*A. Cash Deposits*

The City maintains a cash and investment pool for all funds. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash with fiscal agents.

All pooled certificates of deposit and bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2004, the carrying amount of the City's deposits was \$1,991,883 and the bank balances were \$1,730,022. The total bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name.

**City of Pittsburgh**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 2-CASH AND INVESTMENTS (Continued)**

The City's cash deposits at year-end are categorized below to give an indication of the level of credit risk assumed by the City.

Category 1 - Deposits which are insured by the FDIC.

Category 2 - Deposits which are collateralized. The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits, or by pledging first trust deed mortgage notes having a value of 150% of a City total deposits.

Category 3 - Deposits which are uninsured or uncollateralized.

**B. Investments**

The investments made by the City Treasurer are limited to those allowable under State statutes as incorporated into the City's Investment Policy, dated and adopted April 5, 2004, which is more conservative than that allowed by State statute.

Under provisions of this policy, the City is authorized to invest in the following types of investments:

Negotiable Certificates of Deposits	Government Agency Securities
Certificates of Deposit	Treasury Bills and Notes
Bankers Acceptances	Money Market Funds
Commercial Papers	State of California Local Agency Investment Fund
Medium Term Notes	Repurchase Agreements

The City's investments at year-end are categorized below to give an indication of the level of credit risk assumed by the City.

Category 1 - Investments which are insured by the Securities Investors Protection Corporation (SIPC), or investments which are held in definitive form by the City or the City's agent in the City's name, or investments acquired through the federal reserve book-entry system where the financial institution or broker/dealer associated with the purchase is adequately segregated from the custodial safekeeping agent on the same investments, and where the investments are recorded on the books and records of the financial institution or broker/dealer in the name of the City.

Category 2 - Investments which are uninsured, where the investments are acquired through a financial institution's investment or trading department, but are held in the same financial institution's trust department and are recorded in the City's name in the trust department's systems and records.

**City of Pittsburgh**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 2-CASH AND INVESTMENTS (Continued)**

Category 3 - Investments which are uninsured, (1) where the investments are acquired through a financial institution's investment department but are held for custodial purposes in the same financial institution's safekeeping department, or (2) where the investments are acquired through a financial institution's trust department, and held for custodial safekeeping by the same trust department, or (3) where the investments are acquired through, and held for safekeeping by, the same broker/dealer, or (4) where investments are not held in the City's name in the systems and records of the financial institution or broker/dealer.

Uncategorized - Certain cash deposits and investments are not subject to categorization under GASB Statement No. 3 and are identified as "Not Required to be Categorized."

The following is a summary of pooled cash and investments, including restricted cash and investments at June 30, 2004:

	Government-Wide Statement of Net Assets				
	Governmental Activities	Business Type Activities	Total	Fiduciary Funds Statement of Net Assets	Total
Cash and Investments	\$93,580,969	\$10,260,129	\$103,841,098	\$2,181,475	\$106,022,573
Restricted Cash and Investments	21,517,271	2,022,385	23,539,656	6,219,038	29,758,694
<b>Total cash and investments</b>	<b>\$115,098,240</b>	<b>\$12,282,514</b>	<b>\$127,380,754</b>	<b>\$8,400,513</b>	<b>\$135,781,267</b>

**C. Summary of Cash and Investments**

At June 30, 2004, the City's pooled cash and investments, classified by risk category consisted of the following:

	Category 1	Not Required to be Categorized	Fair Value
Cash and Cash Deposits			
Cash deposits	\$1,991,883		\$1,991,883
Total cash and cash deposits	1,991,883		1,991,883
Investments			
Local Agency Investment Fund (LAIF)		\$104,030,600	104,030,600
Total pooled cash and investments	1,991,883	104,030,600	106,022,573
Investments held by Fiscal Agent		29,758,694	29,758,694
Total cash and investments	\$1,991,883	\$133,789,294	\$135,781,267

**City of Pittsburgh**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 2-CASH AND INVESTMENTS (Continued)**

The City has no Category 3 type pooled cash or investments.

The maturity of investments at June 30, 2004, was as follows:

Maturity	Fair Value
Current to one year	\$104,030,690
<b>Total investments</b>	<b>\$104,030,690</b>

**D. Investments in Local Agency Investment Funds**

The City's investments with LAIF at June 30, 2004, include a small portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

Structured Notes - debt securities (other than Asset-Backed Securities) whose cash flow characteristics (coupon rate, redemption amount, or state maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities - generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

As of June 30, 2004, the City had \$104,199,057 invested in LAIF, which had invested 2.327% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 0.998384177 was used to calculate the fair value of investments in LAIF.

**E. Fair Value of Investments**

The City has complied with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The City's only investments were with LAIF which resulted in a negative fair value adjustment of \$168,367 using the LAIF fair value factor.

**City of Pittsburgh**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 3-NOTES AND LOANS RECEIVABLE**

As of June 30, 2004, loans and notes receivable consisted of the following:

Special Revenue Funds:	
Small Cities Grant	\$2,015,427
HUD Community Development Block Grant	723,290
Redevelopment Agency	10,525,148
Total Special Revenue Funds	<u>13,263,865</u>
Internal Service Fund:	
Data Processing Fund	35,859
Total notes receivable	<u>\$13,299,724</u>

**A. Small Cities Grant Loans**

The HUD Small Cities Grant Fund is made up loans for housing and rental rehabilitation loans funded by state and federal funding sources. The total of the loans outstanding in the Small Cities Grant Fund totaled \$2,015,427 as of June 30, 2004.

**B. HUD Community Development Block Grant Loans**

The HUD CDBG Special Revenue fund had a loans receivable balance as of June 30, 2004 which was made up of two amounts, \$359,231 and \$364,059, both of which are CDBG entitlement loans receivable totaling \$723,290.

**C. Redevelopment Agency Loans**

**Rehabilitation Loans** - The loans receivable at June 30, 2004 of \$4,346,212 consisted of various rehabilitation and construction loans. These loans have been made to individual homeowners, businesses and developers within the Redevelopment Area. The terms of these loans are specific to the borrower, and interest rates, as well as usage and repayment requirements, vary according to the loan type.

**Loan Agreement with Mt. Diablo Unified School District** - The Redevelopment Agency Special Revenue Fund agreed to loan funds of \$6,178,936 for capital improvements for the Mt. Diablo Unified School District. The funding was provided with 2003A Bond Proceeds that typically would be passed through to the School District. The District will repay the loan from school impact fees collected, commencing January 2005, until the Agency is full reimbursed or 35 years, whichever occurs first.

**D. Data Processing Loans**

The loans receivable in the Data Processing Internal Service Fund are for the City's employee computer home purchase loans, the outstanding receivable balance as of June 30, 2004 was \$35,859.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 4-DEFERRED REVENUE**

**A. Government-Wide Financial Statements**

Deferred revenues in Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2004, deferred revenues in the Government-Wide Financial Statements include unearned grant revenues of \$713,375 in Governmental Activities and \$569 in Business-Type Activities.

**B. Fund Financial Statements**

At June 30, 2004, the following deferred revenues were recorded in the Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Governmental Funds

	General Fund	Redevelopment Agency Special Revenue	Housing Authority (Section 8)	Non-Major Funds	Total
Unearned grant revenues			\$111,541	\$601,834	\$713,375
Housing loans receivable		\$526,439	39,843		566,282
Construction loan receivable		8,177,936			8,177,936
Sale of land	\$1,215,000				1,215,000
<b>Total</b>	<b>\$1,215,000</b>	<b>\$8,704,375</b>	<b>\$151,384</b>	<b>\$601,834</b>	<b>\$10,672,593</b>

Business-Type Funds

The Marina Enterprise Fund had deferred revenue of \$569 as of June 30, 2004.

**NOTE 5-INTERFUND TRANSACTIONS**

**A. Current Interfund Balances**

In the normal course of business, transactions occur between funds which give rise to interfund balances. These balances are normally repaid as they arise.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 5-INTERFUND TRANSACTIONS (Continued)**

Current interfund balances are as follows:

	DUE FROM FUND:	DUE TO FUND:	AMOUNT
San Marco Police District Special Revenue Fund		General Fund	\$85,215
Redevelopment Agency Capital Projects Fund		General Fund	1,215,000
HHD Community Development Block Grant Special Revenue Fund		General Fund	209,133
Low-Moderate Income Housing I Special Revenue Fund		Redevelopment Agency Special Revenue Fund	8,100,000
			<u>\$9,609,348</u>

**B. Interfund Advances**

At June 30, 2004, the following funds had advances that were not expected to be repaid within the next year:

During fiscal year 2002/2003 the Pittsburg Power Enterprise Fund advanced \$375,000 to the Golf Course Enterprise Fund for the replacement and improvements of golf carts. The advance is to be repaid within ten years provided the money is available in the Golf Fund.

During fiscal year 2003/2004 the Sewer Utility Enterprise Fund advanced \$525,000 to the Water Utility Enterprise Fund for repairs and capital improvements to the Hillview Reservoir Storm Drain. The advance is to be repaid over five years with interest at the Local Agency Investment Fund (LAIF) rate.

During fiscal year 2003/2004 the Pittsburg Power Enterprise Fund advanced \$300,000 to the Island Energy Enterprise Fund to establish a reserve fund for the operating activities on Mare Island. The advance is to be repaid in future years when the net assets in the Island Energy have reached a level to replace the amount transferred from the Pittsburg Power Fund.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 5-INTERFUND TRANSACTIONS (Continued)**

C. Interfund Transfers

At June 30, 2004, the City had the following interfund transfers:

FROM FUND:	TO FUND:	AMOUNT
General Fund	Lighting and Landscape Special Revenue Fund	\$1,272,756 (A)
	Water Utility Enterprise Fund	42,000 (D)
	Fringe Benefits Internal Service Fund	329,300 (A)
	Redevelopment Agency Special Revenue Fund	34,013 (A)
	Budget Stabilization Fund	425,000 (G)
<b>Special Revenue Funds:</b>		
Measure C Tax	General Fund	85,000 (A)
	Capital Improvement Project	603,004 (E)
Miscellaneous Grants	Local Law Enforcement Block Grant Special Revenue Fund	5,178 (A)
Economic Development	Golf Course Enterprise Fund	1,150,000 (H)
	Building Maintenance Internal Service Fund	1,500,000 (H)
Gas Tax	General Fund	1,300,000 (A)
Storm Water Utility (NIDES)	General Fund	62,939 (A)
Southwest Pittsburg GIAD II	General Fund	15,504 (A)
HUD Community Development Block Grant	General Fund	7,744 (A)
Redevelopment Agency	General Fund	3,592,144 (A)
	Harbor Enterprise Fund	1,083,000 (H)
	Redevelopment Agency Debt Service	10,184,987 (H)
	General Fund	145,574 (C)
Low/Moderate Income Housing II		
<b>Capital Projects:</b>		
Park Dedication	General Fund	50,000 (A)
Traffic Mitigation	General Fund	71,950 (A)
	Capital Improvement Capital Projects	597,444 (E)
Redevelopment Agency	Capital Improvement Capital Projects	233,414 (E)
<b>Debt Service Funds:</b>		
Redevelopment Agency	Capital Improvement Projects	5,874,535 (E)
	Redevelopment Agency Capital Projects	9,815,411 (E)
	General Fund	75,000 (F)
<b>Internal Service Funds:</b>		
Insurance	General Fund	100,000 (A)
Fringe Benefits	General Fund	200,000 (A)
<b>Enterprise Funds:</b>		
Water Utility Enterprise Fund	General Fund	373,151 (A)
	Pittsburg Power Enterprise Fund	40,000 (E)
Sewer Utility Enterprise Fund	General Fund	373,151 (A)
Harbor Enterprise Fund	General Fund	46,007 (A)
Island Energy Enterprise Fund	General Fund	109,762 (A)
Pittsburg Power Enterprise Fund	General Fund	1,100,449 (A)
	West Leland Assessment District 97-01	358,052 (E)
Golf Course Enterprise Fund	Pittsburg Power Enterprise Fund	6,000 (E)
		<u>\$41,242,267</u>

The reasons for these transfers are set forth below:

- (A) To fund general operations/recurring transfers.
- (B) To fund debt service payments.
- (C) To fund Mt. Diablo Habitat project.
- (D) To reimburse for the reduction of water charges Senior Disabled Citizens.

- (E) To fund capital improvement projects.
- (F) To reimburse bond administration expenses.
- (G) To establish a reserve for future General Fund contingencies and/or shortfall.
- (H) To cover accumulated shortfall on a one-time basis.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 6-CAPITAL ASSETS**

A. Government-Wide Financial Statements

At June 30, 2004, the City's capital assets consisted of the following:

	Government Activities	Business-Type Activities	Total
<b>Non-Depreciable Assets</b>			
Land	531,544,743		531,544,743
Construction in process	21,671,610	526,520	22,198,130
Total non-depreciable assets, net	<u>553,216,353</u>	<u>26,520</u>	<u>553,242,873</u>
<b>Depreciable Assets</b>			
Buildings	36,510,028	15,640,789	52,150,817
Improvements Other than Buildings	10,851,392		10,851,392
Machinery and Equipment	5,951,018	1,842,085	7,793,103
Infrastructure	200,818,852	96,092,537	296,911,389
Totals at historical cost	<u>254,131,290</u>	<u>113,575,411</u>	<u>367,706,701</u>
<b>Less accumulated depreciation:</b>			
Buildings	(4,568,970)	(6,708,177)	(11,277,147)
Improvements Other than Buildings	(4,121,288)		(4,121,288)
Machinery and Equipment	(3,635,184)	(1,301,780)	(4,936,964)
Infrastructure	(70,861,676)	(22,139,184)	(93,000,860)
Total accumulated depreciation	<u>(83,217,118)</u>	<u>(30,149,141)</u>	<u>(113,366,459)</u>
Total depreciable assets, net	<u>170,914,072</u>	<u>83,426,270</u>	<u>254,340,342</u>
<b>Total capital assets</b>	<u><u>522,302,325</u></u>	<u><u>\$83,452,790</u></u>	<u><u>\$607,586,115</u></u>



City of Pittsburgh  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 6-CAPITAL ASSETS (Continued)**

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2003	Additions	Retirements and Transfers	Balance June 30, 2004
<b>Nondepreciable assets:</b>				
Land	\$31,619,743		(\$75,000)	\$31,544,743
Construction in Progress	20,045,169	\$17,376,733	(15,730,292)	21,671,610
Total nondepreciable assets	51,664,912	17,376,733	(15,825,292)	53,216,353
<b>Depreciable assets:</b>				
Buildings	28,973,024		7,537,004	36,510,028
Improvements Other than Buildings	9,307,173	16,976	927,243	10,851,392
Machinery and Equipment	6,124,551	709,281	(880,214)	5,954,018
Infrastructure	194,254,063		6,364,789	200,618,852
Total depreciable assets	239,259,211	726,257	14,148,822	254,134,290
<b>Accumulated depreciation:</b>				
Buildings	(3,725,290)	(\$22,439)	(51,241)	(4,598,970)
Improvements Other than Buildings	(4,393,815)	(435,873)	768,400	(4,121,288)
Machinery and Equipment	(3,977,075)	(506,242)	848,133	(3,635,184)
Infrastructure	(65,728,215)	(5,593,748)	460,087	(70,861,876)
Total accumulated depreciation	(77,824,395)	(7,358,302)	1,965,379	(83,217,318)
Depreciable assets, net	161,434,816	(6,632,045)	16,114,201	170,916,972
<b>Total governmental activities capital assets, net</b>	<b>\$213,099,728</b>	<b>\$10,744,688</b>	<b>\$288,909</b>	<b>\$224,133,323</b>

Governmental activities depreciation expense for capital assets for the year ended June 30, 2004 are as follows:

City Manager and City Clerk	\$8,503
Human Resources	4,397
Finance and services	2,485
Community services	2,637
Public safety	135,819
Public works	6,039,740
General nondepartmental	637,130
Internal service funds	527,591
<b>Total depreciation</b>	<b>\$7,358,302</b>

City of Pittsburgh  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 6-CAPITAL ASSETS (Continued)**

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2003	Additions	Retirements and Transfers	Balance June 30, 2004
<b>Nondepreciable assets:</b>				
Construction in Progress		\$26,520		26,520
Total nondepreciable assets		26,520		26,520
<b>Depreciable assets:</b>				
Improvements Other than Buildings	\$15,640,789			15,640,789
Machinery and Equipment	1,919,939	12,873	(690,727)	1,842,085
Infrastructure	95,145,947		946,590	96,092,537
Total depreciable assets	112,706,675	12,873	855,863	113,575,111
<b>Accumulated depreciation:</b>				
Improvements Other than Buildings	(6,295,659)	(412,518)		(6,708,177)
Machinery and Equipment	(1,250,284)	(156,482)	104,983	(1,301,783)
Infrastructure	(20,068,310)	(1,645,842)	(425,052)	(22,139,154)
Total accumulated depreciation	(27,614,253)	(2,214,842)	(320,069)	(30,149,141)
Depreciable assets, net	85,092,422	(2,201,969)	535,814	83,426,270
<b>Total business-type activities capital assets, net</b>	<b>\$85,092,422</b>	<b>(\$2,175,119)</b>	<b>\$535,814</b>	<b>\$83,452,790</b>

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2004 are as follows:

Water	\$684,600
Sewer	406,852
Marana	320,410
Golf	211,023
Island Energy	391,757
<b>Total depreciation expense</b>	<b>\$2,214,642</b>

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 6-CAPITAL ASSETS (Continued)**

*B. Fund Financial Statements*

The Governmental Fund Financial Statements do not present General Government Capital Assets, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

The capital assets of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements. Internal Service Funds' capital assets are combined with governmental activities.

**NOTE 7-LONG TERM DEBT**

The following is a summary of long-term debt transactions of the governmental activities for the year ended June 30, 2004:

Description	Original Issue Amount	Beginning Balance July 1, 2003	Retirements	Ending Balance June 30, 2004	Amounts Due Within One Year	Amounts Due More Than One Year
<b>Governmental Activities:</b>						
<b>Tax Allocation Bonds:</b>						
1993A RDA Refunding Bonds	\$37,790,000	\$265,000	(\$265,000)			
1993B RDA Refunding Bonds	40,000,000	39,885,000		\$39,885,000		\$39,885,000
1996 RDA Subordinated Refunding Bonds	20,000,000	20,000,000		20,000,000		20,000,000
1998 RDA Bonds	30,106,357	30,006,357	(45,000)	29,961,357	\$55,000	29,906,357
2002A RDA Refunding Bonds	59,970,000	55,760,000	(3,930,000)	51,830,000	4,040,000	47,790,000
2003A RDA Bonds	88,375,000	88,375,000		88,375,000	5,000	88,370,000
Unamortized Premium		7,521,462	(448,023)	7,073,439		7,073,439
<b>Total governmental activities</b>	<b>\$276,231,357</b>	<b>\$241,812,819</b>	<b>(\$4,688,023)</b>	<b>\$237,124,796</b>	<b>\$4,100,000</b>	<b>\$233,024,796</b>

1993 Series A Redevelopment Agency Tax Allocation Refunding Bonds

The 1993A RDA Bonds bear interest at rates between 4.10% and 5.38% with interest payments made semi-annually on February 1 and August 1. The 1993A RDA Bonds consist of both serial and term bonds. The serial portion of the 1993A RDA Bonds mature annually from 1998 to 2006 on August 1 in amounts ranging from \$90,000 to \$305,000. The term portion of the 1993A RDA Bonds mature on August 1 of 2013, 2015, 2017, and 2021 with principal amounts of \$5,350,000, \$2,225,000, \$11,815,000, and 16,235,000 respectively. Proceeds from the 1993A RDA Bonds were used to refund \$30,000,000 of the Agency's 1991 Los Medanos Community Development Project, Tax Allocation Bonds. The 1993A RDA Bonds were fully repaid as of June 30, 2004.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 7-LONG-TERM DEBT (Continued)**

1993 Series B Redevelopment Agency Tax Allocation Refunding Bonds

1993 Series B Redevelopment Agency Tax Allocation Refunding Bonds (1993B RDA Bonds) outstanding at June 30, 2004, amounted to \$39,885,000. The 1993B RDA Bonds bear interest at rates between 5.70% and 5.80% with interest payments made semi-annually on February 1 and August 1. The 1993B RDA Bonds mature on August 1 of 2032 and 2034 in the amounts of \$15,185,000 and \$24,700,000 respectively. Proceeds from the 1993B RDA Bonds were used to fund certain capital improvements located within the Los Medanos Project Area.

The annual debt service requirements to mature the 1993B RDA Bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005		\$2,298,030	\$2,298,030
2006		2,298,030	2,298,030
2007		2,298,030	2,298,030
2008		2,298,030	2,298,030
2009		2,298,030	2,298,030
2010-2014		11,490,150	11,490,150
2015-2019		11,490,150	11,490,150
2019-2024		11,490,150	11,490,150
2025-2029		11,490,150	11,490,150
2030-2034	\$18,770,000	9,065,425	27,835,425
2035	21,115,000	314,795	21,429,795
<b>Total</b>	<b>\$39,885,000</b>	<b>\$66,830,970</b>	<b>\$106,715,970</b>

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 7-LONG-TERM DEBT (Continued)**

*1996 Redevelopment Agency Subordinated Tax Allocation Refunding Bonds*

1996 Redevelopment Agency Subordinated Tax Allocation Refunding Bonds (1996 RDA Bonds) outstanding at June 30, 2004, amounted to \$20,000,000. The 1996 RDA Bonds bear interest rates between 6.20% and 6.25% with interest payments made semi-annually on February 1 and August 1. The 1996 RDA Bonds mature on August 1 of 2019 and 2026 in the amounts of \$8,975,000 and \$11,025,000 respectively. Proceeds from the 1996 RDA Bonds were used to refund the Agency's California Avenue Community Facilities District No. 1990-1 Subordinate Tax Allocation Revenue Bonds and substitute funds in escrow for Series 1993B RDA Bonds for the purposes of commencing the construction of a new City Hall.

The annual debt service requirements to mature the 1996 RDA Bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005		51,245,513	51,245,513
2006		1,245,513	1,245,513
2007		1,245,513	1,245,513
2008		1,245,512	1,245,512
2009		1,245,512	1,245,512
2010-2014	\$3,005,000	5,784,107	8,789,107
2015-2019	4,740,000	4,636,642	9,376,642
2020-2024	6,955,000	2,794,850	9,749,850
2025-2027	5,300,000	510,313	5,810,313
<b>Total</b>	<b>\$20,000,000</b>	<b>\$19,953,475</b>	<b>\$39,953,475</b>

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 7-LONG-TERM DEBT (Continued)**

*1999 Redevelopment Agency Tax Allocation Bonds*

1999 Redevelopment Agency Tax Allocation Bonds (1999 RDA Bonds) outstanding at June 30, 2004 amounted to \$29,961,357. The bonds bear interest rates between 4.1% and 6.2% with interest payments made semi-annually on February 1 and August 1. The bonds mature on August 1 of each year from 2018 to 2030 in the amounts of \$9,710,000 and \$20,396,357. Interest is payable semi-annually on February 1 and August 1 of each year. The bonds are to be paid from Redevelopment Agency tax revenues. The proceeds of the bonds were used to provide money for certain public capital improvements located within the Redevelopment Agency's Project Area, to fund a reserve account, and to pay cost of issuance incurred in connection with the issuance.

The annual debt service requirements to mature the 1999 RDA Bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Totals
2005	\$55,000	5531,708	5586,708
2006	55,000	529,150	584,150
2007	55,000	526,537	581,537
2008	60,000	523,748	583,748
2009	65,000	520,655	585,655
2010-2014	3,165,000	2,200,974	5,365,974
2015-2019	6,110,000	2,816,989	8,926,989
2020-2024	8,737,424	25,827,912	34,565,336
2025-2029	8,765,365	36,214,347	44,979,712
2030-2031	2,893,568	11,569,385	14,462,953
<b>Totals</b>	<b>\$29,961,357</b>	<b>\$81,261,403</b>	<b>\$111,222,760</b>

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 7-LONG-TERM DEBT (Continued)**

2002 Redevelopment Agency Tax Allocation Refunding Bonds

2002 Redevelopment Agency Tax Allocation Refunding Bonds (2002 RDA Bonds) outstanding at June 30, 2004 amounted to \$51,830,000. The 2002 RDA Bonds bear interest at rates between 2.00% and 5.25% with interest payments made semi-annually on February 1 and August 1. The 2002 RDA Bonds mature annually from 2002 to 2015 on August 1 in amounts ranging from \$3,930,000 to \$4,980,000. Proceeds from the 2002 RDA Bonds were used to refund \$58,460,000 of the Agency's 1992 Los Medanos Community Development Project, Tax Allocation Refunding Bonds and to pay costs of issuance incurred in connection with the issuance, sales and delivery of Series 2002A.

The annual debt service requirements to mature the 2002 RDA Bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$4,040,000	\$2,309,475	\$6,349,475
2006	4,185,000	2,165,538	6,350,538
2007	4,330,000	2,011,113	6,341,113
2008	4,495,000	1,840,025	6,335,025
2009	4,675,000	1,650,780	6,325,780
2010-2014	20,598,000	5,286,432	25,884,432
2015-2016	9,710,000	516,337	10,226,337
<b>Total</b>	<b>\$51,830,000</b>	<b>\$15,279,700</b>	<b>\$67,109,700</b>

City of Pittsburg  
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City of Pittsburgh  
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**NOTE 7-LONG-TERM DEBT (Continued)**

*2003 Series A Redevelopment Agency Tax Allocation Bonds*

2003 Series A Redevelopment Agency Tax Allocation Bonds (2003A RDA Bonds) outstanding at June 30, 2004 amounted to \$88,375,000. The 2003A RDA Bonds bear interest at rates between 2.00% and 5.00% with interest payments made semi-annually on February 1 and August 1. The 2003A RDA Bonds mature annually from 2004 to 2021 on August 1 in amounts ranging from \$5,000 to \$8,815,000. Proceeds from the 2003A RDA Bonds were used to fund redevelopment activities of benefit to the Agency's Los Medanos Redevelopment Project, to refund all of the Agency's outstanding Series 1993A Tax Allocation Refunding Bonds (\$36,760,000), to fund a reserve account, to fund capitalized interest on a portion of the Series 2003A Bonds, and to pay costs of issuance incurred in connection with the issuance, sale and delivery of Series 2003A Bonds. The Bonds were issued at a premium of \$7,515,529 which is to be amortized over the life of the bond using straight-line method with an annual amortization of \$442,090. The bonds are to be repaid from certain tax revenues and other funds as provided in certain resolutions of the Agency.

The annual debt service requirements to mature the 2003A RDA Bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$5,000	\$1,211,437	\$1,216,437
2006	285,000	1,238,561	1,523,561
2007	290,000	1,231,713	1,521,713
2008	1,635,000	1,207,262	2,842,262
2009	1,695,000	1,165,888	2,860,888
2010-2014	13,270,000	19,237,450	32,507,450
2015-2019	31,465,000	14,438,625	45,903,625
2020-2024	23,870,000	6,202,237	30,072,237
2025-2029	13,085,000	2,211,719	15,296,719
2030	2,755,000	65,431	2,820,431
<b>Total</b>	<b>\$88,375,000</b>	<b>\$69,230,443</b>	<b>\$157,605,443</b>

CITY OF PITTSBURGH

Comprehensive Annual Financial Report  
 June 30, 2004



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City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 7-LONG-TERM DEBT (Continued)**

The following is a summary of long-term debt transactions of the business-type activities for the year ended June 30, 2004:

	Original Issue Amount	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004	Balance Due Within One Year	Balance Due in More than One Year
<b>Loans:</b>							
<b>Marina Construction Loans:</b>							
1978 Pittsburg Marina Construction Loan	\$1,200,000	\$869,997		(519,031)	\$710,966	\$166,187	\$544,779
1979 Pittsburg Marina Construction Loan	1,100,000	612,597		(91,202)	521,395	95,207	426,188
1986 Pittsburg Marina Construction Loan	2,200,000	8,231,218		(295,932)	7,834,686	414,375	7,420,311
Total Marina construction loans	4,500,000	9,713,812		(906,165)	9,007,749	675,869	8,331,878
<b>Capital start-up costs loan:</b>							
Island Energy	100,000	124,770		(100,000)	24,770	100,000	124,770
Total loans	4,600,000	9,838,582		(1,006,165)	9,291,812	775,869	8,515,948
<b>Revenue Bonds:</b>							
1994 Wastewater Revenue Bonds	12,890,000	11,245,000		(1,545,000)	9,695,000	330,000	9,365,000
1997 Water Revenue Bonds	14,875,000	14,070,000		(300,000)	13,765,000	330,000	13,435,000
2004 Waste Water Revenue Bonds	11,950,000	\$11,950,000		(105,000)	11,845,000	510,000	11,335,000
Total revenue bonds	39,715,000	37,265,000		(1,950,000)	35,315,000	1,170,000	34,145,000
<b>Capital Leases</b>							
		591,299	19,500	(120,960)	489,839	130,837	359,002
Total	\$49,985,000	\$38,184,876	\$11,969,500	(\$12,827,225)	\$35,326,651	\$1,716,706	\$33,579,945

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 7-LONG-TERM DEBT (Continued)**

*Pittsburg Marina Construction Loans*

The Harbor Enterprise Fund has three long-term Pittsburg Marina Construction Loans from the California Department of Boating and Waterways. The principal outstanding at June 30, 2004, for the 1978, 1979, and 1986 loans amounted to \$710,966, \$521,390, and \$7,834,686, respectively. Currently, all three loans bear interest rates of 4.5%. Interest and principal payments are made annually on August 1 for all of the loans.

The annual debt service requirements to mature the Pittsburg Marina Construction Loans outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Year Ending		
	Principal	Interest	Total
2005	\$ 675,869	\$ 408,017	\$ 1,083,886
2006	706,262	377,604	1,083,866
2007	738,067	345,819	1,083,886
2008	771,264	312,607	1,083,871
2009	607,799	277,900	885,699
2010-2014	2,825,003	968,194	3,793,197
2015-2019	2,589,719	323,664	2,913,383
2020-2022	153,039	13,975	167,014
Total	\$ 9,067,042	\$ 3,027,780	\$ 12,094,822

*Capital Start-up Costs - Island Energy*

The City received a loan in the amount of \$424,770 to cover the start-up costs related to the Island Energy Project. The payment of this loan has been scheduled for \$100,000 each fiscal year and ends in fiscal year 2005-06 with the annual payment amount of \$124,770 including interest. At June 30, 2004, the outstanding balance was \$224,770.

*1994 Wastewater Revenue Bonds*

1994 Wastewater Revenue Bonds (1994 Bonds) were issued to partially defease the 1991 Wastewater Revenue Refunding Bonds and fund improvements to the wastewater system in the City. During fiscal year 2004, the Bonds were fully repaid with the proceeds of the 2004 Wastewater Revenue Bonds.

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 7-LONG-TERM DEBT (Continued)**

*1997 Water Revenue Bonds*

1997 Water Revenue Bonds (1997 Bonds) outstanding at June 30, 2004, amounted to \$13,760,000. The 1997 Bonds consist of a serial and a term portion. The serial portion of the 1997 Bonds bear interest rates from 4.25% to 5.00% with interest payments made semi-annually on June 1 and December 1 and principal maturing annually from 2002 to 2013 in amounts ranging from \$285,000 to \$480,000. Term principal payments of \$2,185,000 and \$7,980,000 are due on June 1, 2017 and 2027, respectively. The term bonds bear interest rates of 5.25% for the principal amount maturing in 2017 and 5.50% for the principal amount maturing in 2027. The 1997 Bonds were issued to finance the improvement of the water system within the City.

The annual debt service requirements to mature the 1997 Bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	530,000	870,638	\$1,060,638
2006	345,000	715,623	1,060,623
2007	360,000	699,580	1,059,580
2008	375,000	682,180	1,057,180
2009	395,000	661,855	1,056,855
2010-2014	2,295,000	2,996,900	5,291,900
2015-2019	2,955,000	2,339,950	5,294,950
2020-2024	3,850,000	1,443,200	5,293,200
2025-2027	2,855,000	319,825	3,174,825
<b>Total</b>	<b>\$13,760,000</b>	<b>\$10,590,051</b>	<b>\$24,350,051</b>

City of Pittsburg  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 7-LONG-TERM DEBT (Continued)**

*2004 Wastewater Revenue Bonds*

In March 2004 the City of Pittsburg Financing Authority issued \$11,950,000 of Wastewater Revenue Refunding Bonds Series 2004. The Bonds bear interest rates from 2.00%-4.25% with interest payment made semi-annually on June 1 and December 1 commencing June 1, 2004 through June 1, 2022. The Bonds were issued to refund the \$11,545,000 outstanding balance of the 1994 Wastewater Revenue Refunding Bonds. Proceeds from the 2004 Bonds were placed in an irrevocable trust to provide for all future debt service payments on the defeased 1996 Bonds. Accordingly, the trust account assets and liability for the defeased 1994 Bonds are not included in the City's basic financial statements. The defeased 1994 Bonds were called on June 1, 2004. As a result of the refunding, aggregate debt service was decreased \$1,508,523, and an economic gain of \$57,936 was realized during fiscal year 2003/2004.

The annual debt service requirements to mature the 2004 bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$510,000	\$399,178	\$909,178
2006	520,000	388,978	908,978
2007	530,000	378,578	908,578
2008	545,000	367,978	912,978
2009	555,000	357,078	912,078
2010-2014	3,025,000	1,546,435	4,571,435
2015-2019	3,620,000	981,225	4,601,225
2020-2022	2,540,000	218,683	2,758,683
<b>Total</b>	<b>\$11,845,000</b>	<b>\$4,638,133</b>	<b>\$16,483,133</b>

**City of Pittsburg**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 7-LONG-TERM DEBT (Continued)**

Capital Lease

In 1999 the City entered into an equipment lease purchase agreement with PB Municipal Funding Inc. Interest on the outstanding principal is 5.00%; monthly payments of principal and interest totaling \$387,445 are made every month. The balance was repaid as of June 30, 2004.

In 2005 the City entered into three Golf Course equipment lease purchase agreement with John Deere Credit, Textron Finance Corporation and Bank of the West.

Interest on the outstanding principal varies from 4.000% to 5.238%; monthly payments of principal and interest payment are made every month. The outstanding balance at June 30, 2004, was \$429,839.

The annual debt service requirements to mature the Capital Lease outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$130,837	\$18,722	\$149,559
2006	227,437	10,590	238,027
2007	56,876	2,396	59,272
2008	14,689	129	14,818
<b>Total</b>	<b>\$429,839</b>	<b>\$31,837</b>	<b>\$461,676</b>

**NOTE 8-SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT CITY COMMITMENT**

The City has sponsored special assessment debt issues under which it has no legal or moral liability with respect to repayment of the debt and therefore does not include this debt in the City's Governmental Activity. The activity for those issues for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Retirements	Balance June 30, 2004	Balance Due Within One Year	Balance Due in More Than One Year
1998 Marina Walk A.D. Bonds	\$1,710,000	(\$35,000)	\$1,675,000	\$35,000	\$1,640,000
1998 Pittsburg IFA Bonds	11,600,000	(350,000)	11,250,000	355,000	10,895,000
2001-1 San Marco A.D. Bonds	7,490,000	(110,000)	7,380,000	115,000	7,265,000
2001-2 Oak Hills South A.D. Bonds	2,745,000	(40,000)	2,705,000	40,000	2,665,000
2001-3 Century Plaza Bonds	4,405,000		4,405,000	75,000	4,330,000
<b>Total</b>	<b>\$27,950,000</b>	<b>(\$535,000)</b>	<b>\$27,415,000</b>	<b>\$620,000</b>	<b>\$26,795,000</b>

**City of Pittsburg**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 8-SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT CITY COMMITMENT (Continued)**

**1998 Marina Walk Assessment District Bonds** - 1998 Marina Walk Assessment District Bonds (Marina Walk Bonds) outstanding at June 30, 2004, amounted to \$1,675,000. The Marina Walk Bonds bear interest rates between 4.25% and 5.40% with interest payments made semi-annually on March 2 and September 2. The Marina Walk Bonds mature annually from 2000 to 2028 on September 2 in amounts ranging from \$30,000 to \$120,000. Proceeds from the Marina Walk Bonds were used to finance the construction and acquisition of certain public improvements specifically benefiting properties located within the boundaries of the Marina Walk Assessment District.

**1998 Pittsburg Infrastructure Financing Authority Bonds** - 1998 Pittsburg Infrastructure Financing Authority Bonds (1998 PIFA Bonds) consist of two series with principal outstanding at June 30, 2004, amounting in total to \$11,250,000. The 1998 PIFA Bonds bear interest rates between 4.00% and 5.85% with interest payments made semi-annually on March 2 and September 2. The 1998 PIFA Bonds mature annually from 1999 to 2024 on September 2 in amounts ranging from \$105,000 to \$435,000. Proceeds from the 1998 PIFA Bonds were used to acquire \$12,000,000 principal amount of the Pittsburg Limited Obligation Refunding Bonds, Reassessment District No. 1998-1 which were issued to refund the New York Landing and Oakhill Water Facilities Assessment District Bonds and the 1995 and 1994 Pittsburg Infrastructure Financing Authority Bonds.

**2001-01 San Marco Assessment District Bonds** - 2001-01 Limited Obligation Improvement Assessment District Bonds (San Marco Bonds) outstanding at June 30, 2004, amounted to \$7,380,000. The San Marco Bonds bear interest rates between 4.00% and 5.90% with interest payments made semi-annually on March 2 and September 2. The San Marco Bonds are special obligation of the City and are to be paid from annual assessment installments. Proceeds from the San Marco Bonds were used to finance the construction and acquisition of certain public improvements within the assessment district.

**2001-02 Oak Hills South Assessment District Bonds** - 2001-02 Limited Obligation Improvement Assessment District Bonds (Oak Hills South Bonds) outstanding at June 30, 2004, amounted to \$2,705,000. The Oak Hills South Bonds bear interest rates between 4.00% and 5.20% with interest payments made semi-annually on March 2 and September 2. The Oak Hills South Bonds are special obligation of the City and are to be paid from annual assessment installments. Proceeds from the Oak Hills South Bonds were used to finance the construction and acquisition of certain public improvements within the City's assessment district No. 2001-02.



City of Pittsburgh  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 8-SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT CITY COMMITMENT (Continued)**

2001-03 Century Plaza Assessment District Bonds – 2001-03 Limited Obligation Improvement Assessment District Bonds (Century Plaza Bonds) outstanding at June 30, 2004, amounted to \$4,405,000. The Century Plaza Bonds bear interest rates between 2.40% and 5.88% with interest payments made semi-annually on March 2 and September 2. The Century Plaza Bonds are special obligation of the City and are to be paid from annual assessment installments. Proceeds from the Century Plaza Bonds were used to finance the construction and acquisition of certain public improvements within the City's assessment district No. 2001-03.

The annual debt service requirements to mature the Special Assessment District Debt outstanding at June 30, 2004, were as follows:

Year Ending June 30.	Principal	Interest	Total
2005	\$620,000	\$1,563,912	\$2,183,912
2006	645,000	1,534,061	2,179,061
2007	670,000	1,501,800	2,171,800
2008	710,000	1,466,975	2,176,975
2009	745,000	1,429,453	2,174,453
2010-2014	4,375,000	6,481,662	10,856,662
2015-2019	5,773,000	5,064,462	10,837,462
2020-2024	6,120,000	3,223,051	9,343,051
2025-2029	4,630,000	1,657,994	6,287,994
2030-2033	3,125,000	332,012	3,457,012
<b>Total</b>	<b>\$27,415,000</b>	<b>\$24,258,382</b>	<b>\$51,673,382</b>

City of Pittsburgh  
Notes to Basic Financial Statements  
For the year ended June 30, 2004

**NOTE 9- FUND EQUITY**

**A. Fund Reserves and Designations**

In the Governmental Funds, fund balances at June 30, 2004, have been reserved or designated for the following purposes:

	General Fund	Low-Moderate Income Housing	RDA Special Revenue	Planning Authority (Section 8)	RDA Debt Service	Capital Improvement	RDA Capital Projects	Non Major Funds	Total
Reserved for:									
Excesses/Deficits	\$95,454		\$153,419				\$2,384,021	\$48,345	\$3,181,339
Inventory	273,071								273,071
Capital Projects			5,000		\$28,562,011				28,567,011
Debt service					21,738,488				21,738,488
Prepaid items	53,853		645						54,500
Loans receivable			8,714,375						8,714,375
<b>Total reserved</b>	<b>722,710</b>		<b>8,562,521</b>		<b>49,300,499</b>		<b>2,244,021</b>	<b>348,345</b>	<b>\$1,618,096</b>
Designated for:									
Debt services and others	24,456								24,456
Grants				\$657,801				789,088	1,446,889
Roads						\$1,185,113		6,129,019	7,314,132
Redevelopment projects								5,882,628	5,882,628
<b>Total designated</b>	<b>24,456</b>			<b>657,801</b>		<b>1,185,113</b>		<b>13,800,735</b>	<b>15,668,107</b>
Unreserved, undesignated	7,216,610	(\$8,100,000)	31,512,957				269,804	100,377	30,792,964
<b>Total</b>	<b>\$7,957,776</b>	<b>(\$8,100,000)</b>	<b>\$40,368,478</b>	<b>\$657,801</b>	<b>\$49,240,499</b>	<b>\$1,185,113</b>	<b>\$2,353,825</b>	<b>\$4,048,703</b>	<b>\$118,062,107</b>

**B. Deficit Fund Balance/Net Assets**

At June 30, 2004, the Low and Moderate Income Housing I, Special Revenue Fund had a deficit fund balance of \$8,100,000. The deficit will be reduced with future years incremental tax revenues.

At June 30, 2004, the Lighting and Landscape Special Revenue Fund had a deficit of \$50, which will be redeemed in the following fiscal year.

At June 30, 2004, the San Marco Police District Special Revenue Fund had a deficit fund balance of \$85,215. The deficit will be reduced with future years assessment revenues.

At June 30, 2004, the Miscellaneous Grants Special Revenue Fund had a deficit fund balance of \$107. The deficit will be reduced with future grant revenues.

At June 30, 2004, the Marina Enterprise Fund had a deficit net assets balance of \$1,172,623. The deficit will be reduced with bond proceeds from future debt issuance that will pay off the outstanding Marina construction loans.

**City of Pittsburg**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 10- EXCESS EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2004, the San Marco Police District Special Revenue Fund had total expenditures exceeding appropriations of \$15.

**NOTE 11- RISK MANAGEMENT**

**A. General Liability Insurance**

The City is self-insured for the first \$25,000 of each loss and maintains excess liability insurance through Contra Costa County Municipal Risk Management Insurance Authority (CCCMRMIA). The City is not insured for liability occurrences over \$15,000,000 per occurrence.

**B. Workers' Compensation**

The City maintains statutory excess workers' compensation insurance through CCCMRMIA, and is insured for an individual accident resulting in claims up to statutory limits. The City is not self-insured for any initial portion of a claim but is self-insured for claims exceeding statutory limits.

**C. Estimated Reserves for Claims**

Municipalities are required to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed below, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

The City's liability for uninsured claims, based on claims history, was computed as follows and is recorded in the Insurance Internal Service Fund:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments for Current and Prior Years	End of Year Liability
2001-2002	\$214,299	\$157,715	(\$164,471)	\$207,543
2002-2003	207,543	154,936	(139,585)	222,894
2003-2004	222,894	136,726	(144,047)	215,573

**D. Purchase Insurance**

CCCMRMIA provides additional coverage for the following risks incurred by the City:

Coverage Type	Deductible	Coverage Limits
All Risk Fire and Property	\$5,000	\$1,000,000,000
Boiler and Machinery	5,000	100,000,000
All Vehicles (Physical Damage)	2,000	250,000
Police Vehicles (Physical Damage)	3,000	250,000

**City of Pittsburg**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 11- RISK MANAGEMENT (Continued)**

CCCMRMIA is governed by a Board consisting of representatives from member municipalities.

The Board controls the operations of CCCMRMIA, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's deposits with CCCMRMIA are in accordance with formulas established by CCCMRMIA. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Audited financial statements can be obtained from Contra Costa County Municipal Risk Management Insurance Authority at 1911 San Miguel Drive #200, Walnut Creek, CA 94596-5332.

**E. Adequacy of Protection**

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There has been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

**NOTE 12-DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The City's defined benefit pension plans, City of Pittsburg Miscellaneous Plan and the City of Pittsburg Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City of Pittsburg Miscellaneous Plan and the City of Pittsburg Safety Plan are part of the Public Agency portion of CalPERS, an agent multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

All permanent City employees, classified as full-time, as well as part-time permanent, and temporary City employees who work 1,000 or more hours per year, are required to participate in the California Public Employees Retirement System (CalPERS). Benefits vest after five years of service. City employees who retire at or after age 55 (50 for safety employees) are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to at least 2% for miscellaneous employees, and 3% for safety employees for each year of service (up to 40 years) of their highest annual salary. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

**City of Pittsburgh**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 12-DEFINED BENEFIT PENSION PLAN (Continued)**

**B. Funding Policy**

Active members in the City of Pittsburgh Miscellaneous Plan are required to contribute 7% of reportable earnings in excess of \$133.33. Active members in the City of Pittsburgh Safety Plan are required to contribute 9% of reportable earnings. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rates for the City for fiscal year 2003-04, from July 1, 2003 to June 30, 2004, was 17.39% of reportable earnings for miscellaneous members and 31.81% of reportable earnings for safety members. Safety members covered by the 1959 Survivor Benefits contribute \$2.00 per month. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is actuarially established and may be amended by CalPERS.

**C. Annual Pension Cost**

For 2003-04, the City's annual pension cost was \$5,299,322 including \$1,345,518 paid for the employees and \$1,579 required to contribute to the fourth level 1959 Survivor pre-retirement death benefit for the City of Pittsburgh Safety Police Plan. It was the initial cost to fund the benefit equal to 5 years (to June 30, 2006) of Normal Cost for 55 eligible active members.

The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.25% to 13.15% for safety members), and (c) 3% per year cost-of-living adjustment. Both (a) and (b) include an inflation component of 3%. The actuarial value of the Miscellaneous and Safety Police Plan's assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five-year period. The City's Miscellaneous and Safety Police Plans' unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2001 was 20 years for both Miscellaneous and Safety Police Employees Plans.

**THREE-YEAR TREND INFORMATION FOR CalPERS**

Plan Year	Annual Pension Cost (AIC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	\$2,581,727	100%	-
6/30/2003	5,138,262	100%	-
6/30/2004	5,299,322	100%	-

**City of Pittsburgh**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

**NOTE 12-DEFINED BENEFIT PENSION PLAN (Continued)**

The Plan's actuarial value (which differs from market value) and funding progress over the most recently available three years is set forth below at their actuarial valuation date of June 30:

**Safety Plan:**

Valuation Date	Actuarial					
	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2001	N/A	N/A	N/A	N/A	N/A	N/A
2002	\$19,731,269	\$11,039,443	\$8,691,826	55.9%	\$5,190,896	167.4%
2003	25,181,481	14,038,797	11,142,684	55.8%	6,017,076	185.2%

**Miscellaneous Plan:**

Valuation Date	Actuarial					
	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2001	N/A	N/A	N/A	N/A	N/A	N/A
2002	\$14,153,513	\$3,872,669	\$10,280,844	27.4%	\$9,935,460	103.5%
2003	21,498,661	6,931,747	14,566,914	32.2%	11,669,279	124.8%

Since the City joined CalPERS beginning July 1, 2001, the three-year schedule of funding progress information prior to the fiscal year ended June 30, 2001 is not available.

**NOTE 13- OTHER POST-EMPLOYMENT BENEFITS**

The City provided health care benefits for 65 retired employees on a pay-as-you-go basis with the City paying a portion of the costs. All active health care plan participants and their spouses may become eligible upon retirement for these benefits if they reach the normal retirement age while working for the City. The City's post-employment expenditures for the fiscal year 2004 amounted to \$386,214 including \$89,093 for 21 retirees not on a pay-as-you-go basis.

**City of Pittsburg**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2004**

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**NOTE 14-COMMITMENTS AND CONTINGENCIES**

**A. Grants from Other Governments**

The City participates in a number of Federal, State, and County programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grantor program regulations, the City may be required to reimburse the grantor government. As of June 30, 2004, some amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any individual governmental funds or the overall financial condition of the City.

**B. Litigation**

The City is a defendant in a number of lawsuits which have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty.

**C. Pass-Through Agreements**

The tax increment shifts to the Contra Costa County, College District, Education Office, Fire District, Flood Control District, Library, East Bay Regional Parks District, Mosquito Abatement District, Antioch Unified School District and Pittsburg Unified School District were estimated for 20 fiscal years, beginning from fiscal year 2000-01, to be \$54,898,340. The tax increment to be passed through to these agencies amounted to \$4,355,039 for fiscal year 2003-2004.

**D. Educational Revenue Augmentation Fund (ERAT)**

The State of California has directed that a portion of the incremental property taxes which had been received in prior years by redevelopment agencies be paid instead to local educational agencies. During the fiscal year ended June 30, 2004, the Agency paid \$1,089,885 as a result of the State directive.

**E. Transaction Between Related Parties**

During fiscal 2003-2004, the City and Redevelopment Agency of Pittsburg entered into an agreement whereby the Agency purchased a ten-acre parcel of land from the City for \$2,430,000 with equal installment payments to be paid in fiscal year 2003/2004 and 2004/2005. The Agency intends to convey this property to a developer to address the goals and objectives of the Redevelopment Plan.

**NOTE 15-PRIOR PERIOD ADJUSTMENT**

During fiscal year 2003-2004, the City recorded a prior period adjustment to correct an accounting error made in recording the balance of accrued compensated absences on the Entity-Wide Statements at June 30, 2003. The City had omitted the long-term portion of the accrued compensated absences balance from the Entity-Wide Statements. The impact of the transaction was to reduce beginning net assets in Governmental Activities by \$1,563,990.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Pittsburgh  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Capital Improvement Capital Projects Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$4,299,635	\$4,896,681	\$3,665,411	(\$1,231,270)
<b>Total revenues</b>	<u>4,299,635</u>	<u>4,896,681</u>	<u>3,665,411</u>	<u>(1,231,270)</u>
<b>EXPENDITURES:</b>				
Current:				
General fund/departmental			80,731	(80,731)
Capital outlay and improvements	12,763,118	15,010,118	9,792,964	5,297,154
<b>Total expenditures</b>	<u>12,763,118</u>	<u>15,010,118</u>	<u>9,793,695</u>	<u>5,216,423</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	9,570,094	11,011,947	7,308,297	(3,703,550)
<b>Total other financing sources (uses)</b>	<u>9,570,094</u>	<u>11,011,947</u>	<u>7,308,297</u>	<u>(3,703,550)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>9,570,094</u>	<u>11,011,947</u>	<u>1,180,113</u>	<u>(2,703,559)</u>
<b>FUND BALANCE:</b>				
Beginning of year			5,000	
End of year			<u>\$1,185,113</u>	

City of Pittsburgh  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Redevelopment Agency Capital Projects Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property			\$7,800	\$7,800
Intergovernmental	\$792,992	\$792,992	695,849	(97,143)
Other revenues			35,665	35,665
<b>Total revenues</b>	<u>792,992</u>	<u>792,992</u>	<u>739,314</u>	<u>(53,678)</u>
<b>EXPENDITURES:</b>				
Current:				
Community services	95,121	4,295,121	194,087	4,131,094
Public works - parks		900,000	454	899,546
Capital outlay	10,528,818	41,091,710	9,566,430	31,023,280
<b>Total expenditures</b>	<u>10,623,939</u>	<u>46,286,831</u>	<u>9,752,971</u>	<u>36,353,860</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	14,626,445	33,120,445	9,815,411	(23,311,034)
Transfers out		(233,414)	(233,414)	
<b>Total other financing sources (uses)</b>	<u>14,626,445</u>	<u>32,887,031</u>	<u>9,581,997</u>	<u>(23,311,034)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>14,626,445</u>	<u>32,887,031</u>	<u>588,340</u>	<u>(23,311,034)</u>
<b>FUND BALANCE:</b>				
Beginning of year			1,505,985	
End of year			<u>\$2,053,825</u>	

**City of Pittsburg**  
**Supplemental Information**  
**For the year ended June 30, 2004**

**Non-Major Governmental Funds**

*Economic Development Fund* - established to account for the \$6,000,000 of proceeds from the sale of a power plant to Calpine that was set-aside to be used for economic activities in the City of Pittsburg.

*Budget Stabilization Fund*- established for the purpose of financing future contingencies and/or General Fund shortfall.

*Small Cited Grants Fund* - established to account for direct grants received for housing and rental rehabilitation programs, which are program income and used to supplement housing rehabilitation costs.

*Gas Tax Fund* - This fund represents the Highway Users Tax apportionments from State of California for street and road purposes under the provisions of Streets and Highways Code Maintenance.

*Measure C Fund* - This fund receives 18% of the collected half-cent sales tax, which are based on the population and road mileage; to fund regional transportation and transit related projects.

*Lighting and Landscape Fund* - Receipts of the assessments from residential and commercial properties are used by this fund to provide maintenance of street lighting, street trees, landscape, curbs, gutters and sidewalks within the City.

*Lighting and Landscape Oak Hill Fund* - Receipts of the special assessments from residential and commercial properties, in the Oak Hill area, are used by this fund to provide maintenance of street lighting, street trees, landscape, curbs, gutters and sidewalks.

*San Marco Police District Fund*- The receipts of this fund provide funding for police services in the San Marco subdivision of the Community Facilities District.

*Miscellaneous Grants Fund* - This fund receives various small grants to administer the police, recreation, and public services.

*Assets Seizure Fund* - This fund was established to administer the seized assets from criminal activities.

*Local Law Enforcement Block Grant Fund* - This fund accounts for the funds provided by Department of Justice to supplement local crime prevention and public safety efforts.

*Southwest Pittsburg (GHAD II) Fund* - Southwest Pittsburg Geological Hazard Abatement fund was created to account for the maintenance district of which responsibilities are restricted to mitigation/abatement of geologic landslide and erosion hazards. The fund received revenues from assessments levied on the properties located on the hillside areas for its operation costs.

*Storm Water Utility (NPDES) Fund* - This fund accounts for property assessments collected by the County of Contra Costa in behalf of the City to provide funding for National Pollutant Discharge Elimination System (NPDES) and general drainage maintenance activities within the Pittsburg Storm Water Utility Area to reduce pollutants.

**City of Pittsburg**  
**Supplemental Information**  
**For the year ended June 30, 2004**

**Non-Major Governmental Funds (Continued)**

*HUD Community Development Block Grant Fund* - Receives annual entitlement from Department of HUD to finance public services, housing activities, economic development projects, public facility projects, program planning and administration.

*Low/Moderate Income Housing II Fund*-This fund accounts for the receipts of the mandated 20% set-aside of tax increment revenue in the Los Medanos II and III areas and expenses related to the low/moderate income housing programs.

*West Leland Assessment District 97-01 Fund* - This fund was created to account for all costs incurred from preparation of bond issuance in 1997. The bonds have not been issued.

*Kirker Creek Drainage Fees Fund* - This fund was established to account for the drainage fees collected from developers to finance drainage improvement projects.

*Traffic Mitigation Fund* - Fees collected from developers are used by this fund to finance the capital improvement projects that mitigate the traffic impact.

*Park Dedication Fund* - This fund was established to account for the fees collected from developers and used for design, development, and construction of the park projects.

City of Pittsburg  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2004

	Special Revenue					
	Unincorporated Development	Furlper Subsidiums	Small Cities Grant	Gas Tax	Measure C Tax Fund	Lighting & Landscape
Cash and investments	\$5,652,082	\$425,000	\$766,029	\$324,062	\$445,570	\$10,644
Receivables			1,496	101,907	630,000	100
Accounts receivable			2,015,477			
Prepaid items						
<b>Total assets</b>	<b>\$5,652,082</b>	<b>\$425,000</b>	<b>\$7,794,552</b>	<b>\$326,869</b>	<b>\$1,075,570</b>	<b>\$117,644</b>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts payable	\$7,514
Salaries payable	\$2,461
Retainable deposits	49,340
Loans payable - current	
Due to other agencies	2,015,477
Due to other funds	
Portered revenue	
<b>Total liabilities</b>	<b>2,035,792</b>
<b>Fund Balances:</b>	<b>32,461</b>
Assigned	
Unreserved, designated	\$25,000
Unreserved, reported in non-major funds	1,052,906
Special revenue funds	
Capital projects	75,227
<b>Total unreserved, designated</b>	<b>1,052,906</b>
<b>Total fund balances (deficit)</b>	<b>(50)</b>
<b>Total liabilities and fund balances</b>	<b>\$117,644</b>

Lighting & Landscape Oak Hill	Special Revenue						FUND
	Police District	Subsidious Grants	Acove Summit	Local Law Enforcement BNA Grant	Southwest Pittsburg (GRAD)	Storm Water Utility (NTPE)	
\$119,526	\$185,767	\$214,053	\$174,473	\$331,392	\$401,387	\$1,099,697	
\$1,001	\$71,587	\$15,156	\$28,051	\$2,925	\$2,620	\$40,586	
	2,703	31,066			10,469	6,779	
	12,241					391,221	
	458,215			88,442		209,135	
	85,215	188,874	47,225	116,447	2,925	954,059	
						987,088	
118,527	107	116,896	33,667	388,288	19,289	1,009,977	
118,527	107	116,896	33,667	388,288	19,289	1,009,977	
\$119,526	\$185,767	\$214,053	\$174,473	\$331,392	\$401,387	\$1,099,697	

(Continued)

City of Pittsburg  
 Combining Balance Sheet  
 Non-Major Governmental Funds  
 June 30, 2004

	Special Revenue	Capital Projects			Non-Major Governmental Funds
	West Lealand Assessment District 97-01	Kaiser Creek Language Fees	Traffic Mitigation	Park Dedication	
Low/Moderate Income Housing II	\$2,015,441	\$44,664	\$3,053,879	\$1,531,474	\$1,003,382
Cash and investments					1,058,227
Receivables					2,736,217
Accounts receivable					310
Prepaid items					
<b>Total assets</b>	<b>\$2,015,441</b>	<b>\$44,664</b>	<b>\$3,053,879</b>	<b>\$1,531,474</b>	<b>\$17,820,611</b>

LIABILITIES AND FUND BALANCES

Liabilities:					
Accounts payable		\$57,498		\$25,612	\$101,199
Salaries payable					73,819
Refundable deposits					37,759
Loans payable - current					2,374,658
Due to other agencies					12,385
Due to other funds					294,538
Deferred revenue					661,834
<b>Total liabilities</b>		<b>67,498</b>		<b>25,612</b>	<b>3,789,295</b>

Fund Balances

Reserved					1,822,537
Unreserved, designated					7,277,436
Unreserved, reported in non-major funds:					
Special revenue funds	\$2,015,441				4,038,807
Capital projects		\$44,664	2,986,381	1,505,862	1,235,548
Total unreserved - designated		464,644	2,986,381	1,505,862	14,036,703
<b>Total fund balances (deficit)</b>	<b>2,015,441</b>	<b>464,664</b>	<b>2,986,381</b>	<b>1,505,862</b>	<b>\$17,820,611</b>
<b>Total liabilities and fund balances</b>	<b>\$2,015,441</b>	<b>\$3,053,879</b>		<b>\$3,531,474</b>	

CITY OF PITTSBURG

Comprehensive Annual Financial Report  
 June 30, 2004



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**City of Pittsburgh**  
**Combining Statements of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**for the year ended June 30, 2004**

	Special Revenue					Lighting & Landscaping
	Electricity	Budget Substitution	Solid Waste	Gas Tax	Treasurer's Tax Fund	Lighting & Landscaping
REVENUES:						
Property taxes				\$1,142,279	\$630,000	\$1,982,515
Intergovernmental revenues						
Grants, permits, and fees						
Special assessments						
Use of money and property	510,715			7,856	12,612	531,183
Other revenues	918,640				52,228	970,868
Total revenues	1,429,365			1,150,135	695,241	3,274,741
EXPENDITURES:						
Capital equipment					12.8%	18,942
Comprehensive services						
Public safety						
Public works - streets					43.9%	1,438,435
General non departmental	510,944					510,944
Capital outlay and improvements						
Total expenditures	510,944				56,724	1,969,383
REVENUES OVER (UNDER)	918,421			1,150,135	638,517	1,305,358
EXPENDITURES						
OTHER FINANCING SOURCES (USES):						
Transfers in						
Transfers out	(5,500,000)			(1,200,000)	(688,000)	(7,388,000)
Total other financing sources (uses)	(5,500,000)			(1,200,000)	(688,000)	(7,388,000)
Net change in fund balances	(2,811,579)			(48,865)	(49,283)	(3,309,727)
FUND BALANCES (DEFICITS):						
Beginning of year	6,394,824			748,972	1,011,946	8,155,742
End of year	\$3,583,245			\$700,107	\$1,062,663	\$5,345,995

	Special Revenue							ICD
	Police District	Miscellaneous Grants	Assets Seizure	Local Law Enforcement Block Grant	Sealed Parking C/PAD II	Storm Water Utility (NTPAS)	Community Development Block Grant	
Lighting & Landscaping								
Oak Hill								
		\$9,407		410,241	514,409	\$416,400	\$780,551	
		2,711	\$2,253	3,897	3,622			
		62,350	7,848	113,796	130,487	616,000	280,551	
		25,165	3,027	87,536	901		106,643	
	548,215	2,000		41,873	37,722	3,305	571,104	
			1,079			476,959		
		25,735	26,200	49,363		142,476		
	45,213	136,631	30,346	145,796	18,223	648,441	772,301	
	145,215	154,263	122,468	615,073	115,858	632,460	7,760	
		6,178		5,278		62,850	(7,744)	
		(5,128)		5,178		(62,882)	(7,711)	
	182,215	(59,439)	(22,458)	(9,901)	46,174	(95,366)	16	
	30,532	102,266	27,380	233,313	482,657		19,273	
	118,527	145,215	\$162,808	\$17,077	\$31,677	\$788,586	\$19,288	

City of Pittsburg  
 Combining Statements of Revenues, Expenditures and Changes in Fund Balances  
 Non-Major Governmental Funds  
 For the year ended June 30, 2004

	Special Revenue		Capital Projects			Total Non-Major Governmental Funds
	Low/Moderate Income Housing II	West Leland Assessment District 97-01	Kirklin Creek Leasage Fees	Traffic Mitigation	Park Dedication	
<b>REVENUES:</b>						
Property taxes	\$2,237,317					\$3,000,726
Intergovernmental revenue						2,790,711
Licenses, permits, and fees			527,604	\$411,975	\$604,615	1,544,194
Special assessments						2,016,172
Use of money and property	15,988		3,843	38,270	26,216	223,055
Other revenues				47,045		621,137
<b>Total revenues</b>	<u>2,251,205</u>		<u>531,447</u>	<u>497,290</u>	<u>692,833</u>	<u>9,687,273</u>
<b>EXPENDITURES:</b>						
Current:						
General government						235,252
Community services	44,560					1,332,790
Public safety						206,787
Public works - streets				22,028		2,531,266
General non-departmental	18,389					351,407
Capital outlay and improvements				404,517	103,161	615,592
<b>Total expenditures</b>	<u>62,949</u>			<u>426,545</u>	<u>103,161</u>	<u>6,275,424</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>2,188,257</u>		<u>53,447</u>	<u>70,845</u>	<u>589,672</u>	<u>3,411,849</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in		538,032				2,080,984
Transfers out	(145,374)			(669,394)	(50,000)	(5,594,132)
<b>Total other financing sources (uses)</b>	<u>(145,374)</u>	<u>538,032</u>		<u>(669,394)</u>	<u>(50,000)</u>	<u>(15,553,151)</u>
<b>Net change in fund balances</b>	<u>2,042,883</u>	<u>558,052</u>	<u>53,447</u>	<u>(598,549)</u>	<u>739,672</u>	<u>(141,301)</u>
<b>FUND BALANCES (DEFICITS):</b>						
Beginning of year	(23,612)	(338,052)	431,217	3,569,930	966,190	34,790,097
<b>End of year</b>	<u>\$2,019,271</u>	<u>\$464,664</u>	<u>\$2,968,261</u>	<u>\$1,505,682</u>	<u>\$1,705,862</u>	<u>\$34,648,796</u>

City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Economic Development - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Current:				
General non-departmental	\$360,000	\$518,672	\$169,464	\$243,208
<b>Total expenditures</b>	<u>360,000</u>	<u>518,672</u>	<u>169,464</u>	<u>549,208</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(360,000)</u>	<u>(518,672)</u>	<u>(169,464)</u>	<u>349,208</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	360,000			
Transfers out		(2,650,000)	(2,650,000)	
<b>Total other financing sources (uses)</b>	<u>360,000</u>	<u>(2,650,000)</u>	<u>(2,650,000)</u>	
<b>NET CHANGE IN FUND BALANCE</b>		<u>(53,168,672)</u>	<u>(2,819,464)</u>	<u>534,208</u>
<b>FUND BALANCE:</b>				
Beginning of year			6,394,028	
<b>End of year</b>			<u>\$3,574,564</u>	

City of Pittsburgh  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Budget Stabilization - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Transfers in	\$425,000	\$425,000	\$425,000	
Total other financing sources (uses)	425,000	425,000	425,000	
Net change in fund balances	\$425,000	\$425,000	425,000	
<b>FUND BALANCES:</b>				
Beginning of year				
End of year			\$425,000	

City of Pittsburgh  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Small Cities Grants - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$115,000	\$115,000	\$101,715	(\$13,285)
Intergovernmental	201,000	203,000		(200,000)
Other revenues	411,200	411,200	\$15,649	134,449
Total revenues	726,200	726,200	617,364	(108,836)
<b>EXPENDITURES:</b>				
Current:				
Community services	877,587	877,587	611,116	266,471
Total expenditures	877,587	877,587	611,116	266,471
REVENUES OVER (UNDER) EXPENDITURES	(151,387)	(151,387)	6,248	157,635
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out		(394,029)		394,029
Total other financing sources (uses)		(394,029)		394,029
NET CHANGE IN FUND BALANCE	(\$151,387)	(\$545,416)	6,248	\$351,664
<b>FUND BALANCE</b>				
Beginning of year			\$48,979	
End of year			\$255,227	

City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Gas Tax Special Revenue Fund - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$12,000	\$12,000	\$7,855	(\$4,255)
Intergovernmental	1,117,910	1,117,910	1,142,739	24,829
<b>Total revenues</b>	<u>1,130,000</u>	<u>1,130,000</u>	<u>1,150,594</u>	<u>20,594</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,130,000</u>	<u>1,130,000</u>	<u>1,150,594</u>	<u>20,594</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(1,300,000)	(1,300,000)	(1,300,000)	
<b>Total other financing sources (uses)</b>	<u>(1,300,000)</u>	<u>(1,300,000)</u>	<u>(1,300,000)</u>	
<b>NET CHANGE IN FUND BALANCE</b>	<u>(\$170,000)</u>	<u>(\$170,000)</u>	<u>(149,406)</u>	<u>\$20,594</u>
<b>FUND BALANCE:</b>				
Beginning of year			476,275	
End of year			<u>526,869</u>	

City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Measure C Tax Fund - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$5,000	\$9,000	\$12,617	\$8,017
Intergovernmental	675,000	675,000	690,000	15,000
Other revenues			52,729	52,729
<b>Total revenues</b>	<u>680,000</u>	<u>684,000</u>	<u>995,346</u>	<u>10,746</u>
<b>EXPENDITURES:</b>				
Current:				
General government	70,000	20,000	12,834	7,164
Public works	85,000	256,839	47,938	(212,902)
<b>Total expenditures</b>	<u>105,000</u>	<u>276,839</u>	<u>60,772</u>	<u>(220,065)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>575,000</u>	<u>407,161</u>	<u>638,567</u>	<u>230,806</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out		(688,000)	(688,000)	
<b>Total other financing sources (uses)</b>		<u>(688,000)</u>	<u>(688,000)</u>	
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$579,000</u>	<u>(\$280,242)</u>	<u>(49,433)</u>	<u>\$150,806</u>
<b>FUND BALANCE:</b>				
Beginning of year			1,101,846	
End of year			<u>1,052,509</u>	

City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Lighting & Landscape - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Special Assessments	\$2,001,231	\$2,001,231	\$1,982,513	(\$18,718)
Other revenues			91	91
<b>Total revenues</b>	<b>2,001,231</b>	<b>2,001,231</b>	<b>1,982,604</b>	<b>(18,627)</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government	20,100	28,579	18,943	9,636
Public works	3,073,899	3,065,420	2,958,465	106,955
Capital outlay and improvements			14,976	(14,976)
<b>Total expenditures</b>	<b>3,093,999</b>	<b>3,093,999</b>	<b>2,992,384</b>	<b>101,615</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,092,768)</b>	<b>(1,092,768)</b>	<b>(1,011,780)</b>	<b>80,988</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,072,751	1,272,754	1,272,754	
<b>Total other financing sources (uses)</b>	<b>1,072,751</b>	<b>1,272,754</b>	<b>1,272,754</b>	
<b>NET CHANGE IN FUND BALANCE</b>	<b>(120,017)</b>	<b>\$179,986</b>	<b>260,974</b>	<b>\$50,988</b>
<b>FUND BALANCE:</b>				
Beginning of year			(261,024)	
End of year			(50)	

City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Lighting & Landscape (Oak Hill Assessment District) - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Special Assessments	\$7,882	\$7,882	\$7,459	\$423
<b>Total revenues</b>	<b>7,882</b>	<b>7,882</b>	<b>7,459</b>	<b>423</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government	235	646	943	(308)
Public works	30,452	34,261	29,899	4,362
<b>Total expenditures</b>	<b>30,687</b>	<b>34,907</b>	<b>30,842</b>	<b>4,065</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(22,805)</b>	<b>(27,025)</b>	<b>(23,383)</b>	<b>4,280</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(22,805)</b>	<b>(27,025)</b>	<b>(23,383)</b>	<b>4,280</b>
<b>FUND BALANCE:</b>				
Beginning of year			115,409	
End of year			\$118,722	

City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 San Marco Police District - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Current				
Police - Safety	\$55,200	\$63,200	\$48,215	(\$15,000)
Total expenditures	55,200	63,200	48,215	(\$15,000)
REVENUES OVER (UNDER) EXPENDITURES	(85,200)	(85,200)	(85,215)	(15)
<b>NET CHANGE IN FUND BALANCE</b>	<u>(85,200)</u>	<u>(\$85,200)</u>	<u>(85,215)</u>	<u>(15)</u>
<b>FUND BALANCE:</b>				
Beginning of year				
End of year			<u>(\$85,215)</u>	

City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Miscellaneous Grants - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of monies and projects			\$2,743	\$2,743
Intergovernmental	\$265,948	\$265,948	\$9,607	(\$26,341)
Total revenues	265,948	265,948	62,350	(703,598)
<b>EXPENDITURES</b>				
Current				
Community services	43,293	43,293	28,168	15,125
Public safety	20,945	20,945	72,693	(51,748)
Capital repair and improvements	201,710	201,710	15,257	186,453
Total expenditures	265,948	265,948	116,118	149,830
REVENUES OVER (UNDER) EXPENDITURES			254,263	(\$5,263)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out			(5,178)	(\$5,178)
Total other financing sources (uses)			(5,178)	(\$5,178)
<b>NET CHANGE IN FUND BALANCE</b>			<u>249,085</u>	<u>(\$9,441)</u>
<b>FUND BALANCE:</b>				
Beginning of year			\$9,132	
End of year			<u>(\$107)</u>	

City of Pittsburgh  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Asset Seizure - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property			\$2,225	\$2,225
Other revenues			5,623	5,623
<b>Total revenues</b>			<b>7,848</b>	<b>7,848</b>
<b>EXPENDITURES</b>				
Current				
Federal government			1,027	(3,027)
Federal nondepartmental			1,079	(1,079)
Capital outlay and improvements	\$182,720	\$182,720	26,200	154,520
<b>Total expenditures</b>	<b>182,720</b>	<b>182,720</b>	<b>28,306</b>	<b>124,414</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(182,720)</b>	<b>(182,720)</b>	<b>(20,458)</b>	<b>160,262</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(182,720)</b>	<b>(182,720)</b>	<b>(20,458)</b>	<b>\$160,262</b>
<b>FUND BALANCE:</b>				
Beginning of year			188,266	
End of year			<u>\$165,808</u>	

City of Pittsburgh  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Local Law Enforcement Block Grant - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$1,988	\$1,988	\$5,902	\$3,904
Intergovernmental	201,321	201,321	107,814	(93,507)
<b>Total revenues</b>	<b>203,309</b>	<b>203,309</b>	<b>113,716</b>	<b>(89,603)</b>
<b>EXPENDITURES</b>				
Current				
Community services	30,606	30,606	37,546	(6,940)
Public Safety	32,182	32,182	41,376	(9,194)
Capital outlay and improvements	167,799	167,799	48,343	118,432
<b>Total expenditures</b>	<b>230,587</b>	<b>230,587</b>	<b>126,765</b>	<b>103,794</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(27,278)</b>	<b>(27,278)</b>	<b>(13,049)</b>	<b>13,199</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	6,814	6,814	5,178	(1,636)
<b>Total other financing sources (uses)</b>	<b>6,814</b>	<b>6,814</b>	<b>5,178</b>	<b>(1,636)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(20,464)</b>	<b>(20,464)</b>	<b>(7,871)</b>	<b>\$10,553</b>
<b>FUND BALANCE:</b>				
Beginning of year			27,360	
End of year			<u>\$17,979</u>	

City of Pittsburg

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Southwest Pittsburg CHAD II - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$126,100	\$126,100	\$148,409	\$22,309
Use of money and property	3,900	3,900	3,672	(228)
<b>Total revenues</b>	<b>130,000</b>	<b>130,000</b>	<b>152,081</b>	<b>22,081</b>
<b>EXPENDITURES:</b>				
Current:				
General government	443	443	901	458
Community services	93,030	93,000	37,322	55,678
<b>Total expenditures</b>	<b>93,443</b>	<b>93,443</b>	<b>38,223</b>	<b>55,220</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>36,557</b>	<b>36,557</b>	<b>113,858</b>	<b>77,501</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(15,504)	(15,504)	(15,504)	
<b>Total other financing sources (uses)</b>	<b>(15,504)</b>	<b>(15,504)</b>	<b>(15,504)</b>	
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$21,053</b>	<b>\$21,053</b>	<b>98,354</b>	<b>\$77,001</b>
<b>FUND BALANCE:</b>				
beginning of year			233,313	
End of year			\$331,667	

City of Pittsburg

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Storm Water Utility (NPDES) - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$520,000	\$520,000	\$616,000	\$94,000
<b>Total revenues</b>	<b>520,000</b>	<b>520,000</b>	<b>616,000</b>	<b>94,000</b>
<b>EXPENDITURES:</b>				
Current:				
Public safety	32,644	32,644	9,005	23,639
Public works	711,185	711,185	476,979	234,206
General (non-departmental)	143,000	143,000	162,476	(19,476)
<b>Total expenditures</b>	<b>886,829</b>	<b>886,829</b>	<b>648,460</b>	<b>238,369</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(366,829)</b>	<b>(366,829)</b>	<b>(32,460)</b>	<b>234,369</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(62,939)	(62,939)	(62,939)	
<b>Total other financing sources (uses)</b>	<b>(62,939)</b>	<b>(62,939)</b>	<b>(62,939)</b>	
<b>NET CHANGE IN FUND BALANCE</b>	<b>(\$329,768)</b>	<b>(\$329,768)</b>	<b>(95,399)</b>	<b>\$234,369</b>
<b>FUND BALANCE:</b>				
beginning of year			483,867	
End of year			\$388,468	



City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 HUD Community Development Block Grant - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intrafundamental	\$793,000	\$793,000	\$780,551	(\$12,449)
Total revenues	793,000	793,000	780,551	(12,449)
<b>EXPENDITURES:</b>				
Current:				
General government	198,600	198,600	198,600	
Community services	641,300	641,300	574,091	67,209
Capital outlay and improvements	2,750	2,750	2,750	
Total expenditures	842,650	842,650	775,441	67,209
REVENUES OVER (UNDER) EXPENDITURES	(49,650)	(49,650)	2,760	\$7,410
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out			(7,744)	(7,744)
Total other financing sources (uses)			(7,744)	(7,744)
NET CHANGE IN FUND BALANCE	(549,650)	(549,650)	16	\$49,660
<b>FUND BALANCE:</b>				
Beginning of year			19,273	
End of year			\$19,289	

City of Pittsburg  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Low/Moderate Income Housing II - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$1,800,000	\$1,800,000	\$1,757,017	\$42,983
Use of money and property			13,868	13,868
Total revenues	1,800,000	1,800,000	1,770,885	29,115
<b>EXPENDITURES:</b>				
Current:				
Community services	\$50,000	\$0,000	44,460	55,540
General nondepartmental			18,388	(18,388)
Total expenditures	50,000	0,000	62,848	73,852
REVENUES OVER (UNDER) EXPENDITURES	1,750,000	1,000,000	2,188,407	1,188,457
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(145,374)	(145,374)	(145,374)	
Total other financing sources (uses)	(145,374)	(145,374)	(145,374)	
NET CHANGE IN FUND BALANCE	\$1,604,626	\$854,626	2,043,033	\$1,188,457
<b>FUND BALANCE:</b>				
Beginning of year			(23,642)	
End of year			\$2,019,441	

City of Pittsburgh  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 West Leland Assessment District 90-01 - Special Revenue Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	\$338,052	\$338,052	\$338,052	
<b>Total other financing sources (uses)</b>	<u>338,052</u>	<u>338,052</u>	<u>338,052</u>	
<b>NET CHANGE IN FUND BALANCE:</b>	<u>(\$338,052)</u>	<u>(\$338,052)</u>	<u>338,052</u>	<u>\$676,104</u>
<b>FUND BALANCE:</b>				
Beginning of year			(338,052)	
End of year			<u>                    </u>	

City of Pittsburgh  
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
 Traffic Mitigation - Capital Projects Fund  
 For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property			\$28,370	\$38,573
Licenses, permits, and fees			411,075	411,975
Other revenues			47,042	47,045
<b>Total revenues</b>			<u>486,487</u>	<u>497,593</u>
<b>EXPENDITURES</b>				
Current:				
Public works	\$60,265	\$60,265	22,928	44,237
Capital outlay	2,266,915	2,266,915	484,517	1,865,398
<b>Total expenditures</b>	<u>2,327,180</u>	<u>2,327,180</u>	<u>507,445</u>	<u>1,909,635</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,266,180)</u>	<u>(2,266,180)</u>	<u>70,845</u>	<u>2,487,025</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(\$75,000)	(\$72,444)	(669,294)	3,050
<b>Total other financing sources (uses)</b>	<u>(75,000)</u>	<u>(672,444)</u>	<u>(669,294)</u>	<u>3,050</u>
<b>NET CHANGE IN FUND BALANCE:</b>	<u>(\$2,291,180)</u>	<u>(\$1,602,776)</u>	<u>(398,549)</u>	<u>(1,095,187)</u>
<b>FUND BALANCE:</b>				
Beginning of year			3,546,930	
End of year			<u>\$2,968,381</u>	

City of Pittsburg

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Park Dedication - Capital Projects Fund

For the year ended June 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property			\$28,216	\$28,216
Licenses, permits, and fees			664,615	664,615
<b>Total revenues</b>			<b>692,831</b>	<b>692,831</b>
<b>EXPENDITURES:</b>				
Capital outlay	\$647,153	\$647,153	103,161	\$413,662
<b>Total expenditures</b>	<b>647,153</b>	<b>647,153</b>	<b>103,161</b>	<b>\$413,662</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(647,153)</b>	<b>(647,153)</b>	<b>589,672</b>	<b>1,236,825</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(50,000)	(50,000)	(50,000)	
<b>Total other financing sources (uses)</b>	<b>(50,000)</b>	<b>(50,000)</b>	<b>(50,000)</b>	
<b>NET CHANGE IN FUND BALANCE</b>	<b>(697,153)</b>	<b>(697,153)</b>	<b>539,672</b>	<b>\$1,236,825</b>
<b>FUND BALANCE:</b>				
Beginning of year			966,190	
End of year			\$1,505,862	

City of Pittsburg  
Supplemental Information  
For the year ended June 30, 2004

Non-Major Proprietary Funds

The proprietary funds account for activities that are financed and operated in a manner similar to private business enterprises. The City Council has determined that the costs of providing the following services to the public be recovered primarily through user charges.

*Golf Course Fund* - This fund was established to account for revenues and expenditures associated with providing golfing facilities and services to our community.

*Island Energy Fund* - This fund was established to account for expenditures incurred in maintenance of the facilities, in distributing gas and electricity to the industries, schools, business, and residents of Mare Island, in Vallejo, and to account for revenues collected from services to customers.

*Pittsburg Power Fund* - This fund was created by the Joint Powers Agreement between the City of Pittsburg and the Redevelopment Agency to develop revenue streams, to manage different activities for power-related projects, capital improvement projects, and bond issuance process.

City of Pittsburg  
 Combining Statement of Net Assets  
 Non-Major Enterprise Funds  
 June 30, 2004

ASSETS	Gold Course	Land Energy	Pittsburg Power	Total Non-Major Enterprise Funds
<b>Current assets</b>				
Cash and investments	\$487,808	\$693,002	\$5,227,490	\$4,008,300
Receivables		8,822,008	291,315	9,113,323
Inventory	114,549			114,549
Prepaid items and other assets	4,099	27,173		31,272
Total current assets	706,566	7,142,183	5,518,805	12,967,554
<b>Noncurrent assets</b>				
Advances to other funds			675,000	675,000
Capital assets				
Land & non-depreciable assets	26,520	10,470,600		10,497,120
Depreciable assets, net	1,652,808	10,472,669	625,400	12,750,877
Total noncurrent assets	1,679,328	11,643,269	625,400	13,948,057
<b>Total assets</b>	<b>2,385,894</b>	<b>18,785,452</b>	<b>6,144,205</b>	<b>27,315,551</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	21,202	148,147	36,564	205,913
Salaries payable	28,723	4,084	1,656	34,463
Retainable deposits	31,414	268,016		299,430
Taxes payable		292,710		292,710
Compensated absences payable - due within one year	428	528	225	1,181
Long term debt - due within one year	150,837	100,000		250,837
Total current liabilities	232,604	713,585	403,345	1,349,534
<b>Noncurrent liabilities</b>				
Advance from other funds	757,000	308,000		1,065,000
Compensated absences payable - due in more than one year	25,259	7,863	3,728	36,850
Long term debt - due in more than one year	299,082	121,770		420,852
Total noncurrent liabilities	1,081,341	437,633	3,728	1,522,702
<b>Total liabilities</b>	<b>1,313,945</b>	<b>1,151,218</b>	<b>407,073</b>	<b>2,872,236</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	889,499	10,245,929		11,135,428
Restricted for specific purposes	136,982	338,135	4,116,004	4,591,121
Unrestricted	\$1,029,471	\$10,640,788	\$2,117,938	\$13,788,197
<b>Total net assets</b>	<b>\$1,029,471</b>	<b>\$10,640,788</b>	<b>\$2,117,938</b>	<b>\$13,788,197</b>

City of Pittsburg  
 Combining Statement of Revenues and Expenses  
 Non-Major Enterprise Funds  
 June 30, 2004

	Gold Course	Land Energy	Pittsburg Power	Total Non-Major Enterprise Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$919,513	\$7,571,512	\$442,064	\$8,933,089
Rent and measures	432,269			432,269
Cost of sales, provisions	87,956			87,956
Other operating revenues	12,634	32,258	169	45,061
Total operating revenues	1,452,372	7,603,770	442,233	9,498,375
<b>OPERATING EXPENSES</b>				
Salaries and wages	892,407	76,856	52,980	1,022,243
Equipment supplies	306,348	3,741,171	1,643	4,049,162
Rentals	793			793
Utilities	38,433	5,753		44,186
Maintenance and operations	270,537	1,086,093	539,396	1,896,026
Depreciation and amortization	211,072	397,739		608,811
Franchise fees	337,241	36,365	12,739	486,345
Other operating expenses			12,359	12,359
Total operating expenses	1,956,066	5,650,028	633,245	7,239,339
<b>OPERATING INCOME (LOSS)</b>	<b>(503,694)</b>	<b>1,953,742</b>	<b>(191,012)</b>	<b>(140,964)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings		3,157	64,412	67,569
Interest revenue	250,059			250,059
Total nonoperating revenues (expenses)	250,059	3,157	64,412	317,628
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(253,635)</b>	<b>1,956,899</b>	<b>(126,600)</b>	<b>(173,336)</b>
<b>TRANSFERS</b>				
Transfers in	1,130,000		46,000	1,176,000
Transfers (out)	(6,000)	(3,092,922)	(1,438,200)	(10,531,122)
Total transfers	1,124,000	(3,089,922)	(1,392,200)	(3,358,122)
Net income (loss)	870,365	(1,133,023)	(1,418,800)	(1,681,458)
<b>NET ASSETS</b>				
Beginning of year	838,499	10,614,171	5,689,101	16,141,771
End of year	\$1,029,471	\$10,640,788	\$2,117,938	\$13,788,197

City of Pittsburg  
 Combining Statement of Cash Flows  
 Non-Major Enterprise Funds  
 For the year ended June 30, 2004

	Coal Course	Island Energy	Pittsburg Power	Total Non-Major Enterprise Funds
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$1,466,576	\$2,590,287	\$482,824	\$4,539,687
Cash payments to suppliers of goods and services	(1,264,628)	(2,041,440)	273,197	(3,032,871)
Cash payments to employees for services	(1,011,354)	(122,821)	(69,229)	(1,203,404)
Other operating revenue	12,814	52,236	109	65,159
Net cash provided (used) by operating activities	(797,142)	498,262	691,910	392,030
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	1,130,693		46,000	1,176,693
Transfers (out)	(60,620)	(169,562)	(1,136,501)	(1,366,683)
Net cash provided (used) by noncapital financing activities	1,069,073	(169,562)	(1,090,501)	(91,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal paid on long-term debt	(101,460)	(100,000)		(201,460)
Interest paid on long-term debt	(15,026)			(15,026)
Net changes in capital assets	(45,738)	17,611		(28,127)
Net cash provided (used) by capital and related financing activities	(162,224)	(82,389)		(244,613)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Subsidiary investments		3,357	(4,412)	(955)
Net cash provided (used) by investing activities		3,357	(4,412)	(1,055)
Net increase (decrease) in cash and cash investments	144,634	265,500	166,179	576,313
<b>CASH AND INVESTMENTS:</b>				
Beginning of year	3,874	25,332	4,373,072	4,202,278
End of year	\$187,508	\$290,832	\$3,937,493	\$4,675,833
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	(591,492)	\$133,023	(\$210,676)	(\$670,145)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	311,023	391,250		702,273
Changes in operating assets and liabilities				
Accounts receivable	17,459	44,109	41,725	103,293
Inventory	(4,407)			(4,407)
Prepaid items		(27,632)	139	(27,493)
Due from other funds			\$20,000	\$20,000
Accounts payable	(18,531)	(26,479)	36,253	(8,757)
Salaries and wages payable	7,079	(603)	(667)	5,799
Receivable deposits	10,414	248,006		258,420
Due to other funds	(520,000)	(500,000)		(1,020,000)
Taxes payable		13,080	2,136	15,216
Compensated absences	11,223	(6,964)		4,259
Total adjustments	(285,740)	325,242	902,586	942,088
Net cash provided (used) by operating activities	(877,142)	458,264	691,910	392,030

City of Pittsburg  
 Supplemental Information  
 For the year ended June 30, 2004

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a reimbursement basis. There are five funds as follows:

*Motor Vehicles Fund* - Used to account for the costs of operating, maintaining, and replacing automotive equipment used by other departments. Rental rates charged to the using departments include operating costs and equipment depreciation.

*Building Occupancy Fund* - Used to account for the cost of maintaining all City governmental buildings.

*Insurance Fund* - Used to account for revenues from charges to operating departments sufficient to provide adequate reserve for future claims.

*Data processing Fund* - Used to account for the cost of operating, maintaining and replacing a data processing system. Rental rates charged to the using departments include operating cost and equipment depreciation.

*Fringe Benefits Fund* - Used to allocate fringe costs to various departments.

**City of Pittsburgh**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the year ended June 30, 2004**

Major Vehicle	Building Occupancy	Date Processing	Franchise	Fringe Benefits	Total
\$1,966,267	\$368,441	\$499,750	\$390,733	\$626,251	\$3,171,044
5,115		35,659		14,129	17,241
44,837	53,985				98,822
1,590	135			11,213	12,925
3,118,281	419,574	499,750	286,572	651,890	5,335,847
1,696,005	1,409,009		72,562		3,177,576
1,656,006	1,429,009		72,562		3,157,575
2,788,486	1,898,442	69,750	359,154	651,500	5,537,432
Account payable					225,775
Accounts payable					661,999
Salaries payable					215,577
Claims payable (current)					792
Compensated absences (current)					30,598
Total current liabilities					904,143
Noncurrent liabilities					58,286
Compensated absences					69,041
Total liabilities					963,429
Invested in capital assets, net of related debt					5,077,575
Restricted for specific purposes					48,238
Unrestricted					2,722,962
Total net assets					8,058,775

**City of Pittsburgh**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the year ended June 30, 2004**

Major Vehicle	Building Occupancy	Date Processing	Franchise	Fringe Benefits	Total
\$1,542,066	\$741,449	\$740,197	\$1,382,726	\$5,982,492	
4,038	1,776	3,403	357	9,561	
1,546,071	1,548,225	743,597	1,383,078	5,992,053	
714,524	247,402	116,207		197,999	\$643,132
377,580	41,967	1,036			623,566
26,309		1,916			21,315
3,980	91,523				354,513
14,140	401,761	631,871			1,385,575
31,951	172,966	161,44			577,591
	459,249				499,449
	391,264				191,366
109,876	146,415	51,254		2,089,544	2,317,091
1,186,195	1,534,617	658,815	838,430	2,215,792	6,443,849
699,879	71,765	137,057	69,233	687,141	1,617,960
8,582	67,721				61,137
	6103				6,876
8,585	110,524				6,876
765,464	135,289	137,057	69,233	666,080	1,777,059
Transfers in	1,500,100			339,403	1,839,503
Transfer from		113,000		(200,000)	(87,000)
Transfers in from	1,500,100	(113,000)		129,703	1,516,803
Change in net assets	1,365,611	97,057		(73,738)	1,488,930
NET ASSETS:					
Beginning of year	2,754,249	273,582	519,395	984,084	4,531,310
End of year	\$2,723,735	\$1,777,713	\$628,419	\$697,841	\$5,988,775

City of Pittsburg  
 Combining Statement of Cash Flows  
 Internal Service Funds  
 For the year ended June 30, 2004

	Mower Vehicle	Building Occupancy	Insurance	Data Processing	Fringe Benefits	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Cash received from customers/other funds	\$1,595,998	\$1,559,691	\$795,234	\$748,871	\$1,602,954	\$7,292,656
Cash payments to suppliers for goods and services	(556,321)	(2,340,089)	(665,514)	(671,854)	(18,252)	(4,152,029)
Cash payments to employees for services	(22,187)	(453,311)		(167,826)	(2,160,910)	(3,112,084)
Other operating revenues	4,038	1,296	3,433		352	9,833
Net cash provided (used) by operating activities	721,617	(1,137,921)	123,146	(690,419)	424,144	40,129
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers in		1,900,000			129,300	1,929,300
Transfers out			(109,000)		(220,000)	(329,000)
Net cash provided (used) by noncapital financing activities		1,800,000	(109,000)		(90,700)	1,600,300
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>						
No changes in capital assets	(528,975)	(1)		(37,296)		(626,271)
Interest expense		(802)				(802)
Net cash provided (used) by capital financing activities	(528,975)	(803)		(37,296)		(626,271)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest revenue					6,676	6,676
Net cash provided (used) by investing activities					6,676	6,676
Net increase (decrease) in cash and cash equivalents	192,642	261,276	23,146	(124,617)	500,120	1,012,729
<b>CASH AND CASH EQUIVALENTS:</b>						
Beginning of year	876,227	4,169	836,641	370,350	66,131	2,153,518
End of year	\$1,068,869	\$505,445	\$859,787	\$245,733	\$626,257	\$3,171,041
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$79,870	(85,765)	\$137,697	(896,253)	(8374,714)	(948,799)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation	318,581	192,566		16,144		527,291
Changes in operating assets and liabilities						
Accounts receivable	63,055	20,344	770		278	84,447
Trade receivable				(2,842)		(2,842)
Due from other funds					1,260,000	1,260,000
Inventory	(9,155)	(7,572)				(16,727)
Prepaid items	15	(1,135)		11,515	2,950	12,345
Accounts payable	(13,411)	1,225	(7,378)	(17,039)	(6,003)	(39,606)
Salaries and wages payable	820	6,029		638	40,635	48,122
Due to other funds		(1,260,000)				(1,260,000)
Capital leases		(66,060)				(66,060)
Compensated absences	1,575	8,447		(1,005)		8,017
Insurance claims payable			(7,321)			(7,321)
Total adjustments	261,238	(1,132,156)	(12,499)	7,414	1,296,858	521,425
Net cash provided (used) by operating activities	721,617	(1,137,921)	123,146	(690,419)	424,144	40,129

City of Pittsburg  
 Supplemental Information  
 For the year ended June 30, 2004

Agency Funds

*Assessment District Agency Fund-* accounts for the collection of property taxes and the payments to bondholders.

*Environmental Impact Agency Fund-* accounts for the collection of builders' fees to be used for related environmental improvement projects.

*Other Impact Fees Agency Fund-* accounts for the collection of developer fees on behalf of the Contra Costa Fire Protection District (CCFPD), Contra Costa Water District (CCWD) and the East Contra Costa Regional Fee and Finance Authority (ECCRF).

**City of Pittsburg**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Agency Funds**  
**For the year ended June 30, 2004**

	Assessors' Expense Fund			Ending Balance June 30, 2004
	Beginning Balance July 1, 2003	Additions	Debits	
<b>Assets:</b>				
Cash and investments	\$1,772,736	\$2,313,617	(42,260,038)	\$1,826,315
Cash and investments held by fiscal agent	6,276,013	2,143,311	(2,200,948)	6,219,036
Assessment receivable	22,341,882		(719,362)	21,621,720
Interest receivable	3,939	22,319	(3,939)	22,319
<b>Total assets</b>	<b>\$30,395,950</b>	<b>\$4,479,247</b>	<b>(48,183,834)</b>	<b>\$26,691,363</b>
<b>Liabilities:</b>				
Accounts payable	\$10,262	\$9,438	(\$10,262)	\$9,438
Expired assessment	2,265,908	5,249	(6,161)	2,264,996
Due to other parties	187,611		(187,611)	
Due to bondholders	27,955,030		(573,009)	27,382,021
<b>Total liabilities</b>	<b>\$30,399,781</b>	<b>\$14,687</b>	<b>(577,923)</b>	<b>\$29,836,545</b>

Environmental Impact Fund				
				Ending Balance June 30, 2004
	Beginning Balance July 1, 2003	Additions	Debits	
<b>Assets:</b>				
Cash and investments	\$1,021,173	\$494,424	(\$397,730)	\$1,117,867
<b>Total assets</b>	<b>\$1,021,173</b>	<b>\$494,424</b>	<b>(\$397,730)</b>	<b>\$1,117,867</b>
<b>Liabilities:</b>				
Accounts payable	\$3,673	\$62,407	(\$248,472)	\$57,608
Due to other parties	98,895	91,540	(48,865)	141,570
<b>Total liabilities</b>	<b>\$102,568</b>	<b>\$153,947</b>	<b>(\$697,337)</b>	<b>\$142,215</b>

Other Jointly Held Fund				
				Ending Balance June 30, 2004
	Beginning Balance July 1, 2003	Additions	Debits	
<b>Assets:</b>				
Cash and investments	\$1,815,286		(\$1,663,154)	\$152,132
<b>Total assets</b>	<b>\$1,815,286</b>		<b>(\$1,663,154)</b>	<b>\$152,132</b>
<b>Liabilities:</b>				
Accounts payable	\$64,790		(\$16,493)	\$48,297
Due to other parties	112,784		(12,371)	100,413
<b>Total liabilities</b>	<b>\$177,574</b>		<b>(\$28,864)</b>	<b>\$148,710</b>

Total Agency Funds				
				Ending Balance June 30, 2004
	Beginning Balance July 1, 2003	Additions	Debits	
<b>Assets:</b>				
Cash and investments	\$1,854,936	\$1,877,799	(41,320,030)	\$1,412,705
Cash and investments held by fiscal agent	6,276,013	2,143,311	(2,200,458)	6,219,036
Assessment receivable	22,341,882		(719,362)	21,621,720
Interest receivable	3,939	22,319	(3,939)	22,319
<b>Total assets</b>	<b>\$30,480,709</b>	<b>\$4,066,429</b>	<b>(44,243,789)</b>	<b>\$26,303,359</b>
<b>Liabilities:</b>				
Accounts payable	\$23,827	\$395,925	(\$298,537)	\$121,215
Expired assessment	2,265,908	5,249	(6,161)	2,264,996
Due to other parties	286,266	601,346	(190,211)	597,341
Due to bondholders	27,955,030		(573,009)	27,382,021
<b>Total liabilities</b>	<b>\$30,495,051</b>	<b>\$962,520</b>	<b>(\$1,167,914)</b>	<b>\$30,289,657</b>



**APPENDIX E**  
**PROPOSED FORM OF BOND COUNSEL OPINION**

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**APPENDIX E**  
**PROPOSED FORM OF BOND COUNSEL OPINION**

[Closing Date]

City of Pittsburg  
Pittsburg, California

City of Pittsburg Public Financing Authority  
Pittsburg, California

City of Pittsburg Public Financing Authority  
Water Revenue Bonds, Series 2005  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Pittsburg Public Financing Authority, California (the "Issuer") in connection with its issuance of \$38,850,000 aggregate principal amount of City of Pittsburg Public Financing Authority Water Revenue Bonds, Series 2005 (the "Bonds"), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and pursuant to an Indenture of Trust, dated as of December 1, 2005 (the "Indenture"), between the Issuer and The Bank of New York Trust Company, N.A. (the "Trustee"). In order to secure payment of the Bonds, the City of Pittsburg, California (the "City") has entered into a 2005 Installment Purchase Contract, dated as of December 1, 2005 (the "Installment Purchase Contract") by and between the City and the Issuer, pursuant to which the City will make installment payments to the Authority for the payment of the cost of the acquisition of the 2005 Water Project. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture or the Installment Purchase Contract.

In such connection, we have reviewed the Indenture, Installment Purchase Contract, the Tax Certificate, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Issuer, the Auction Agent and the Trustee, certificates of the Issuer, the Auction Agent, the Trustee, the Underwriters and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The interest rate mode and certain agreements, requirements and procedures contained or referred to in the Indenture, Installment Purchase Contract, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No

opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Installment Purchase Contract and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Installment Purchase Contract and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities or joint powers authorities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues (as defined in the Indenture) and any other amounts (including certain proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
3. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest

on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

4. The Installment Purchase Contract has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes, except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the proceeds of the Bonds, or by a "related person" within the meaning of Section 147(a) of the Code. We observe, however, that interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$38,850,000  
CITY OF PITTSBURG PUBLIC FINANCING AUTHORITY  
WATER REVENUE BONDS,  
SERIES 2005

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF PITTSBURG (the "City"), for and on behalf of itself and the City of Pittsburgh Public Financing Authority (the "Authority"), in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered pursuant to an Indenture of Trust dated as of December 1, 2005 (the "Indenture"), by and between the City and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*CPO*" means the Internet-based filing system currently located at [www.Disclosure USA.org](http://www.DisclosureUSA.org), or such other similar filing system approved by the Securities and Exchange Commission.

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

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

"*National Repository*" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available from the Securities and Exchange Commission on the Internet at [www.sec.gov](http://www.sec.gov).

"*Official Statement*" means the Official Statement relating to the Bonds.

"*Participating Underwriter*" means the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Report Date*" means nine months after the end of the City's fiscal year, (currently March 31 of each year based on the City's June 30 fiscal year end).

"*Repository*" means each National Repository and each State Repository.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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

### Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Report Date (which currently would be April 1 based upon the Agency's current June 30 fiscal year), commencing with the report for the 2004-05 Fiscal Year, provide to each Repository (or, in lieu of providing to each Repository, provide to the CPO) an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee and the Participating Underwriter. Not later than 15 business days before the Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. The audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Report Date, if not available by the Report Date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City under this Disclosure Certificate.

(b) If the City is unable to provide to the Repositories an Annual Report by the Report Date, the City shall, by written direction, cause the Dissemination Agent to provide to (i) each National Repository or to the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository (with a copy to the Trustee) a notice, in substantially the form attached as Exhibit A. In lieu of filing the notice with each Repository, the City or the Dissemination Agent may file such notice to the CPO.

(c) With respect to the Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Report Date the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.



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

(a) Audited Financial Statements of the City, which shall include financial statements of the City's Water System (the "Water System") prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the Report Date, financial information and operating data with respect to the City and the Water System for the preceding fiscal year, substantially as set forth in Exhibit B hereto.

Any or all of the items listed in Exhibit B may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

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

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of Bond holders.
- (viii) Contingent or uncheduled redemption of Bonds.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall, by written direction, cause the Dissemination Agent to promptly file a notice of such occurrence with (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository with a copy to the Trustee and the Participating Underwriter, together with written direction to the Trustee whether or not to notify the Bond holders of the filing of such notice. In the absence of any such direction, the Trustee shall not send such notice to the Bond holders. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

In lieu of filing the notice of Listed Event with each Repository in accordance with the preceding paragraph, the City or the Dissemination Agent may file such notice of a Listed Event with the CPO.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N.A.. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions of this Section, the first annual financial information filed pursuant to this Disclosure Certificate containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of

fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, but shall terminate upon the termination of the City's obligations under this Certificate pursuant to Section 6 of this Certificate.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the City: City of Pittsburg  
65 Civic Avenue  
Pittsburg, California 94565-3814  
Attention: Finance Director  
Fax: (925) 252-4944

To the Trustee: The Bank of New York Trust Company, N.A.  
550 Kearny Street, Suite 500  
San Francisco, California 94108-2527  
Attention: Corporate Trust Department  
Fax: (415) 399-1647

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

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: December \_\_, 2005

CITY OF PITTSBURG

By \_\_\_\_\_  
City Manager

ACCEPTED AND AGREED:

The Bank of New York Trust Company, N.A.  
as Dissemination Agent

By \_\_\_\_\_  
Authorized Representative

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: CITY OF PITTSBURG

Name of Issue: \$38,850,000 City of Pittsburg Public Financing Authority,  
Water Revenue Bonds, Series 2005

Date of Issuance: December \_\_, 2005

NOTICE IS HEREBY GIVEN [to (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the CPO and the Municipal Securities Rulemaking Board] that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated February \_\_, 2005, executed by the City of Pittsburg. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT

By: \_\_\_\_\_

Title: \_\_\_\_\_

cc: Trustee

**EXHIBIT B**

**ANNUAL REPORT**

**\$38,850,000**

**CITY OF PITTSBURG PUBLIC FINANCING AUTHORITY,  
WATER REVENUE BONDS,  
SERIES 2005 A**

Date of this Annual Report: \_\_\_\_\_

For Fiscal Year: \_\_\_\_\_

This Annual Report is hereby submitted under Section 4 of the Continuing Disclosure Certificate (the "Disclosure Certificate") dated December \_\_, 2005 executed by the undersigned (the "City") for and on behalf of itself and the City of Pittsburgh Public Financing Authority (the "Authority") in connection with the issuance of the above-captioned bonds by the Authority.

Capitalized terms used in this Annual Report but not otherwise defined have the meanings given to them in the Disclosure Certificate.

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

**I. Audited Financial Statements**

Attached are audited financial statements of the City, which include financial statements of the City's municipal Water System (the "Water System") prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board.

**II. Water System Revenues**

The table below sets forth Water System revenues by customer type for the prior Fiscal Year.

**Water System Revenues by Customer Type**

	<u>Number of Accounts</u>	<u>Consumption (CCF)</u>	<u>Percent of Total Consumption</u>	<u>Total Revenues</u>	<u>Percent of Total Revenue</u>
Single-family					
Senior					
Multi-family					
Irrigation-Residential					
Sub-total					
<u>Non-Residential</u>					
Commercial					
Industrial					
Irrigation-Commercial					
Sub-total					
<u>Other</u>					
Institution					
Total					

**IV. Debt Service Coverage**

The table below sets forth Water System revenues and expenses, debt service on the Bonds, and the resulting debt service coverage ratio for the prior Fiscal Year.

**Revenues, Expenses and  
Debt Service Coverage**

<b>Gross Revenues:</b>	
Charges for Services	\$ _____
Other	_____
 Total Gross Revenues:	 _____
<b>Operating Expenses [1]</b>	_____
Transfers In/Out	_____
Total Operating Expenses	_____
 Net Revenues	 _____
 Debt Service on the Bonds	 _____
 Debt Service Coverage Ratio:	 ____x

[1] \_\_\_\_\_ Net of depreciation and amortization.

CITY OF PITTSBURG

By \_\_\_\_\_  
Finance Director

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## APPENDIX G

### DTC AND THE BOOK-ENTRY SYSTEM

*The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the 2005 Bonds, payment of principal, interest and other payments on the 2005 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the 2005 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the Agency nor the Fiscal Agent take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of the principal of, or interest or premium, if any, on the 2005 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2005 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2005 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

**DTC and its Participants.** The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2005 Bonds. The 2005 Bonds will be delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access

to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

**Book-Entry Only System.** Purchases of the 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2005 Bonds, except in the event that use of the book-entry system for the 2005 Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2005 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2005 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2005 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the 2005 Bonds may wish to ascertain that the nominee holding the 2005 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2005 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2005 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting

rights to those Direct Participants to whose accounts the 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the 2005 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2005 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2005 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

**Discontinuance of DTC Services.** In the event that (a) DTC determines not to continue to act as securities depository for the 2005 Bonds, or (b) the Issuer determines that DTC will no longer so act and delivers a written certificate to the Trustee to that effect, then the Issuer will discontinue the Book-Entry Only System with DTC for the 2005 Bonds. If the Issuer determines to replace DTC with another qualified securities depository, the Issuer will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the 2005 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the indenture or fiscal agent agreement executed in connection with the 2005 Bonds. If the Issuer fails to identify another qualified securities depository to replace the incumbent securities depository for the 2005 Bonds, then the 2005 Bonds will no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2005 Bonds designates.

If the Book-Entry Only System is discontinued, the following provisions would also apply: (i) the 2005 Bonds will be made available in physical form, (ii) principal of, and redemption premiums, if any, on, the 2005 Bonds will be payable upon surrender thereof at the corporate trust office of the Trustee, (iii) interest on the 2005 Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of \$1,000,000 or more in aggregate principal amount of 2005 Bonds received by the Trustee on or prior to the Record Date immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the 2005 Bonds will be transferable and exchangeable as provided in the indenture or fiscal agent agreement executed in connection with the 2005 Bonds.

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**APPENDIX H**  
**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

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# Ambac

## Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

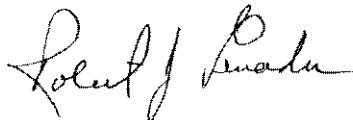
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President

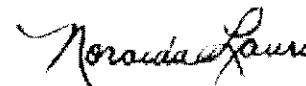


Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

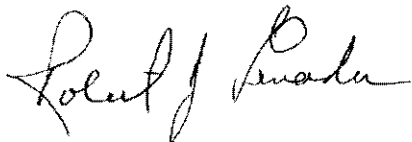
Effective Date of Endorsement:

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

### Ambac Assurance Corporation



President



Secretary

Authorized Representative





