

In the opinion of Pillsbury Winthrop LLP, Los Angeles, California, Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and judicial decisions and assuming, among other matters, compliance with certain covenants and requirements described herein, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

\$47,895,000

**CITY OF OXNARD FINANCING AUTHORITY
WATER REVENUE PROJECT BONDS, SERIES 2004**

Dated: Date of Delivery**Due: June 1, as shown below**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The City of Oxnard Financing Authority Water Revenue Project Bonds, Series 2004 (the "Bonds"), are being issued in the aggregate principal amount of \$47,895,000 by the City of Oxnard Financing Authority (the "Authority") pursuant to the Marks-Roos Local Bond Pooling Act of 1985, Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, and the provisions of a Trust Indenture, dated as of February 1, 2004 (the "Indenture"), by and among the Authority, the City of Oxnard (the "City") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the Bonds will be used (i) to finance the cost of certain capital improvements to the City's Water System (as defined herein), (ii) to fund a reserve fund for the Bonds, and (iii) to finance certain costs of issuance related thereto. See "ESTIMATED SOURCES AND USES OF FUNDS," "THE PROJECT," and "APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein. Capitalized terms used on this cover page and not otherwise defined shall have the meanings ascribed to them elsewhere in this Official Statement. See in particular "APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Selected Definitions" herein.

The Bonds will be delivered as fully registered bonds without coupons and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof for each maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. See "THE BONDS — Book-Entry Only System" herein.

Payments of interest on the Bonds will be made by the Trustee to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to beneficial owners of the Bonds as described herein. Interest on the Bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2004, until the maturity or the earlier redemption thereof. Principal and any redemption premiums with respect to each Bond will be paid upon surrender of such Bond at the principal corporate office of the Trustee upon maturity or the earlier redemption thereof.

The Bonds are subject to optional and mandatory sinking fund redemption prior to their stated maturities as described herein.

Payment of the principal of and interest on the Bonds when due (other than by reason of acceleration or advance redemption) will be insured by a municipal bond insurance policy to be issued by XL Capital Assurance Inc., simultaneously with the delivery of the Bonds.

XL CAPITAL ASSURANCE

The Bonds are limited obligations of the Authority. The Bonds are payable solely from certain installment payments ("2004 Installment Payments") to be received by the Authority pursuant to an Installment Purchase Agreement, dated as of February 1, 2004 (the "Installment Purchase Agreement"), by and between the Authority and the City, which 2004 Installment Payments will be assigned by the Authority to the Trustee pursuant to an Assignment Agreement, and certain amounts on deposit in funds and accounts held under the Indenture. See "SECURITY FOR THE BONDS" herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE 2004 INSTALLMENT PAYMENTS AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE AUTHORITY FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE 2004 INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY 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. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF VENTURA (THE "COUNTY"), THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE 2004 INSTALLMENT PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE AUTHORITY, THE CITY, THE COUNTY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

[Maturity Schedule set forth on inside cover]

The Bonds are offered when, as and if delivered to and received by the Underwriter, subject to the approval of legality by Pillsbury Winthrop LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney and by Disclosure Counsel, Pillsbury Winthrop LLP, Los Angeles, California. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York on or about February 18, 2004.

Stone & Youngberg LLC

MATURITY SCHEDULE
\$24,530,000 Serial Bonds

<u>Maturity Date (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP⁽¹⁾ No. (Base 691879)</u>	<u>Maturity Date (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP⁽¹⁾ No. (Base 691879)</u>
2005	\$ 905,000	2.000%	1.100%	CF5	2015	\$1,190,000	3.700%	3.780%	CR9
2006	925,000	2.000	1.450	CG3	2016	1,235,000	3.800	3.930	CS7
2007	940,000	2.000	1.750	CH1	2017	1,285,000	3.875	4.040	CT5
2008	960,000	2.250	2.050	CJ7	2018	1,335,000	4.000	4.130	CU2
2009	980,000	2.400	2.350	CK4	2019	1,385,000	5.000	4.120	CV0
2010	1,005,000	2.600	2.600	CL2	2020	1,455,000	5.000	4.210	CW8
2011	1,030,000	3.000	2.950	CM0	2021	1,530,000	5.000	4.300	CX6
2012	1,065,000	3.200	3.200	CN8	2022	1,605,000	5.000	4.380	CY4
2013	1,095,000	5.000	3.420	CP3	2023	1,685,000	5.000	4.450	CZ1
2014	1,150,000	3.500	3.630	CQ1	2024	1,770,000	5.000	4.510	DA5

\$ 8,005,000 5.000% Term Bond due June 1, 2028 Yield 4.570% CUSIP⁽¹⁾ No. 691879DB3
\$15,360,000 5.000% Term Bond due June 1, 2034 Yield 4.610% CUSIP⁽¹⁾ No. 691879DC1

⁽¹⁾ Copyright 2003, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services.

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

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

The information set forth herein has been obtained from the Authority, the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Authority or the City. 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 will, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

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

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

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

CITY OF OXNARD, CALIFORNIA

MAYOR AND CITY COUNCIL

Dr. Manuel M. Lopez, *Mayor*
Dean Maulhardt, *Mayor Pro-Tem*
Bedford Pinkard, *Councilman*
John C. Zaragoza, *Council Member*
Andres Herrera, *Council Member*

BOARD OF DIRECTORS OF THE AUTHORITY

Tom Conway, *Chairman*
Charles Covarrubias, *Vice Chairman*
Dr. Sonny Okada, *Board Member*
Francisco J. Dominguez, *Board Member*
Patricia Maki, *Board Member*
Jill Beaty, *Secretary*

CITY OFFICIALS

Edmund F. Sotelo, *City Manager*
Karen R. Burnham, *Assistant City Manager*
Granville Bowman, *Director of Public Works*
Ken Ortega, *Water Superintendent*
Gary Gillig, *City Attorney*
Daniel Martinez, *City Clerk*
Dale Belcher, *City Treasurer*
Stan Kleinman, *Finance and Management Services Director*
Michael J. More, *Financial Services Manager*
Tamara Sexton, *Financial Analyst III*

PROFESSIONAL SERVICES

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Los Angeles, California

Trustee
Wells Fargo Bank, National Association
Los Angeles, California

Consultant
Kennedy/Jenks
Ventura, California

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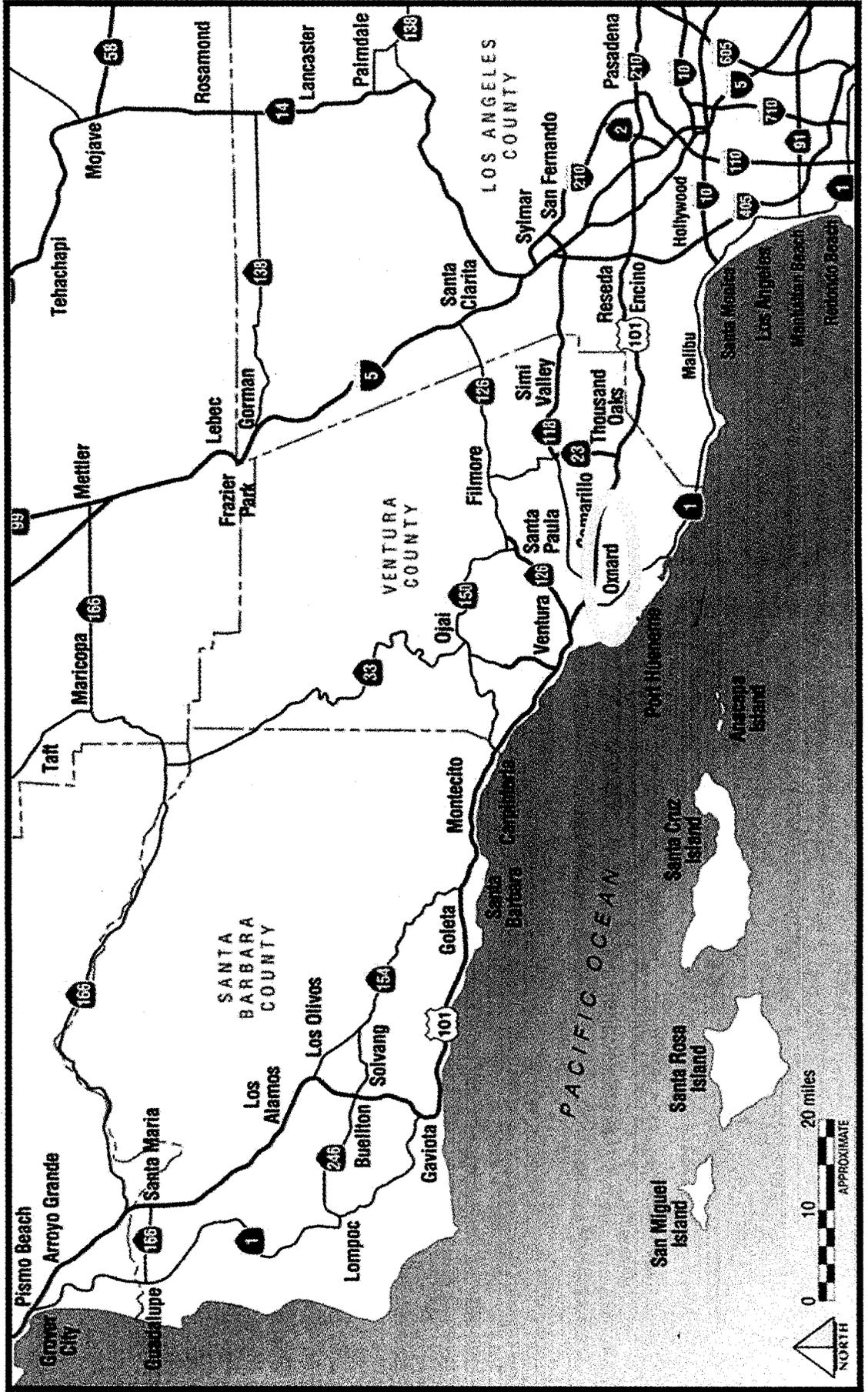
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City of Oxnard (Ventura County, California)

Regional Location Map



\$47,895,000
CITY OF OXNARD FINANCING AUTHORITY
WATER REVENUE PROJECT BONDS
SERIES 2004

INTRODUCTION

General

This Official Statement, which includes the cover page, Table of Contents and Appendices (the "Official Statement"), provides certain information concerning the sale and delivery of the City of Oxnard Financing Authority Water Revenue Project Bonds, Series 2004, in an aggregate principal amount of \$47,895,000 (the "Bonds"). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions therein. All statements in this Official Statement are qualified in their entirety by reference to the applicable documents.

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Selected Definitions" herein.

The City

The City of Oxnard (the "City") was incorporated under the general laws of the State of California in 1903. The City is located in western Ventura County, approximately 62 miles northwest of the City of Los Angeles. The City has an estimated current population of 182,000. The City's water system (the "Water System") serves the entire City, as well as a small unincorporated area of Ventura County. For information concerning the Water System, see "THE WATER SYSTEM" herein.

Authorization

The Bonds are being issued by the City of Oxnard Financing Authority (the "Authority"), a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California, pursuant to the Marks-Roos Local Bond Pooling Act of 1985, Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code (the "Act"), and the provisions of a Trust Indenture, dated as of February 1, 2004 (the "Indenture"), by and among the Authority, the City, and Wells Fargo Bank, National Association, as trustee (the "Trustee").

Purpose of Issuance

The proceeds of the Bonds will be used (i) to finance the costs of the Project (as defined herein), (ii) to fund a reserve fund for the Bonds, and (iii) to pay the costs of issuance of the Bonds. The Project will include improvements to the Water System, including Cast Iron Pipe Replacement (Hydraulic Improvement), Hydrant Upgrades, Hydraulic Deficiencies, Blending Station No. 3 Water Conditioning Facility and Well Pumping Plant, Blending Station No. 1 Master Planned Improvements Projects – Phase II, Blending Station No. 5, SCADA Upgrades, phase 1 of the Groundwater Recovery Enhancement and Treatment Program (the "GREAT Program"), Automated Meter Reading Retrofit Program, and Water Well Improvement Program (collectively, the "Project"). See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE PROJECT" herein.

Registration, Maturity, and Payment of Bonds

The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, which will act as securities depository for the Bonds. The Bonds will be dated the date of their initial delivery and will mature on the dates and in the principal amounts set forth on the cover page hereof.

Interest on the Bonds is payable semiannually on June 1 and December 1, commencing June 1, 2004, and will be paid by check, mailed by first class mail to the registered owners thereof as of the applicable Record Date; provided, however, that any registered owner of \$1,000,000 or more in aggregate principal amount of Bonds may request in writing payment of such interest by wire transfer in immediately available funds to a designated account in the United States. Principal of and any redemption premium with respect to each Bond will be payable upon surrender of such Bond at the principal corporate trust office of the Trustee in Los Angeles, California, upon the maturity or earlier redemption thereof. See "THE BONDS – Authorization and Payment of Bonds" herein.

Redemption of Bonds

Optional Redemption. The Bonds maturing on or before June 1, 2014, are not subject to optional redemption prior to maturity. The Bonds maturing on or after June 1, 2015, are subject to redemption at the option of the City, as a whole or in part, on any date on or after June 1, 2014, in integral multiples of \$5,000, from amounts prepaid by the City pursuant to the Installment Purchase Agreement (as defined herein) or any other source, at par and without premium. See "THE BONDS – Redemption of Bonds -- *Optional Redemption*" herein.

Mandatory Sinking Fund Redemption. The Bonds maturing on June 1, 2028, and June 1, 2034 (collectively, the "Term Bonds"), are subject to mandatory redemption in part on June 1 in the years and in the amounts set forth herein, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. See "THE BONDS – Redemption of Bonds -- *Mandatory Sinking Fund Redemption*" herein.

Parity Obligations

The 2004 Installment Payments are payable from the Net Water System Revenues on an equal basis with the 2001 Installment Payments payable under the 2001 Restated Installment Purchase Agreement, and any other City Bonds or Contracts that are subsequently issued that meet the criteria established in the Installment Purchase Agreement. See "PARITY OBLIGATIONS" and "SECURITY FOR THE BONDS – Additional Contracts and City Bonds" herein for a description of the 2001 Installment Payments and the definitions of the terms used in this paragraph.

Security for the Bonds

Payment from 2004 Installment Payments; Pledge of Net Water System Revenues. The Bonds are limited obligations of the Authority and are payable solely from installment payments (the "2004 Installment Payments") to be made by the City to the Authority pursuant to the Installment Purchase Agreement, dated as of February 1, 2004 (the "Installment Purchase Agreement"), by and between the City and the Authority, together with moneys on deposit in certain funds held under the Indenture. The 2004 Installment Payments will be assigned by the Authority to the Trustee pursuant to an Assignment Agreement, dated as of February 1, 2004 (the "Assignment Agreement"), by and between the Authority and the Trustee. The 2004 Installment Payments are payable solely from Net Water System Revenues, which are comprised of Water System Revenues, less Maintenance and Operation Costs of the Water

System. The obligation of the City to make 2004 Installment Payments is secured by a pledge of and lien on the Net Water System Revenues, on a parity with the obligation to pay the 2001 Installment Payments.

Additional Contracts and City Bonds. The Indenture does not include any provision for the issuance by the Authority of additional bonds payable from 2004 Installment Payments or secured by Net Water System Revenues. However, under the Installment Purchase Agreement, the City may incur Contracts or issue City Bonds secured by the Net Water System Revenues on a parity with the 2004 Installment Payments and the 2001 Installment Payments, subject to the terms and conditions of the Installment Purchase Agreement. See "SECURITY FOR THE BONDS - Additional Contracts and City Bonds" herein.

Reserve Fund. Pursuant to the Indenture, the City will be required to maintain amounts on deposit (or obtain a qualified reserve fund insurance policy in lieu of such deposit) in the Reserve Fund, which will be held by the Trustee and pledged to the payment of principal of and interest on the Bonds, in an amount equal to the Reserve Requirement. See "SECURITY FOR THE BONDS - Reserve Fund" and "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Trust Indenture" herein.

Municipal Bond Insurance. Concurrently with the issuance of the Bonds, XL Capital Assurance Inc. (the "Insurer"), will issue its Insurance Policy (as defined herein) insuring payment of the principal of and interest on the Bonds as the same shall become due (other than by reason of acceleration or advance redemption), as further described herein. See "MUNICIPAL BOND INSURANCE" herein.

Rate Covenant

The Installment Purchase Agreement provides that the City will fix, prescribe, and collect rates and charges for the Water Service, which will be at least sufficient to yield during each Fiscal Year Net Water System Revenues equal to the sum of (a) one-hundred percent (100%) of the Debt Service (i.e. principal and interest due with respect to the 2004 Installment Payments, the 2001 Installment Payments, and all other City Bonds and Contract Payments, if any) for such Fiscal Year, plus (b) the amount by which the amount on deposit in the Revenue Fund on the last day of the immediately preceding Fiscal Year was less than twenty-five percent (25%) of Maximum Annual Debt Service as of such day. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Water System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements described above. See "SECURITY FOR THE BONDS - Rate Covenant" herein.

Continuing Disclosure

The Authority will covenant in the Continuing Disclosure Agreement, dated as of February 1, 2004, by and between the Authority and the Trustee, as dissemination agent (the "Continuing Disclosure Agreement"), to provide certain financial information and operating data relating to the City and the Authority and notices of certain events, if material. Such information and notices will be filed by the Authority with certain Nationally Recognized Municipal Securities Repositories. See "CONTINUING DISCLOSURE" and "APPENDIX E - FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

Limited Obligations

The Bonds are limited obligations of the Authority payable solely from and secured solely by the 2004 Installment Payments and amounts in certain funds and accounts pledged to the payment thereof under the Indenture. The Bonds do not constitute an obligation of the Authority for which the Authority is obligated to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of taxation. The obligation of the City to make 2004 Installment Payments under the Installment Purchase Agreement does not constitute an obligation of the City 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. Neither the full faith and credit nor the taxing power of the City, the County of Ventura (the "County"), the State of California (the "State"), or any political subdivision of the State is pledged to the payment of the principal of or interest on the Bonds. Neither the Bonds nor the obligation of the City to make 2004 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction. For certain financial information with respect to the City and the Water System, see "THE WATER SYSTEM" herein.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. 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." Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS MAY CAUSE ACTUAL RESULTS, PERFORMANCE, OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE, OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

References Qualified

The summaries of and references to all documents, statutes, reports, and other instruments referred to herein do not purport to be complete, comprehensive, or definitive, and each such summary and reference is qualified in its entirety by reference to each such document, statute, report, or instrument.

THE BONDS

Authorization and Payment of Bonds

The Bonds are being issued pursuant to the Act and the provisions of the Indenture. The Bonds will be dated the date of their initial delivery and will mature on the dates and in the principal amounts set forth on the cover page hereof. Interest on the Bonds will be paid semiannually on each June 1 and December 1, commencing June 1, 2004 (each, an "Interest Payment Date"), to registered owners recorded in the Bond Register kept by the Trustee as of the fifteenth day of the month preceding the applicable Interest Payment Date (the "Record Date"). Interest will be computed on the basis of a 360-day year comprised of twelve, 30-day months.

The Bonds will be issued as fully registered bonds in the denomination of \$5,000 each or any integral multiple thereof. Principal of and redemption premium, if any, on each Bond will be payable upon surrender of such Bond at the principal corporate trust office of the Trustee in Los Angeles, California, upon the maturity or earlier redemption thereof. Interest will be payable by check, mailed to the registered owners of the Bonds as of the applicable Record Date at their addresses as they appear on the Bond Register maintained by the Trustee; provided, however, that interest payable to an owner of \$1,000,000 or more aggregate principal amount of Bonds will be paid by wire transfer to such account within the United States as such owner shall have specified in writing prior to the applicable Record Date to the Trustee for such purpose. Certain of the provisions described above will not apply as long as the Bonds are in a book-entry only system. See “THE BONDS – Book-Entry Only System” below.

Redemption of Bonds

Optional Redemption. The Bonds maturing on or before June 1, 2014, are not subject to optional redemption. The Bonds maturing on or after June 1, 2015, are subject to redemption, as a whole or in part, on any date on or after June 1, 2014 in the order of maturity as directed by the City and by lot within each maturity, in integral multiples of \$5,000, from amounts prepaid by the City pursuant to the Installment Purchase Agreement or any other source of funds, at par and without premium, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on June 1, 2028 (the “2028 Term Bonds”) are subject to mandatory redemption in part on June 1 in the following years in the following amounts at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium:

<u>Year</u> <u>(June 1)</u>	<u>Sinking Fund</u> <u>Redemption</u>	<u>Year</u> <u>(June 1)</u>	<u>Sinking Fund</u> <u>Redemption</u>
2025	\$1,855,000	2027	\$2,050,000
2026	1,950,000	2028	2,150,000 (maturity)

In the event of a partial optional redemption of the 2028 Term Bonds, the foregoing annual sinking fund payments shall be reduced in equal percentages, as nearly as practicable, provided that the reductions shall be made in multiples of \$5,000. The City shall provide the Trustee with the amended sinking fund payments schedule calculated as set forth above.

The Bonds maturing on June 1, 2034 (the "2034 Term Bonds") are subject to mandatory redemption in part on June 1 in the following years in the following amounts at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium:

<u>Year</u> <u>(June 1)</u>	<u>Sinking Fund</u> <u>Redemption</u>	<u>Year</u> <u>(June 1)</u>	<u>Sinking Fund</u> <u>Redemption</u>
2029	\$2,260,000	2032	\$2,615,000
2030	2,370,000	2033	2,745,000
2031	2,490,000	2034	2,880,000 (maturity)

In the event of a partial optional redemption of the 2034 Term Bonds, the foregoing annual sinking fund payments shall be reduced in equal percentages, as nearly as practicable, provided that the reductions shall be made in multiples of \$5,000. The City shall provide the Trustee with the amended sinking fund payments schedule calculated as set forth above.

Notice of Redemption

When redemption is authorized or required under the Indenture, the Trustee shall give notice of the redemption of the Bonds. Such notice shall specify: (a) that the Bonds or a designated portion thereof are to be redeemed, (b) the CUSIP numbers and the serial numbers of the Bonds to be redeemed, (c) the date of redemption, (d) the place or places where the redemption will be made, (e) the following descriptive information regarding the Bonds: series, date, interest rates, and stated maturity dates, and (f) that a new Bond of such series in an amount equal to that portion not so redeemed will be executed by the Trustee and delivered to the Owner in the event of a partial redemption. Such notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with interest accrued to said date, and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable.

Notice of such redemption shall be mailed by first-class mail, postage prepaid, to all Securities Depositories, to at least one national Information Service which the City shall designate to the Trustee, and to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Bond Register, at least thirty (30) days, but not more than sixty (60) days, prior to the redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds.

Each notice of redemption shall state the date of notice, the redemption date, the place or places of redemption and the Redemption Price, shall designate the maturities, CUSIP numbers, if any, and, if less than all of any such maturity is to be redeemed, the serial numbers of the Bonds of such maturity to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice of redemption shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price and that from and after such date interest evidenced thereby shall cease to accrue and be payable. With respect to any notice of redemption of Bonds pursuant to the Indenture, unless at the time such notice is given the Bonds to be redeemed shall be deemed to have been paid as set forth in the Indenture, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys

sufficient to pay for the redemption price of the Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds. In the event a notice of redemption of Bonds contains such a condition and such moneys are not so received, the redemption of Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Bonds pursuant to such notice of redemption. Any defect in the notice or the mailing will not affect the validity of the redemption of any Bond.

Book-Entry Only System

The Bonds will be initially delivered in the form of one fully registered Bond for each of the maturities of the Bonds, registered in the name of Cede & Co., as nominee of DTC, as registered owner of all the Bonds. The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the City or the Authority, and neither the City nor the Authority shall have any liability with respect thereto. Neither the City nor the Authority shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the Bonds.

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 (“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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 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 Bonds except in the event that use of the book-entry system for the Bonds is discontinued.**

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions and defaults. Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners or 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 BY THE TRUSTEE TO DTC. IF LESS THAN ALL OF THE BONDS ARE BEING REDEEMED, DTC'S PRACTICE IS TO DETERMINE BY LOT THE AMOUNT OF THE INTEREST OF EACH DIRECT PARTICIPANT IN SUCH ISSUE TO BE REDEEMED.

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

Principal and interest payments with respect the 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 City or the Trustee, on the 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 (or its nominee), the Trustee, or the City or Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services with respect to the Bonds at any time by giving reasonable notice to the City, the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered in accordance with the terms of the Bond Resolution.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY AND THE AUTHORITY BELIEVE TO BE RELIABLE, BUT NEITHER THE CITY NOR THE AUTHORITY TAKES ANY RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE CITY NOR THE AUTHORITY GIVES ANY ASSURANCES THAT DTC WILL DISTRIBUTE PAYMENTS TO DTC PARTICIPANTS OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS WITH RESPECT TO THE BONDS RECEIVED BY DTC OR ITS NOMINEES AS THE REGISTERED OWNER, ANY REDEMPTION NOTICES, OR OTHER NOTICES TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

ESTIMATED SOURCES AND USES OF FUNDS

The following table details the estimated sources and uses of Bond proceeds.

Estimated Sources:

Principal Amount of Bonds	\$47,895,000.00
Plus: Original Issue Premium	1,378,869.90
Less: Underwriter's Discount	<u>(205,948.50)</u>
Total Sources	\$49,067,921.40

Estimated Uses:

Transfer to Insurer ⁽¹⁾	\$223,876.31
Deposit to Reserve Fund ⁽²⁾	3,028,150.00
Deposit to Acquisition Fund ⁽³⁾	45,524,000.00
Deposit to Cost of Issuance Fund ⁽⁴⁾	<u>291,895.09</u>
Total Uses	\$49,067,921.40

⁽¹⁾ Represents the premium for the Insurance Policy (as defined herein).

⁽²⁾ Constitutes the Reserve Requirement.

⁽³⁾ Moneys in the Acquisition Fund are expected to be used for the payment of Project costs.

⁽⁴⁾ Moneys in the Cost of Issuance Fund are expected to be used to pay the fees and expenses of Bond Counsel, Disclosure Counsel and Trustee, and printing, rating agency, and other miscellaneous costs.

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DEBT SERVICE SCHEDULE

The table below presents the annual debt service on the Bonds (including sinking fund redemptions), assuming that there are no optional redemptions, for the year ending on June 1 in the years shown below:

Year Ending <u>June 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$0	\$606,708.27	\$606,708.27
2005	905,000	2,120,533.76	3,025,533.76
2006	925,000	2,102,433.76	3,027,433.76
2007	940,000	2,083,933.76	3,023,933.76
2008	960,000	2,065,133.76	3,025,133.76
2009	980,000	2,043,533.76	3,023,533.76
2010	1,005,000	2,020,013.76	3,025,013.76
2011	1,030,000	1,993,883.76	3,023,883.76
2012	1,065,000	1,962,983.76	3,027,983.76
2013	1,095,000	1,928,903.76	3,023,903.76
2014	1,150,000	1,874,153.76	3,024,153.76
2015	1,190,000	1,833,903.76	3,023,903.76
2016	1,235,000	1,789,873.76	3,024,873.76
2017	1,285,000	1,742,943.76	3,027,943.76
2018	1,335,000	1,693,150.00	3,028,150.00
2019	1,385,000	1,639,750.00	3,024,750.00
2020	1,455,000	1,570,500.00	3,025,500.00
2021	1,530,000	1,497,750.00	3,027,750.00
2022	1,605,000	1,421,250.00	3,026,250.00
2023	1,685,000	1,341,000.00	3,026,000.00
2024	1,770,000	1,256,750.00	3,026,750.00
2025	1,855,000	1,168,250.00	3,023,250.00
2026	1,950,000	1,075,500.00	3,025,500.00
2027	2,050,000	978,000.00	3,028,000.00
2028	2,150,000	875,500.00	3,025,500.00
2029	2,260,000	768,000.00	3,028,000.00
2030	2,370,000	655,000.00	3,025,000.00
2031	2,490,000	536,500.00	3,026,500.00
2032	2,615,000	412,000.00	3,027,000.00
2033	2,745,000	281,250.00	3,026,250.00
2034	<u>2,880,000</u>	<u>144,000.00</u>	<u>3,024,000.00</u>
Totals	\$47,895,000	\$43,483,087.15	\$91,378,087.15

Source: Stone & Youngberg LLC

PARITY OBLIGATIONS

The 2004 Installment Payments are payable from the Net Water System Revenues on an equal basis with installment payments (the "2001 Installment Payments") payable under an Amended and Restated Installment Purchase Agreement, dated as of June 1, 2001, by and between the City and the Authority, as amended by the First Amendment to Amended and Restated Installment Purchase Agreement, dated as of January 27, 2004, by and between the Authority and the City, and consented to by the insurer of the 2001 Bonds (as amended, the "2001 Restated Installment Purchase Agreement"). The 2001 Installment Payments are pledged to the payment of debt service on bonds issued by the Authority (the "2001 Bonds") pursuant to the terms of the Indenture of Trust, dated as of June 1, 2001, by and among the City, the Authority and Wells Fargo Bank, National Association, as trustee for the 2001 Bonds (the "2001 Indenture," and together with the 2001 Restated Installment Purchase Agreement, the "2001 Agreements"). The 2001 Bonds financed and refinanced certain improvements to the Water System, including: modifications to the City's Blending Station No. 1 Disinfection System; the replacement of cast iron pipe in the City's downtown area; an upgrade of the City's Blending Station No. 1 to improve its energy efficiency; improvements to the City's Automated Meter Reading Program; the replacement and upgrading of existing pipeline corrosion protection systems; and the rehabilitation of certain waterwells (collectively, the "2001 Project").

Principal and interest on the 2001 Bonds are payable on June 1 and interest on the 2001 Bonds is payable on December 1, through June 1, 2030.

The 2001 Restated Installment Purchase Agreement created the Revenue Fund, in which all Water System Revenues are deposited. As described herein, funds on deposit in the Revenue Fund will be used, first, to pay Maintenance and Operation Costs (as defined herein) and, second, to pay, on an equal basis, the 2004 Installment Payments, 2001 Installment Payments, the additional payments required under the 2001 Restated Installment Purchase Agreement (the "2001 Additional Payments") and any other City Bonds or Contracts that are on a parity with the 2004 Installment Payments and the 2001 Installment Payments. In the event that there are insufficient funds in the Revenue Fund to pay the 2004 Installment Payments, the 2001 Installment Payments, the 2001 Additional Payments, and any other City Bonds or Contracts that are on a parity with the 2004 Installment Payments and the 2001 Installment Payments, the City is obligated to transfer moneys in the Revenue Fund to the foregoing obligations on a pro rata basis, without any discrimination or preference.

The 2001 Additional Payments include the fees and expenses of the trustee for the 2001 Bonds, fees and expenses of accountants, consultants, attorneys and other experts engaged by the Authority or the trustee for the 2001 Bonds pursuant to the 2001 Agreements, insurance premiums, and amounts necessary to replenish the reserve fund associated with the 2001 Bonds.

Additional City Bonds or Contracts may be issued by the City that will be on a parity with the 2004 Installment Payments and the 2001 Installment Payments if the conditions for additional obligations described herein under the caption "SECURITY FOR THE BONDS - Additional Contracts and City Bonds" are satisfied.

See "RISK FACTORS – Additional Parity Obligations" herein.

SECURITY FOR THE BONDS

Pledge of Net Water System Revenues to Pay Installment Payments

Pursuant to the Installment Purchase Agreement, all Net Water System Revenues and all amounts on deposit in the Revenue Fund are irrevocably pledged to the payment of the 2004 Installment Payments, the 2001 Installment Payments, the 2001 Additional Payments, and the Additional Payments under the Installment Purchase Agreement. The Net Water System Revenues will not be used for any other purpose while any of the 2004 Installment Payments, amounts payable under the 2001 Restated Installment Purchase Agreement, Additional Payments, and other amounts as specified in the Installment Purchase Agreement remain unpaid; provided, however, that out of the Net Water System Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Agreement and the 2001 Restated Installment Purchase Agreement. The pledge of Net Water System Revenues to the payment of the 2004 Installment Payments and amounts payable under the 2001 Restated Installment Purchase Agreement shall constitute a first and exclusive lien on (i) Net Water System Revenues and (ii) subject to application of amounts on deposit therein as permitted by the Installment Purchase Agreement, the Revenue Fund and the other funds and accounts created by the Installment Purchase Agreement for the payment of the 2004 Installment Payments and amounts payable under the 2001 Restated Installment Purchase Agreement and all other Contracts and City Bonds in accordance with the terms of the 2004 Installment Purchase Agreement, the Indenture, and the 2001 Agreements. See "THE PROJECT" herein.

The term "Net Water System Revenues" is defined in the Installment Purchase Agreement to mean, for any Fiscal Year, the Water System Revenues for such Fiscal Year less the Maintenance and Operation Costs for such Fiscal Year.

The term "Water System Revenues" is defined in the Installment Purchase Agreement to mean all income, rents, rates, fees, charges, and other moneys derived from the ownership of or operation of the Water System, including, without limiting the generality of the foregoing, (1) all in-lieu charges and groundwater augmentation charges (including investment earnings thereon) collected by or on behalf of the City, (2) all income, rents, rates, fees, charges, business interruption insurance proceeds, or other moneys derived by the City from the sale, furnishing, and supplying of the water, drainage, or other services, facilities, and commodities sold, furnished, or supplied through the facilities of or in the conduct or operation of the business of the Water System, (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, proceeds, or other moneys, including City reserves, but excluding in all cases: (a) customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City, (b) proceeds of taxes or benefit assessments restricted by law to be used by the City to pay amounts due on bonds or other obligations hereafter incurred, (c) any and all revenues derived from the ownership or operation of or in connection with, and pledged to, Separate Facilities, and (d) connection fees and charges.

The term "Maintenance and Operation Costs" is defined in the Installment Purchase Agreement to mean (1) costs spent or incurred for maintenance and operation of the Water System calculated in accordance with generally accepted accounting principles applicable to governmental agencies, including, but not limited to, the 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 administrative costs of the City that are charged directly or apportioned to the Water System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers, and insurance premiums, and including all other reasonable and necessary costs of the City or charges (other than debt service payments) required to be paid by it to comply with the terms of the 2001 Restated Installment Purchase

Agreement, the Installment Purchase Agreement, City Bonds, or any Contract or of any resolution or indenture authorizing the issuance of any City Bonds or Contracts, and (2) all payments under any contract for the purchase of water; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

The term "Water System" is defined in the Installment Purchase Agreement to mean the whole and each and every part of the waterworks system serving the City (including, but not limited to, the 2001 Project and the Project), whether owned or operated by the City or another party, including the portion thereof existing on the date hereof, and including all additions, betterments, extensions, and improvements to such water system or any part thereof hereafter acquired or constructed but not including any Separate Facilities.

Pledge of 2004 Installment Payments to Pay Bonds

Pursuant to the Indenture, all 2004 Installment Payments are pledged to, and are permitted to be used only for, the punctual payment of the Bonds. The Indenture provides that all 2004 Installment Payments to which the Authority may at any time be entitled are to be paid directly to the Trustee pursuant to the terms of the Assignment Agreement and that the Trustee is to deposit all 2004 Installment Payments as and when received in the Payment Fund.

Rate Covenant

The City has covenanted in the Installment Purchase Agreement that it will, to the fullest extent permitted by law, fix, prescribe, and collect rates and charges for the Water Service which will be at least sufficient to yield during each Fiscal Year Net Water System Revenues equal to the sum of (a) 100% of the Debt Service in such Fiscal Year, plus (b) the amount by which the amount on deposit in the Revenue Fund on the last day of the immediately preceding Fiscal Year was less than 25% of Maximum Annual Debt Service as of such day.

The term "Debt Service," as defined in the Installment Purchase Agreement, includes the payment of the 2004 Installment Payments, the 2001 Installment Payments, and any payments associated with Contracts or City Bonds that may be executed or issued in the future.

The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Water System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the rate covenant.

In fiscal year 2001-02, the then-existing user fees and charges and rate structure were insufficient to satisfy the rate covenant in the 2001 Restated Installment Purchase Agreement, although all of the 2001 Installment Payments and the debt service on the 2001 Bonds were timely paid. The City made changes in its rate structure and rates which allowed satisfaction of the rate covenant in the 2001 Restated Installment Purchase Agreement in fiscal year 2002-03. See "MANAGEMENT OF THE WATER SYSTEM – Water Rate Study" herein.

Allocation of Water System Revenues; Flow of Funds

Pursuant to the Installment Purchase Agreement, the City has agreed that all Water System Revenues will be received by the City in trust and will be deposited when and as received in a special fund designated as the Revenue Fund, which fund was established by the 2001 Restated Installment

Purchase Agreement and which fund the City has agreed to maintain and to hold separate and apart from other funds so long as any 2004 Installment Payments, Additional Payments, or Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the City as provided in the Installment Purchase Agreement and the 2001 Restated Installment Purchase Agreement.

The City shall, from the moneys in the Revenue Fund, pay all Maintenance and Operation Costs as they become due and payable.

All remaining moneys in the Revenue Fund shall be transferred, without preference or priority:

- (a) to the Trustee, to pay Debt Service under the Installment Purchase Agreement, in the amounts and at the times required by the Installment Purchase Agreement and described below;
- (b) to the trustee for the 2001 Bonds, to pay Debt Service under the 2001 Restated Installment Purchase Agreement, in the amounts and at the times required by the 2001 Restated Installment Purchase Agreement; and
- (c) if other Contracts or City Bonds are executed or issued (see “—Additional Contracts and City Bonds” herein), to other trustees or parties entitled to payment for City Bonds or other Contracts on a parity with the 2004 Installment Payments and the 2001 Installment Payments, to pay Debt Service on City Bonds and other Contracts, in the amounts and at the times required by the documents executed in connection with the issuance of the City Bonds or other Contracts.

In the event of any insufficiency of such moneys to pay all amounts in (a) – (c) above, the City shall transfer moneys in the Revenue Fund to the parties in (a) – (c) above ratably without any discrimination or preference.

After the deposits described above have been made, remaining moneys in the Revenue Fund shall be transferred, without preference or priority:

- (x) to the Trustee, to replenish the Reserve Fund (or the Reserve Fund Surety Bond), in the amounts and at the times required by the Installment Purchase Agreement and as described below;
- (y) to the trustee for the 2001 Bonds, to replenish any reserve fund (or reserve fund surety bond) securing the 2001 Bonds, in the amounts and at the times required by the 2001 Restated Installment Purchase Agreement; and
- (z) if other Contracts or City Bonds are executed or issued (see “—Additional Contracts and City Bonds” herein), to other trustees or parties entitled to payment for City Bonds or other Contracts on a parity with the 2004 Installment Payments and the 2001 Installment Payments, to replenish any reserve fund (or reserve fund surety bond) securing the City Bonds or other Contracts, in the amounts and at the times required by the documents executed in connection with the issuance of the City Bonds or other Contracts.

In the event of any insufficiency of such moneys to pay all amounts in (x) – (z) above, the City shall transfer moneys in the Revenue Fund to the parties in (x) – (z) above ratably without any discrimination or preference.

All 2004 Installment Payments shall be set aside by the City at the following times in the following respective special funds, in the following order of priority and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes authorized in the Installment Purchase Agreement:

Payment Fund. On or before the last Business Day of each month, the City shall, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund a sum equal to: (1) one sixth (1/6) of the portion of the next 2004 Installment Payment designated as interest and coming due on the next 2004 Installment Payment Date (provided, however, that if there are fewer than six such dates prior to the first 2004 Interest Payment Date, then the portion of such interest coming due on such 2004 Installment Payment Date that is payable monthly on each such date is a fraction the numerator of which is one and the denominator of which is the number of such dates) and (2) one twelfth (1/12) of the portion of the next 2004 Installment Payment designated as principal and coming due on the next applicable 2004 Installment Payment Date (provided, however, that if there are fewer than twelve such dates prior to the first 2004 Interest Payment Date on which principal of Bonds is payable, then the portion of such principal coming due on such Installment Payment Date that is payable monthly on each such date is a fraction the numerator of which is one and the denominator of which is the number of such dates).

No deposit need be made in the Payment Fund of 2004 Installment Payments if the amount in the Payment Fund is at least equal to the amount of the 2004 Installment Payment due and payable during the current Bond Year (as defined in the Indenture).

Reserve Fund. On or before the last day of each month, the City shall, from the moneys in the Revenue Fund after the transfers described above have been made, transfer to the Trustee for deposit in the Reserve Fund that sum, if any, equal to one-twelfth (1/12) of the amount necessary, calculated on the date of any transfer described above, to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement; provided however, that the City may provide for the Reserve Fund at any time, in whole or in part, by (i) a policy of insurance issued by a municipal bond insurance company rated in the highest rating category of each rating agency then rating the Bonds, (ii) a letter of credit rated in the two highest rating categories (excluding gradations within a rating category) of each rating agency then rating the Bonds, (iii) a surety bond rated in the highest rating category of each rating agency then rating the Bonds, or (iv) any other security device rated in the highest rating of each rating agency then rating the Bonds or, in each case, with such other rating as is approved by the Insurer and in each case in a form meeting the requirements of the Insurer for such instruments; provided further, that, to the extent a draw has been made by the Trustee on any Reserve Fund Surety Bond, the Trustee shall withdraw from the Revenue Fund such amounts as are sufficient to reimburse the provider thereof (or multiple providers on a ratable basis) for all draws (including interest on all amounts advanced under the Reserve Fund Surety Bond) thereby reinstating the Reserve Fund Surety Bond.

Surplus. On the last day of each month, moneys on deposit in the Revenue Fund not necessary to make any of the payments required above, and not disbursed under the 2001 Agreements and any agreements relating to City Bonds or other Contracts, may be expended by the City at any time to pay for (i) Additional Payments and (ii) any purpose permitted by law.

Reserve Fund

Proceeds of the Bonds in the amount of \$3,028,150.00 will be deposited in the Reserve Fund. Such deposit will cause the amount in the Reserve Fund to be equal to the Reserve Fund Requirement. The term "Reserve Fund Requirement" is defined in the Indenture to mean, as of any date of calculation, an amount equal to the least of (i) ten percent (10%) of the aggregate principal amount of the Bonds originally issued, (ii) maximum annual debt service on the Bonds, or (iii) one hundred twenty-five percent

(125%) of average annual debt service on the Bonds. The City may elect at any time to cause the Reserve Fund Requirement to be funded in whole or in part by a Reserve Fund Surety Bond. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Trust Indenture – Reserve Fund" herein.

If five (5) Business Days prior to any Interest Payment Date the moneys in the Payment Fund are insufficient to make the payments required by the Indenture with respect to the Bonds on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund to the Payment Fund the amount of such insufficiency. In the event of any such transfer, the Trustee shall, within five (5) days thereafter, provide written notice to the Insurer of the amount and date of such transfer. In the event that the Trustee has transferred moneys from the Reserve Fund to the Payment Fund in accordance with the Indenture, upon receipt of the moneys from the City to increase the balance in the Reserve Fund to the Reserve Fund Requirement, the Trustee shall deposit such moneys in the Reserve Fund. If the amount available and contained in the Reserve Fund exceeds an amount equal to the Reserve Fund Requirement and if the City is not then in default under the Installment Purchase Agreement, the Trustee shall semiannually on or before June 1 and December 1 withdraw the amount of such excess from the Reserve Fund and shall deposit such amount in the Payment Fund. Except for such withdrawals, all moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Bonds in the event that no other moneys of the City are available therefor.

For the purpose of determining the amount in the Reserve Fund, all Permitted Investments credited to the Reserve Fund shall be valued at the lower of cost (inclusive of all interest accrued but not paid) or market value.

Payments Under the Insurance Policy

As long as the Insurance Policy shall be in full force and effect, the Authority and the Trustee agree to comply with the following provisions:

(a) If, on the third Business Day prior to an Interest Payment Date, there is not on deposit with the Trustee under the Indenture, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on, the Bonds due on such Interest Payment Date, the Trustee shall give notice to the Insurer and the Insurer's Fiscal Agent (if any), by telephone or teletype, of the amount of such deficiency by 10:00 a.m., New York City time, on such Business Day. If, on the Business Day prior to the related Interest Payment Date, there is not on deposit with the Trustee moneys sufficient to pay the principal of, and interest on, the Bonds due on such Interest Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of any deficiency in the amount available to pay principal and interest, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 10:00 a.m., New York City time, on such Business Day, by delivering the Notice of Nonpayment and Certificate, as such terms are defined in the next paragraph.

(b) The term "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Trustee to the Insurer, which notice shall specify (a) the name of the entity making the claim, (b) the policy number, (c) the claimed amount and (d) the date such claimed amount will become Due for Payment (as defined below). The term "Nonpayment" means the failure of the Authority to have provided sufficient funds to the Trustee for payment in full of all principal of, and interest on, the Bonds that are Due for Payment. The term "Due for Payment," when referring to the principal of Bonds, means when the stated 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, unless the Insurer shall elect, in its sole discretion, to pay such principal due upon such acceleration, and, when referring to interest on Bonds, means when the stated date for payment of interest has been reached. The term "Certificate" means a certificate in form and substance satisfactory to the Insurer as to the Trustee's right to receive payment under the Insurance Policy.

(c) The Trustee shall designate any portion of payment of principal on Bonds paid by the Insurer at maturity on its books as a reduction in the principal amount of Bonds registered to the then current Owner, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of the Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Authority on any Bond or the subrogation rights of the Insurer.

(d) The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (as hereinafter defined) and the allocation of such funds to payment of interest on and principal paid with respect to any Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(e) Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of holders of Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under Insurance Policy in trust on behalf of the Owners of the Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners of the Bonds in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

(f) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

(g) Any funds remaining in the Policy Payments Account following an Interest Payment Date shall promptly be remitted to the Insurer.

Rights of Insurer

Any provision of the Indenture expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer hereunder without the prior written consent of the Insurer, as applicable. Unless otherwise provided in the Indenture, the Insurer's consent shall be required in addition to consent of the Owners, when required, for the following purposes: (a) execution and delivery of any supplemental trust indenture or any amendment to the Indenture, (b) removal of the Trustee and selection and appointment of any successor Trustee; and (c) initiation or approval of any action not described in (a) or (b) above which requires consent of the Owners of Bonds. If any meetings of the Bondholders are called pursuant to the provisions hereof, the Insurer shall receive written notice of such meetings.

Notwithstanding anything to the contrary in the Indenture, the rights given to the Insurer under the Indenture to give instructions, consents, directions or approvals shall cease to be in force and effect if it is in default of its payment obligations under the Insurance Policy.

Additional Contracts and City Bonds

Pursuant to the Installment Purchase Agreement, the City may at any time execute any Contract or issue any City Bonds, as the case may be, secured by Net Water System Revenues on a parity with the 2004 Installment Payments under the Installment Purchase Agreement and the 2001 Installment Payments under the 2001 Restated Installment Purchase Agreement, provided:

- (1) the terms of the 2001 Restated Installment Purchase Agreement have been satisfied;
- (2) there shall not have occurred and be continuing an Event of Default under the terms of the Installment Purchase Agreement or the Indenture; and
- (3) the City obtains or provides a certificate or certificates prepared by an Independent Financial Consultant showing that:
 - (i) the Net Water System Revenues, as shown by the books of the City for the twelve (12) calendar months ending ninety (90) days prior to the end of the month in which such additional obligations are incurred (the "Look-Back Period"), shall have amounted to at least the sum of (x) one hundred percent (100%) of Debt Service for such Look-Back Period, plus (y) the amount by which the amount on deposit on the Revenue Fund on the first day of such Look-Back Period was less than twenty-five percent (25%) of Maximum Annual Debt Service calculated on the first day of such Look-Back Period; for purposes of preparing the certificate or certificates described above, the Independent Financial Consultant or Consultants may rely upon financial statements prepared by the City for all or any part of the Look-Back Period, which have not been subject to audit by an Independent Certified Public Accountant if audited financial statements for the Fiscal Year or Look-Back Period are not available;
 - (ii) the estimated Net Water System Revenues for the twelve (12) calendar months following the date of incurring such additional obligations will be at least equal to one hundred percent (100%) of Maximum Annual Debt Service on all City Bonds and Contracts to be outstanding immediately after the incurring of such additional obligations; and
 - (iii) the amount on deposit in the Revenue Fund on the date of incurring such additional obligations is at least equal to twenty five percent (25%) of Maximum Annual Debt Service as of the date of incurring of such additional obligations.

For purposes of the computations to be made as described in clause (ii) above, the determination of the Net Water System Revenues:

- (a) may take into account any increases in rates and charges which relate to the Water System and shall take into account any reduction in such rates and charges, which will be effective prior to or at the time of incurring such proposed additional obligations;
- (b) may take into account an allowance for any estimated increase in such Net Water System Revenues from any revenue producing additions to or improvements or extensions of the Water System to be made with the proceeds of such additional obligations or with the proceeds of

obligations previously issued, as shown by a certificate of an Independent Financial Consultant; and

(c) for the period contemplated by clause (ii) above, Maintenance and Operation Costs of the Water System shall be deemed to be the same as for the period for which a calculation is done pursuant to clause (i) above, but adjusted, if deemed necessary by the Independent Financial Consultant, for any increased Maintenance and Operation Costs of the Water System which are, in the judgment of the Independent Financial Consultant, essential to maintaining and operating the Water System.

The certificate or certificates described above shall not be required if the additional obligations being incurred are for the purpose of refunding then Outstanding City Bonds or Contracts and at the time of the incurring of such additional obligations a certificate of an Authorized City Representative shall be delivered showing that Maximum Annual Debt Service on all outstanding City Bonds or Contracts after the incurring of such additional obligations will not exceed Maximum Annual Debt Service on all City Bonds or Contracts outstanding prior to the incurring of such additional obligations.

Insurance; Reconstruction, Repair and Replacement

The City has covenanted in the Installment Purchase Agreement to maintain insurance on the Water System with responsible insurers in amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with facilities similar to the Water System so long as such insurance is available at reasonable rates. The City currently insures the Water System through the Public Entity Property Insurance Program which is provided by a joint powers authority of which the City is a member. The insurance policy provides for a deductible of \$10,000 but contains limits of \$750 million per occurrence on the amount of damages incurred. However, the insurance policy does not cover and no claim can be made by the City for damages to, or the destruction of, the dams or pipes of the Water System.

In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds, if any, thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The City will begin reconstruction, repair, or replacement promptly after receipt of such Net Proceeds, and will continue and properly complete such reconstruction, repair, or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair, or replacement so that the same will be completed and the Water System will be free and clear of all claims and liens. The City has covenanted to reconstruct, repair, or replace the damaged or destroyed portions of the Water System promptly if a failure to reconstruct, repair, or replace such portions would impair or adversely affect the ability of the City to pay Installment Payments. If and to the extent such Net Proceeds are not so applied, they will be applied either to additions, betterments, extensions, or improvements to the Water System or if the City elects not to apply such Net Proceeds to such capital items or if such Net Proceeds are not fully expended for such purposes, such Net Proceeds not required by the City for such purposes shall be deposited in the Revenue Fund and applied to the payment of the 2004 Installment Payments and Debt Service on outstanding Contracts and City Bonds.

If all or any part of the Water System will be taken by eminent domain proceedings, the Net Proceeds thereof will be applied either to additions, betterments, extensions, or improvements to the Water System or if the City elects not to apply such Net Proceeds to such capital items or if such Net Proceeds are not fully expended for such purposes, such Net Proceeds not required by the City for such purposes are required to be used to pay 2004 Installment Payments.

Limitations on Remedies

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the Bonds, the Indenture, and the Installment Purchase Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

MUNICIPAL BOND INSURANCE

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the Authority as to the accuracy or completeness of the information. Reference is made to Appendix F for a specimen of the Insurance Policy.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this caption. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-eight other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Insurer has a license application pending with the State of Wyoming, the only state in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Insurance Policy.

Based on the audited financials of XLFA, as of December 31, 2002, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$611,791,000, \$245,750,000, \$39,000,000 and \$327,041,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch, Inc. ("Fitch"). In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's insurance financial strength rating is "Aa2" by Moody's and "AA" by S&P and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, S&P, or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the holders of the Bonds will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the holders of the Bonds.

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch. In addition, XLCA has obtained a financial enhancement rating of "AAA" from S&P. These ratings reflect Moody's, S&P, and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, S&P, or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Capitalization of the Insurer

Based on the audited statutory financial statements for XLCA as of December 31, 2001, XLCA had total admitted assets of \$158,442,157, total liabilities of \$48,899,461 and total capital and surplus of \$109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$180,993,189, total liabilities of \$58,685,217 and total capital and surplus of \$122,307,972 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

RISK FACTORS

Investment in the Bonds involves risks which may not be appropriate for certain investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the Bonds for investment. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations which may be relevant to an investment in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Bonds are Limited Obligations

The Bonds are payable solely from (i) the 2004 Installment Payments, which are payable from the Net Water System Revenues, and (ii) amounts held in certain funds and accounts established under the Indenture. Consequently, the payment of principal of and interest on the Bonds will be dependent upon the availability and sufficiency of such Net Water System Revenues. The Bonds do not constitute an obligation of the Authority for which the Authority must levy or pledge any form of taxation or for which the Authority has levied or pledged any form of taxation. The 2004 Installment Payments do not constitute an obligation of the City for which the City must levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the 2004 Installment Payments constitute a debt or indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State, within the meaning of any constitutional or statutory debt limitation or restriction.

System Demand

There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described in this Official Statement. Because of changes in demographics within the boundaries of the City, it is possible for the demand for water services to decline over the term of the Bonds. A significant decline in demand might create a situation in which the City could not increase rates sufficiently to offset the decrease in subscribers or usage. This would reduce the City's ability to make the 2004 Installment Payments, which could in turn adversely impact the Authority's ability to make repayments of the principal or interest on the Bonds.

Increased Regulations

The adoption by federal or state agencies of more stringent regulations could adversely affect Net Water System Revenues. A significant change in standards for water storage and delivery imposed by law or regulation might cause the City to incur greater expenses of operation, thus creating a temporary or permanent inability to support the 2004 Installment Payments due under the Installment Purchase Agreement, which would in turn adversely impact the Authority's ability to pay the principal of and interest on the Bonds when due. It is not possible to predict the timing or nature of more stringent operating standards that may be imposed upon the City over the term of the Bonds.

Increased System Expenses

Changes in technology, increases in the cost of energy, chemicals or other expenses could reduce Net Water System Revenues, which could in turn require substantial increases in rates or charges in order to comply with the rate covenant in the Installment Purchase Agreement. The City's ability to make its required 2004 Installment Payments may be adversely affected until such time as the City is able to increase rates and charges to pay for such increased costs. See "MANAGEMENT OF THE WATER SYSTEM."

Failure to Implement the GREAT Program

The City projects that the implementation of the GREAT Program will reduce, and eventually eliminate, the need for the City to pump additional groundwater in excess of its allocation (and incurring the fees and penalties associated with such overpumping) or purchase additional imported surface water from CMWD at Tier 2 Rates, as described in "THE WATER SYSTEM – Water Supply" herein. Funds for implementation of the GREAT Program are currently being sought by the City (with a portion coming from the proceeds of the Bonds), but there is no guarantee that the City will be successful in financing all of the GREAT Program. In addition, even if the GREAT Program is fully funded, there is no guarantee that it will allow the City to avoid pumping water in excess of its allocation or importing surface water from CMWD at the Tier 2 Rates. The expense associated with overpumping and Tier 2 Rates could reduce Net Water System Revenues, which could in turn require substantial increases in rates or charges in order to comply with the rate covenant in the Installment Purchase Agreement. The City's ability to make its required 2004 Installment Payments may be adversely affected until such time as the City is able to increase rates and charges to pay for such increased costs. See "THE WATER SYSTEM – Water Supply."

Acts of Nature; Disasters

The cost to provide Water Service to the City's customers depends, in large part, on the supply of water. There are numerous acts of nature or disasters that may adversely affect both the supply of water available to the City and the cost of that water. Droughts are the most obvious example of an act of nature that could greatly increase the costs of supplying water to the City's customers. Storms, fires, and environmental disasters are also examples of events that could impact the supply and cost of water, which could reduce Net Water System Revenues, which could in turn require substantial increases in rates or charges in order to comply with the rate covenant in the Installment Purchase Agreement. The City's ability to make its required 2004 Installment Payments may be adversely affected until such time as the City is able to increase rates and charges to pay for such increased costs. See "THE WATER SYSTEM – Water Supply."

Seismic Activity; Flood Plain; Limited Insurance

The Installment Purchase Agreement does not require the City to maintain earthquake or flood insurance on the Water System. The City, along with much of the State of California, shares a history of seismic activity and is thus listed as a "Zone 4" earthquake area in the Uniform Building Code. A Zone 4 designation has the most restrictive design requirements for new construction. The City standards for development, to which the components of the Water System were subject, have been designed to reduce the risk to the public and adequately mitigate seismic hazards.

There are no known major faults within the City; however, there are several active faults located within a radius of approximately 50 miles from the City, including the San Andreas Fault and the San Gabriel Fault. Activity along these faults could potentially result in damage to the buildings, roads, bridges, and property within the City in the event of a major earthquake.

If a major earthquake were to occur, it may substantially damage or destroy the Water System or portions of it. In such a case, under certain circumstances, the Net Water System Revenues could possibly be reduced or eliminated if the City was unable to provide water services to its customers, or if large amounts of Water System Revenues were required to be applied to make extensive repairs to the Water System. Such a reduction or elimination of Net Water System Revenues could impair the ability of the City to make 2004 Installment Payments, which in turn would impair the ability of the Authority to make payments of principal of and interest on the Bonds when due.

The chance that the occurrence of severe seismic activity in the area of the Water System could result in substantial damage and interference with the City's right to use all or a portion of the Water System, and thereby result in a reduction or elimination of Net Water System Revenues, is mitigated by the City's standards for development.

Some of the components of the Water System are located in a flood insurance rate zone designated by the Federal Emergency Management Agency ("FEMA") as "Zone B." According to FEMA, Zones B, C and X refer to flood insurance rate zones that are not within the 100-year floodplain and are therefore not considered to pose a flood hazard. The term "100-year flood" refers to the flood elevation that has a one percent chance of being equaled or exceeded in any given year. A base flood may also be referred to as a "100-year storm" and the area inundated during the base flood is sometimes called the "100-year floodplain." The 100-year flood, which is the standard used by most Federal and state agencies, is used by the National Flood Insurance Program as the standard for floodplain management and to determine the need for flood insurance.

Additional Parity Obligations

The 2004 Installment Payments are payable from the Net Water System Revenues on an equal basis with the 2001 Installment Payments, the 2001 Additional Payments, and any other City Bonds or Contracts that may be executed or issued in the future. As the payments are made on a parity, insufficient Net Water System Revenues may cause a deficit in the ability of the City to pay the appropriate amounts due on each of the 2004 Installment Payments, the 2001 Installment Payments, the 2001 Additional Payments, and any other City Bonds or Contracts that may be issued or executed in the future. In the event of such a deficit, the City is obligated to transfer moneys in the Revenue Fund to fund its payment obligations on a pro rata basis, without discrimination or preference. No priority is allotted to the 2004 Installment Payments and, consequently, in the event of such a deficit, the City would not have sufficient Net Water System Revenues to pay the 2004 Installment Payments in full and may have to make a draw on the Reserve Fund.

Limited Recourse on Default

If the City defaults on its obligation to make 2004 Installment Payments, the Trustee, as assignee of the Authority, has the right to accelerate the total unpaid principal amount of the 2004 Installment Payments. However, in the event of a default and such acceleration, neither the Insurance Policy guarantees the payment of any accelerated amounts and there can be no assurance that the City will have sufficient Net Water System Revenues to pay the accelerated 2004 Installment Payments.

Limitations on Available Remedies

The enforceability of the obligations of the City and the rights and remedies of the registered owners of the Bonds may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the registered owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Absence of Market for the Bonds

There can be no assurance that there will ever be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions and the financial condition or market position of firms who may make the secondary market.

Constitutional Limitations

California law imposes various taxing, revenue and appropriations limitations on public agencies such as the City. See "CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES" below for a discussion of these limitations.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the Bonds were issued, as a result of future acts or omissions of the City or the Authority in violation of their respective covenants in the Indenture and the Installment Purchase Agreement.

Economic, Political, Social and Environmental Conditions

Prospective investors are encouraged to evaluate current and prospective economic, political, social and environmental conditions as part of an informed investment decision. Changes in economic, political, social or environmental conditions on a local, state, federal and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage and natural disasters.

CONSTITUTIONAL PROVISIONS AFFECTING WATER SYSTEM REVENUES AND EXPENDITURES

California Constitution Article XIII B Limitations

Article XIII B of the California Constitution 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 government entity. The "base year" for establishing this appropriations limit is the 1978-79 fiscal year, and the limit is adjusted annually to reflect changes in population, consumer prices, and increases or decreases in the cost of services provided by these public agencies.

Appropriations of an entity of local government subject to Article XIII B include generally authorizations to expend during a fiscal year the proceeds of taxes levied by or for the entity and the proceeds of State subventions, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance, and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, most State subventions, and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity), and (2) the investment of tax revenues.

Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit, including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly. The City believes that its charges for water service do not exceed the costs it reasonably bears in providing such services and, therefore, are not subject to the limitations of Article XIII B. The City has covenanted in the Installment Purchase Agreement that it will, in each year, prescribe rates and charges sufficient to provide for payments of the 2004 Installment Payments, the 2001 Installment Payments, and any additional City Bonds, or Contracts that are issued by the City each year.

California Constitution Article XIII C and Article XIII D Limitations

On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees, and charges. These provisions could adversely affect the financial condition of the City, its ability to comply with its covenants under the Installment Purchase Agreement, and/or the Authority's ability to pay principal of or interest on the Bonds. In such event, there can be no assurance that remedies will be available to fully protect the interests of the holders of the Bonds. See "RISK FACTORS – Limitations on Available Remedies" above.

Article XIII D contains several new provisions affecting the ability of local governments to impose or increase "fees" and "charges," defined for purposes of Article XIII D to mean "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"; provided, however, that Article XIII D specifically provides that it shall not be construed to "affect existing laws relating to the imposition of fees or charges as a condition of property development." The City believes that its connection fee charges related to the Water System is a fee or charge as a condition of property development within the meaning of Article XIII D, although no assurance can be given that a court would not determine otherwise. "Property related service" means a public service having a direct relationship to property ownership (which term may include tenancies). All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire, ambulance, or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Although the City believes that its water service charges are not property related fees or charges within the meaning of Article XIII D, the City further believes that its water service charges, if determined to be such property related fees or charges, would satisfy all of these requirements. However, in any legal action contesting the validity of a fee or charge, the City will have the burden of proving exemption from or compliance with Article XIII D and no assurance can be given that a court would not determine otherwise. 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 fee or charge. The City is unable to predict whether the imposition or increase of any fee and charge, including any increase in its water service charge, will be prevented by such a majority protest.

Moreover, Article XIIIID also provides that, except for fees or charges for sewer, water, and refuse collection services (or fees for electrical and gas service, which are not treated as property related for purposes of Article XIIIID), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The City believes that its water service charges are charges for water service within the meaning of Article XIIIID, although no assurance can be given that a court would not determine otherwise.

Article XIIIID states that, beginning July 1, 1997, all "fees" or "charges" must comply with its provisions. It is unclear how the provisions of Article XIIIID will be applied to fees or charges established prior to such date. The City does not plan to conduct any new hearings, elections, or other proceedings with respect to any of its existing water-related fees or charges.

In addition to the provisions described above, Article XIIIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by future initiative, repeal, reduce, or prohibit the future imposition or increase of any local tax, assessment, fee, or charge. "Assessment," "fee," and "charge" are not defined in Article XIIIIC and it is unclear whether the definitions of such terms contained in Article XIIIID (which are generally property-related as described above) apply with respect to Article XIIIIC. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce, or prohibit the future imposition or increase of assessments, fees, or charges. The City believes that the initiative power cannot be used to alter covenants in the Installment Purchase Agreement concerning the imposition of the City's charges or reduce or repeal such charges to the extent that the City could not meet its obligation to make 2004 Installment Payments. In addition to the foregoing, the City's general financial condition may be affected by other provisions of Article XIIIIC and Article XIIIID, including (A) provisions of Article XIIIIC (i) requiring taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into general fund, to be approved by a two-thirds vote, (ii) subjecting all taxes, assessments, fees, and charges to reduction or repeal at any time through the initiative process (as mentioned above), and (iii) provisions of Article XIIIID that could reduce the ability of the City to fund certain services or programs that it may be required or choose to fund from its general fund, such as provisions (1) adding requirements making it generally more difficult to levy and maintain "assessments," defined to mean a levy or charge upon real property for a particular and distinct benefit to the property over and above general benefits conveyed to property located in the district or to the public at large, (2) requiring any imposition or increase of property related fees or charges other than for sewer, water and refuse collection services or fees for electrical or gas service (which are not treated as property related for purposes of Article XIIIID) to be approved by "majority of the property owners" subject to the fee or charge or, at the option of the local government, two-thirds vote of the electorate residing in the affected area.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Future Initiatives

Articles XIII B, XIII C, and XIII D of the Constitution were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting Water System revenues or the City's ability to generate or expend revenues.

THE AUTHORITY

The Authority is a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California pursuant to a Joint Powers Agreement, dated as of October 8, 1991, as amended on April 21, 1992 (the "JPA"), by and between the City, the Redevelopment Agency of the City of Oxnard and the Housing Authority of the City of Oxnard. The Authority was created on October 8, 1991, to finance capital improvements, working capital, liability and other insurance needs or projects.

The Authority is governed by a five-member Board of Directors. The members of the Board are listed below:

<u>Name</u>	<u>Office</u>
Tom Conway	Chairman
Charles Covarrubias	Vice Chairman
Dr. Sonny Okada	Board Member
Francisco J. Dominguez	Board Member
Patricia Maki	Board Member

The Authority is also served by the officers listed below who, in the case of the Authority Controller and General Counsel, serve in these capacities by virtue of their duties as Finance and Management Services Director and City Attorney, respectively or, in the case of the Authority Secretary, is appointed by officers of the Authority and serves at the pleasure of the Authority's Board of Directors. The officers are:

<u>Name</u>	<u>Position</u>
Stan Kleinman	Controller
Gary Gillig	General Counsel
Jill Beaty	Secretary

Neither the Authority nor its directors have any obligations or liability to the owners of the Bonds with respect to the payment of 2004 Installment Payments by the City under the Installment Purchase Agreement, or with respect to the performance of the City of other covenants made by it in the Installment Purchase Agreement.

MANAGEMENT OF THE WATER SYSTEM

General

The management of the City Water Division, an enterprise division of the Oxnard Public Works Department (the "Water Division"), is run by a staff of forty-one full time equivalent employees. Six of the forty-one full time equivalent employees are in management positions. The management positions for the Water Division are the Water Superintendent, the Water Resources Manager, the Water Programs Manager, and three Chief Operators. The Water Superintendent is responsible for the overall management of the Water Division and focuses primarily on water resource and planning issues. The Water Resources Manager assists the Water Superintendent and further runs the Water Division. The Water Programs Manager oversees and directs the administrative core functions of the Water Division, including financial analysis and office administration. The Chief Operators are responsible for operations and management services of the Water System.

The Water Division has taken proactive steps to responsibly meet the City's increasing water resource obligations. Previously, the Water Division was experiencing increasing expenses that were not offset by increasing revenues. The previous charges, fees, and rate structure did not generate sufficient revenues to offset expenditures and needed capital infrastructure reinvestment. This insufficiency of revenues coincided with the Fox Canyon Groundwater Management Agency ("FCGMA") groundwater allocation cutbacks, and the decision by the Water Division to flatline imported water deliveries due to rising wholesale water purchase costs. In addition, the last adopted Master Plan was over 15 years old and did not adequately address the City's current water resource needs. See "THE WATER SYSTEM – Water Supply" herein.

The first major steps taken to address the Water Division's water resource needs and financial condition were to update the Water System Master Plan and conduct a comprehensive Water Rate Study. The decision to pursue an update to the Water System Master Plan and to conduct the Water Rate Study took a significant amount of time to fully implement. The then-existing user fees and charges and rate structure were insufficient in fiscal year 2001-02 to satisfy the rate covenant set forth in the 2001 Restated Installment Purchase Agreement. The adoption of increased water rates commencing January 1, 2003, and again on July 1, 2003, allowed the rate covenant to be met in fiscal year 2002-03. Further, the City anticipates that the rate covenant will be met in future years as the Water Rate Study will be updated regularly to ensure that revenues are sufficient.

Water System Master Plan

The first step taken by the Water Division was an analysis of its current water infrastructure system in order to determine whether there were any deficiencies that would impair the City's ability to provide water services in the future and to address future demand. In that regard, the City conducted a comprehensive review of the City's existing and projected supplies and demands and capital and operational improvements that would be necessary to serve the City's needs until the year 2020 (the "Water System Master Plan"). The Water System Master Plan was developed by Kennedy/Jenks Consultants.

Based on findings in the Water System Master Plan, two sets of recommendations were developed – "Capital Improvements" and "Operational Improvements." Table 1 summarizes the recommended improvements for both the Capital Improvement Program and the Operational Improvement Program.

TABLE 1
City of Oxnard Water System

Capital Improvement Plan Components

<u>Improvements</u>	<u>Description</u>
• Cast Iron Pipe Replacement	Designed to replace aged and deteriorated cast iron pipe with new polyvinyl chloride pipe.
• Hydraulic Deficiencies	This project will correct existing projected water system deficiencies in various locations throughout the City.
• SCADA System Improvement Project	This project upgrades the Water Division's existing Supervisory Control and Data Acquisition System ("SCADA").
• Industrial Lateral Reconnection	Reconnects the industrial lateral system to the City's water distribution system.
• Aquifer Storage and Recovery Wells	This project will help reduce the need for upsizing of pipelines to meet fire flow criteria by distributing additional sources throughout the City's distribution system.
• Fire Hydrant Upgrade Project	This project will correct existing hydraulic and Americans with Disabilities Act ("ADA") compliance deficiencies in various locations in the City.
• Blending Station No. 3 Expansion Project	Blending Station No. 3 is composed of two distinct elements – the completion of 3 wells and the construction of a new 6.0 million gallon per day iron and manganese treatment facility.
• Blending Station No. 1 Disinfection System Improvement Project	This project will replace the Water Division's current gaseous chlorine disinfection system with a chloramination disinfection system.
• Downtown Cast Iron Pipe Replacement	This project will replace aged and deteriorated cast iron pipe with new polyvinyl chloride pipe in various locations throughout the downtown area.
• Blending Station No. 1 ADA/Energy Efficiency Project	This project will correct deficiencies in ADA compliance and will upgrade equipment to provide for more energy efficient operations at the Water Division's water yard.
• GREAT Program	This project will help increase the City's water supply reliability by developing water recycling programs and a groundwater desalter.

Operational Improvement Plan Components

Improvements

- Water Distribution Flushing Program

Description

This program will help the Water Division reestablish its distribution system flushing program. Flushing is a routine activity among water agencies and involves the periodic release of water from selected fire hydrants. Systematically opening hydrants and closing valves within the distribution system will purge sediments that accumulate in the water systems.

- Valve Exercising Program

This program will help the Water Division enhance its valve exercising program. Exercising of valves allows the City to verify the open/closed status of a valve in order to ensure that it can be closed in the event of a pipeline failure to maintain service to adjacent areas. This will improve the reliability of the distribution system.

- Leak Detection Program

This program will help the Water Division reestablish its leak detection program. Leak detection is essential to prioritizing pipelines that should be replaced. Leak detection is also crucial in reducing revenue losses.

- Meter Replacement

This program will help the Water Division enhance its meter replacement program. Over time, meters may fall out of calibration resulting in an inaccurate reporting of actual water deliveries. New automated meters allow for remote, more efficient reading of meters. Meter replacement will help the City avoid losing water revenue and will allow the City to reinvest its personnel in Water Division programs.

- Conservation Program

This program will help the City reestablish its conservation program. Activities that would be funded under this program include participation in CMWD's ultra-low flush toilet distribution program, outreach education, and residential audits. Conservation will assist the City in reducing its water demands.

Source: Water System Master Plan, January 2003.

Water Rate Study

The second major step undertaken by the Water Division was a study of the water rates and cost of water service (the "Water Rate Study"). The Water Rate Study was conducted by Kennedy/Jenks Consultants to determine appropriate rates, rate levels, and rate structures for the City's water utility operations in order to enable the City to continue to meet its water utility operation obligations on a financially sound basis. The Water Rate Study included analysis to determine revenue and funding requirements, which included projections of operating revenues, operating expenses, capital expenditures, and a five-year projection of the anticipated capital improvement expenditures and each project's funding source.

On December 17, 2002, the City Council of the City adopted Ordinance No. 2617, implementing revisions to the rates and charges imposed on current City water customers, as recommended by the Water Rate Study. The adopted rates include an inverted block rate structure to account for demand characteristics and costs imposed on the Water System, thereby encouraging conservation and generating sufficient revenue to recover the actual cost of providing service within each customer class.

On February 11, 2003, the City Council adopted Ordinance No. 2624, establishing two forms of capital improvement cost recovery programs: the Capital Facility Charge and the Water Resource Development Fee. Both cost recovery programs take into consideration the cost of planned capital improvements required to support future customer demands. The cost recovery programs are designed to offset an appropriate share of costs for the acquisition, construction, reconstruction, maintenance, and operation of the Water System, to repay the principal and interest on bonds issued for the construction or reconstruction of the Water System, and to repay federal or State loans or advances made to the City.

In addition, the Water Division implemented a Reserve Repayment Plan in Fiscal Year 2003-2004 and future operating budgets to appropriate \$509,000 annually to the reserve fund. The City's reserve fund policy endeavors to maintain operating reserves in the Water Utility Enterprise equal to 25 percent of the operating budget. This reserve fund is separate and apart from the Reserve Fund securing the Bonds.

THE PROJECT

The City is purchasing portions of the Water System from the Authority from the 2004 Installment Payments pursuant to the Installment Purchase Agreement. The portions of the Water System to be acquired consist of ten components: Cast Iron Pipe Replacement (Hydraulic Improvement), Hydrant Upgrades, Hydraulic Deficiencies, Blending Station No. 3 Water Conditioning Facility and Well Pumping Plant, Blending Station No. 1 Master Planned Improvements Projects – Phase II, Blending Station No. 5, SCADA Upgrades, the first phase of the GREAT Program, Automated Meter Reading Retrofit Program and Water Well Improvement Program (collectively, the "Project"), each of which is described below. The Project will be developed in accordance with the Water Division's Water System Master Plan and Five Year Capital Improvement Program. The facilities comprising the Project are subject to substitution in the manner set forth in the Installment Purchase Agreement (see "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Installment Purchase Agreement").

Cast Iron Pipe Replacement (Hydraulic Improvement)

This program is intended to replace aged and deteriorated cast iron pipe with new polyvinyl chloride pipe in various locations throughout the City. The new pipe will be installed in accordance with the current adopted City Water Division Standards. The replacement program will be performed in accordance with the Water System Master Plan capital improvement recommendations. The newly replaced water pipes will provide for improved infrastructure reliability, water flow, water quality, and hydraulic efficiencies. The cost of this component of the Project is estimated at \$6,000,000. Several projects are already under design and will be ready for construction within a few months after the issuance of the Bonds. This element of the project is anticipated to be completed before the end of calendar year 2005.

Hydrant Upgrades

This program is intended to replace fire hydrant assemblies located throughout the water system that do not comply with the Americans with Disabilities Act (42 U.S.C. § 12101 et seq.). This is an on-going program, the implementation of which has been and will continue to be accomplished in phases. The priority of the work is determined on a worst case, highest need basis. The estimated cost of this component of the Project is estimated at \$1,000,000.

Hydraulic Deficiencies

This project is intended to improve hydraulic deficiencies at various locations throughout the City. These improvements include, but are not limited to, main replacements, main upsizing, control system modifications, control valve improvements, and emergency interconnections. This is an on-going program, the implementation of which has been and will continue to be phased in over time. The projects are typically prioritized in accordance with adopted Water System Master Plan recommendations. The estimated cost of this component of the Project is estimated at \$3,000,000.

Blending Station No. 3 Water Conditioning Facility and Well Pumping Plant

The Blending Station No. 3 Water Conditioning Facility and Well Pumping Plant project is intended to improve well pumping capacity and water quality at the City's Blending Station No. 3 facility. This project is nearing completion and once completed, will add another 12,000 gallons per minute of local groundwater pumping capacity. Further, the Blending Station No. 3 Water Conditioning Facility and Well Pumping Plant will add a new disinfection system that uses sodium hypochlorite and aqueous ammonia. The new facility is expected to be completed by the summer of 2005. The cost of this component of the Project is estimated at \$4,000,000.

Blending Station No. 1 Master Planned Improvements Projects – Phase II

The Blending Station No. 1 Master Planned Improvement Projects – Phase II Program is intended to improve 2.5 acres of recently purchased property immediately adjacent to the existing facility on 251 South Hayes Avenue. The improvements contemplated for this aspect of the Project include, but are not limited to, four (4) groundwater injection/extraction wells, a materials storage bin facility, site vehicular/pedestrian upgrades, drainage facility enhancements, a National Pollutant Discharge Elimination System (NPDES) compliant fleet storage, parking and maintenance structures and equipment, master landscape and irrigation improvements, ADA/Energy Efficiency (Title 24) building improvements, and on-site electrical system installation. The improvements contemplated under this aspect of the Project will cost the City approximately \$4,000,000. This project is anticipated to be completed by the end of calendar year 2006.

Blending Station No. 5

The addition of Blending Station No. 5 will improve hydraulic conditions in the southern part of the City. This component of the Project, estimated at a cost of \$1,300,000, has been under preliminary design for the past two years and is preparing to transition into the final design and construction phase over the next two years. Once completed, the new facility will add another 25,000 gallons per minute of blended water capacity, with improved local hydraulics. This new facility is expected to be completed and functional by the summer of 2005.

SCADA Upgrades

The Supervisory Control And Data Acquisition (“SCADA”) project is designed to provide for the planned replacement and upgrade of the Water Division’s existing automation and control system. The SCADA Upgrades is an ongoing program, the implementation of which has been and will continue to be phased in over time. The estimated cost of this program is \$224,000.

GREAT Program

Phase 1 of the Groundwater Recovery Enhancement and Treatment Program (“GREAT Program”) will be implemented in accordance with the Water System Master Plan and the GREAT Program Advance Planning Study. The estimated total cost related to Phase 1 of the GREAT Program is \$56,928,000. The Bonds will fund the design of the tertiary recycled water treatment facility and design and construction related to the GREAT Program desalter, at an estimated cost of \$22,000,000.

The GREAT Program – Phase 1 was developed as an alternative water supply program by the City to meet the projected increase in water demands by the consumer in a cost-effective and reliable manner. The GREAT Program will also create a recycled water program. Customers already using groundwater for non-potable purposes will be entitled to in-lieu groundwater credits that will be transferred to the City. These credits will then be used by the City to extract groundwater that will be treated at a groundwater desalter to achieve a water quality similar to that currently delivered to the City water customers. The desalter will be located at 251 South Hayes Avenue and is intended to serve blended quality water to City residents with improved reliability, greater local reliance and better economy. Such cost will cover the construction of a 600,000 gallon permeate tank, a 15-million gallon per day maximum capacity water desalination treatment facility and related mechanical systems, chemical storage and feed equipment and facilities, SCADA control systems and other miscellaneous site improvements.

Automated Meter Reading Retrofit Program

The Automated Meter Reading (“AMR”) Retrofit Program is intended to provide for improved meter reading operations. Meter reading will be enhanced by expanding upon the Water Division’s AMR Pilot Demonstration Program. The new wireless radio meter reading technology used by the Water Division is twenty-four (24) times faster than conventional manual meter reading methods. The time saved through the use of the wireless systems will be reinvested in other Water Division programs that are in need of additional personnel. Thirty three percent (33%) of the current meter inventory has already been upgraded to the new AMR technology. This program will retrofit another fifty percent (50%), bringing the total past eighty percent (80%) and closer to completion. The cost of this component of the Project is estimated at \$3,000,000.

Water Well Improvement Program

The Water Well Improvement Program is intended to provide for the planned replacement and maintenance of the Water Division’s existing water extraction facility inventory. This program extends the useful life for many of the City’s water wells by providing for regular chemical and mechanical treatment that also ensures the reliability of the water system and water quality compliance. The estimated cost of this program is \$1,000,000.

THE WATER SYSTEM

Water Supply

To supply water to its residents, the City blends water from three different sources: imported surface water from the Calleguas Municipal Water District ("CMWD"), groundwater from the United Water Conservation District ("UWCD"), and groundwater from its own wells, each of which is described below:

Calleguas Municipal Water District. CMWD is a member of the Metropolitan Water District of Southern California, from which it purchases State Project Water. CMWD wholesales water directly to various cities throughout Ventura County including the City.

United Water Conservation District. UWCD diverts water from the Santa Clara River into the El Rio Spreading Grounds. This groundwater is then pumped from several of UWCD's own active wells. The El Rio Pumping Station provides pressurized groundwater directly to the City via the Oxnard-Hueneme Pipeline.

Local Wells. The City operates four active groundwater wells. Local water is disinfected with chlorine before the water enters the distribution system. Each water well produces approximately 3,000 gallons per minute, are between 250-400 horsepower and are between 15-25 years old. All four of the City's water wells recently underwent both chemical and mechanical treatment and redevelopment, and are estimated to have an additional 30-40 years of life expectancy.

Each of the water sources varies in price and quality, with groundwater from the City wells and UWCD generally being lower in cost and quality than the imported surface water from CMWD. To strike a fair balance between cost and quality, the City blends groundwater (from either its own wells or from UWCD) with imported surface water on a one-to-one basis. This blended water meets all federal and state drinking water requirements.

The Fox Canyon Groundwater Management Agency ("FCGMA") manages groundwater extractions in the Oxnard Plain. The FCGMA was created in 1982 at the direction of the State Water Resources Control Board to address ongoing overdraft and seawater intrusion into the Oxnard Plain Basin. The purpose of the FCGMA is to manage the region's groundwater supply by protecting the quantity and quality of local groundwater resources and by balancing the supply and demand for groundwater resources.

In order to eliminate groundwater overdraft and bring extractions within safe yields by 2010, the FCGMA adopted Ordinance No. 5 in 1990. Ordinance No. 5 established baseline allocations and a schedule of pumping allocation reductions. The baseline pumping allocation is based on historical extractions during the 5-year period from 1985 to 1989. A series of five percent (5%) reductions to baseline pumping allocations are scheduled every five years until a twenty-five percent (25%) reduction is achieved in the year 2010. To date, reductions of fifteen percent (15%) from 1985-1989 pumping levels have been implemented and two additional five percent (5%) reductions are scheduled for the five year periods ending in 2005 and 2010. These reductions were incorporated into the Water System Master Plan.

Extractions beyond the current pumping allocation (with reductions) are subject to a penalty fee, which is based on the cost to import water and the current groundwater conditions within the FCGMA. If pumpers utilize less than their pumping allocation, conservation credits are accrued. Similarly, if "foreign water" is recharged into the aquifer, storage credits are accrued. Credits can be utilized at a later date or can be transferred to other parties with the approval of FCGMA. The Water Division has accrued water conservation credits during those years when water demands were lower and imported water deliveries exceeded local water production. The use of the water conservation credits over recent years has enabled the City to stabilize its water rates and charges instead of paying the FCGMA penalty. However, the one-time use of accrued water conservation credits has accelerated the depletion of the City's water conservation credit balance. This limits the ability of the Water Division to plan for emergency water supply contingencies and further reduces operational flexibility.

Imported surface water from CMWD is also limited in availability for two reasons. First, the recent decision regarding the Colorado River Quantification Settlement Agreement and the subsequent dramatic reduction in Southern California's water entitlement has caused a shortage in available water supply. Second, the infrastructure needed to convey the additional water is a significant cost that could substantially drive up the cost of this water source. CMWD instituted a revised rate structure effective January 1, 2003, which established Tier 1 and Tier 2 rates for water purchases. Tier 1 rates are based upon a fixed purchase of water over the next 10 years and are purchased at \$482.00 per acre-foot. Tier 2 rates would take effect for water purchases over the Tier 1 allocation and have been established at \$563.00 per acre-foot. The City has executed a purchase order with CMWD to purchase 14,117 acre-feet per year ("AFY") of Tier 1 water for the City's use over the next 10 years.

The combination of the groundwater allocation cutbacks and the decision to flatline imported water deliveries in the face of a growing population leaves the City in a difficult situation. The City's allocation of groundwater under FCGMA and the availability of water from CMWD at Tier 1 rates is not sufficient to meet the City's demand for water, thus creating a deficit in the City's preferred supply of water to meet actual demand (the "Deficit"). The Deficit can only be overcome by paying the FCGMA-imposed pumping penalty, by paying the Tier 2 rates to CMWD, or by creating additional allocation/entitlement. Consequently, over the last several years, the City has been required to do one or both of the following: (i) extract groundwater in excess of the City's annual groundwater allocation under FCGMA through the use of groundwater credits or penalty and/or (ii) purchase water from CMWD at Tier 2 rates.

The City has been using accumulated groundwater credits to make up the Deficit in recent years. As of the date hereof, these credits had not been exhausted, although it is anticipated that the credits would be exhausted within the next 24-months unless certain elements of the GREAT Program are completed. The City has developed the GREAT Program to address the pending Deficit in water supplies. The GREAT Program is described in further detail below. The implementation of the GREAT Program will enable the City to be less reliant on imported water supplies. Until the GREAT Program has been fully implemented, however, the City's options to reduce the projected Deficit include some combination of purchasing CMWD Tier 2 water or pumping groundwater in excess of its allocation. Both of these options involve a considerably higher cost to the City. Between the two options, the City's preference is to purchase additional imported surface water from CMWD at the Tier 2 Rate, which is less expensive than paying the fees and penalties involved with groundwater pumping. See "-- Rates and Charges -- User Charges" herein.

Table 2 sets forth the projected sources of supply of, and demand for, water assuming that the GREAT Program is fully implemented, that water is purchased from CMWD at Tier 1 Rates only, and that the City does not extract groundwater in excess of its FCGMA-imposed allocation.

TABLE 2
CITY OF OXNARD WATER SYSTEM
Projected Sources of Supply and Demand
(Acre-Feet)

	<u>2005</u>	<u>2010</u>	<u>2015</u>	<u>2020</u>
<i>Supply</i>				
City Allocation ¹	5,568	5,255	5,255	5,255
UWCD Suballocation ¹	4,990	4,678	4,678	4,678
Ocean View Municipal Water District unused suballocation ¹	600	600	600	600
CMWD Tier 1 ²	14,117	14,117	14,117	14,117
GREAT Program ³	-	3,081	20,772	20,772
<i>Total Supply</i>	25,275	27,731	45,422	45,422
<i>Projected Demand⁴</i>				
	31,081	35,730	40,380	44,564
<i>Surplus (Deficit)</i>	(5,806) ⁵	(7,999) ⁵	5,042	858

⁽¹⁾ From Table ES-1, GREAT Program Advanced Planning Study May 2002.

⁽²⁾ From Oxnard/CMWD Purchase Order, less the Port Hueneme Water Authority ("PHWA") allocation. The City and PHWA jointly purchase water from CMWD. The numbers shown in Table 2 are the City's share of the Purchase Order only.

⁽³⁾ From GREAT Program Advanced Planning Study, May 2002.

⁽⁴⁾ From Table 5-15, Water System Master Plan, January 2003.

⁽⁵⁾ The projected deficit through 2010 will be made up by either increasing imported surface water deliveries vis-à-vis the CMWD and/or the successful implementation of the GREAT Program, which by its design is intended to create the additional local groundwater resources (i.e., allocation/entitlement) needed to meet current and future demands. The projected deficits are anticipated to end well before 2015, depending upon the GREAT Program implementation schedule.

Note: This table indicates an analysis through the year 2020; however the Bonds do not mature until 2034.

Source: Kennedy/Jenks Consultants.

Groundwater Recovery Enhancement and Treatment Program

The GREAT Program has the potential to provide a number of regional benefits that reach beyond the City's limits. This possibility has fostered a cooperative working environment among the different agencies that rely on the Oxnard Plain Groundwater Basin. The key elements of the program include the following:

- **Tertiary Treatment at the Oxnard Wastewater Treatment Plant:** This is the first step in producing recycled water that could be used for irrigation purposes. Currently, secondary treated wastewater is discharged to the Pacific Ocean without beneficial reuse. The design work for the Tertiary Treatment Facility is expected to be funded by the proceeds of the Bonds.
- **Advanced Treatment:** Although tertiary treatment is generally sufficient for water recycling in most cases, Oxnard's situation is somewhat unusual. Due to its coastal location and industrial discharges to the sanitary sewer system, the wastewater is relatively high in salts. Advanced treatment of the tertiary treated water to remove salts will allow the recycled water to be used without harming the irrigated crops or landscaping.
- **Recycled Water Distribution System:** The advanced treated recycled water can be used for irrigation purposes. An ongoing study has identified users of the UWCD's Pumping-Trough-

Pipeline as prime candidates for recycled water. Other potential users include agricultural customers along Hueneme Road. Distributed recycled water would generate groundwater credits that the City could use for potable water production.

- Groundwater Injection System: One of the problems with recycled water is that its demand is highly seasonal. During the wet months, when the demand for recycled water is low, advanced treated recycled water could be injected into the ground to address seawater intrusion concerns. The injection of recycled water into the ground introduces a new supply of water, which would develop groundwater credits for the City's use through FCGMA.
- Groundwater Desalter: The groundwater credits developed through water recycling and groundwater injection could be extracted by UWCD at their El Rio Facility or at City-owned extraction facilities, which would then be treated at the groundwater desalter. Proceeds from the Bonds are expected to fund the design and construction of the desalter.
- Brine Line: Both the Advanced Treatment Facility and Groundwater Desalter generate brines that would prove detrimental to recycled water quality if they were introduced into the City's sanitary sewers. A separate collection pipeline would be used to isolate the brine from the sanitary sewage. Depending upon the routing of the pipeline, it could also collect industrial brines from private sources. By isolating these brines, the amount of required treatment at the advanced treatment facility would be decreased.
- Wetlands Restoration/Development: The collected brines are an acceptable water source to develop or restore coastal wetlands in the Ormond Beach area. Habitat in this area would benefit a number of sensitive or endangered species.

The City is aggressively pursuing funding for the GREAT Program and hopes to get fifty percent (50%) of the cost from outside sources. Grant funding acquired to date for the overall GREAT Program totals \$1.6 million, which provided funds for the completion of the Advanced Planning Study. The U.S. Department of Agriculture Rural Economic and Community Development provided a \$1.5 million grant, the State Water Resources Control Board contributed a \$75,000 planning assistance grant, the U.S. Bureau of Reclamation provided \$20,000, and Metropolitan Water District of Southern California's Community Partnering Program provided \$5,000.

Additional funding is vigorously being pursued. Priority is being given to securing construction funding to allow the GREAT Program to proceed in a timely fashion. There are a number of grant programs that the City might be able to draw upon to help finance its capital projects. Some grants require matching funds from the sponsoring agency. Currently available grants include those sponsored by the State Water Resources Control Board, CALFED, and the California Department of Water Resources, among others.

Two proposals to the Metropolitan Water District of Southern California ("Metropolitan") were submitted on December 1, 2003 to request participation in the Local Resource Program ("LRP"). The LRP is intended to fund up to \$250 per acre-foot for projects within Metropolitan's service area which reduce or prevent future demand on imported water supplies. Metropolitan staff will review the proposals and provide a recommended project mix to its Board of Directors in March 2004.

City Council members and staff recently visited Washington D.C. to garner support for the GREAT Program at the federal level. Congresswoman Lois Capps has agreed to introduce a bill to Congress that would amend the Reclamation Wastewater and Groundwater Facilities Act to include the "City of Oxnard Water Recycling and Desalination Act of 2003." Congresswoman Capps intends to introduce this legislation in the spring of 2004. The Act would authorize the Secretary of the Interior to participate in the design, planning, and construction of permanent facilities for the GREAT Program, for which the Federal share of the costs would not exceed twenty-five percent (25%).

Service Area and Customers

As of June 30, 2003, there were 35,945 water accounts serving a population of approximately 182,000 within the City and a small unincorporated portion of Ventura County. In fiscal year 2003, there was a 3.28% increase in the number of accounts serviced and in fiscal year 2002 there was a 1.65% increase. Over the past 8 years, there has been an average increase of 2.08% per year, with the past five years providing the largest increases. Approximately, 87% of the consumer base is comprised of residential consumers, while the balance is made up of commercial and industrial consumers.

Historic Water Usage

The City records the volume of water delivered by its distribution system to users in the City. The following table summarizes water deliveries to users in the City for the most recent five fiscal years.

**TABLE 3
CITY OF OXNARD WATER SYSTEM
Historic Water Usage
(Acre-Feet)
Fiscal Year (ending June 30)**

<u>Fiscal Year</u>	<u>Local Water</u>		<u>Imported Water⁽¹⁾</u>	<u>Total Water Usage</u>
	<u>City Groundwater</u>	<u>UWCD Groundwater</u>		
1999	0.00	8,969.61	13,243.42	22,213.03
2000	1,926.14	8,632.53	14,889.86	25,448.53
2001	6,433.52	6,113.14	14,108.33	26,654.99
2002	8,663.43	5,638.55	12,604.34	26,906.32
2003	4,666.69 ⁽²⁾	9,315.02	12,764.80	26,746.51

⁽¹⁾ Calleguas Municipal Water District.

⁽²⁾ In fiscal year 2002-03, local wells were taken off-line to undergo both chemical and mechanical treatment and development.
Source: City of Oxnard.

Projected Water Usage

The following table lists the City's estimated water deliveries for the current and the next four fiscal years.

TABLE 4
CITY OF OXNARD WATER SYSTEM
Projected Water Usage (Acre-Feet)

Fiscal Year Ending <u>June 30</u>	<u>Local Water</u>						Additional Groundwater or CMWD Tier 2	Total Projected Water Usage
	City Groundwater	UWCD Groundwater	OVMWD Unused Suballocation ⁽¹⁾	GREAT Program	Imported Water (CMWD Tier 1)			
2004	5,879	5,302	600	--	14,117	4,409	30,307	
2005	5,568	4,990	600	--	14,117	5,806	31,081	
2006	5,568	4,990	600	--	14,117	6,738	32,013	
2007	5,568	4,990	600	3,081	14,117	4,618	32,974	
2008	5,568	4,990	600	3,081	14,117	5,607	33,963	

⁽¹⁾ The Ocean View Municipal Water District ("OVMWD") receives "wheeled" water through the City-owned water transmission facilities. In exchange for "wheeled" water services, OVMWD annually contributes any of its unused FCGMA allocation/credits to the City.

Source: Kennedy/Jenks Consultants.

Ten Largest Users

The following table lists the City's ten largest users of the Water System. Together, these ten entities accounted for nearly 12% of Water System Revenues in fiscal year ending June 30, 2003.

TABLE 5
CITY OF OXNARD WATER SYSTEM
Ten Largest Users (as of June 30, 2003)

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	<u>Percentage of Annual Revenue</u>
Procter & Gamble Paper Production ⁽¹⁾	Manufacturer	\$1,404,194	6.86%
Willamette Industries Inc.	Manufacturer	334,520	1.63
Reliant Energy Ormond Beach	Power Plant	141,226	0.69
Birds Eye Foods Inc.	Food Processor	103,761	0.51
Gill Onions	Food Processor	96,693	0.47
St. John's Regional Medical Center	Hospital	68,846	0.34
Reliant Energy Mandalay	Power Plant	66,867	0.33
Oxnard College	College	64,096	0.31
Meadowlake Mobile Home Park	Mobile Homes	48,194	0.24
Kona Kai Estates	Apartments	<u>43,991</u>	<u>0.21</u>
Totals		\$2,372,388	11.59%

⁽¹⁾ See Procter & Gamble discussion regarding the agreement dated December 20, 2002 under "— Rates and Charges – Procter & Gamble."

Source: City of Oxnard.

Rates and Charges

The City has the power to establish rates and charges as needed to operate the Water System. Charges are established by the City Council and are not subject to review or approval by any other agency. As revenue sources to operate the Water System, the City principally relies on (i) water user charges and (ii) connection charges.

User Charges. Prior to December 2002, increases in operating and non-operating expenses were not being offset by water user charges. In December 2002, the City adopted a Water Rate Study, prepared by Kennedy/Jenks Consultants, which revised the fixed and variable user charges for water service to provide the City with sufficient income to cover its projected expenditures. An inverted block rate structure was implemented to increase water sales revenues, which had been declining in recent years. The rate increase recommended in the Water Rate Study took effect January 1, 2003. An additional rate increase took effect July 1, 2003 to pass through increased costs from Calleguas Municipal Water District. (The City Council also approved Ordinance No. 2490, allowing "pass through" rate increases to be implemented without further City Council action). The current fixed user charges, classified by meter size and customer type are described in Table 6 below:

TABLE 6
CITY OF OXNARD WATER SYSTEM
Monthly Water Service Charges

<u>Meter Size</u>	<u>Single Family</u>	<u>Multifamily</u>	<u>Commercial and Industrial Blended</u>	<u>Fireline</u>
¾"	\$ 5.79	\$ 4.75	\$ 3.56	\$ 1.21
1"	9.82	8.08	6.07	2.06
1½"	19.12	15.69	11.79	4.00
2"	30.71	25.20	18.94	6.43
3"	67.81	55.65	41.80	14.19

Source: Kennedy/Jenks Consultants.

Table 7 below summarizes the variable water rates charged by the Water System for the different categories of water users using the inverted block rate structure.

TABLE 7
CITY OF OXNARD WATER SYSTEM
Monthly Commodity Rates

<u>Rate Per Hundred Cubic Feet</u>	<u>Single Family</u>	<u>Multifamily</u>	<u>Commercial and Industrial Blended</u>
0-6	\$1.277		
6-12	1.401		
>12	1.977		
0-17		\$1.040	
17-32		1.160	
>32		1.740	
0-13			\$1.040
13-23			1.160
>23			1.740

Source: Kennedy/Jenks Consultants.

Procter & Gamble. The Water Rate Study also made a recommendation to provide a separate contractual agreement for water service with the City's largest user, Procter & Gamble Paper Production ("P&G"). P&G is served with unblended imported potable water, the only customer of the City in this category. On December 20, 2002, P&G and the City entered into a Water Service Agreement which established the P&G annual charge for calendar year 2003 as \$1,546,061, to be billed and paid in twelve equal monthly payments. One component of the annual charge is the "fixed utility charge," which is intended to reimburse the City for direct and indirect costs attributable to providing water service to the P&G facility that are incurred by the City. The Water Service Agreement allows for an adjustment to be made to the "fixed utility charge" every three years. The original "fixed utility charge" in the Water Service Agreement was \$196,246. Kennedy/Jenks Consultants prepared a memorandum to the City in October 2003, which evaluated the direct and indirect costs and recommended the "fixed utility charge" be revised to \$214,890. Therefore the annual charge to P&G for calendar years 2003, 2004 and 2005 is \$1,564,705. The Water Service Agreement also provides for an annual "true-up" to reconcile the annual charge to P&G in comparison to the actual imported water usage.

Connection Charges. The Water Rate Study also evaluated the fees and charges associated with connecting new users to the City's Water System. The previous connection fee had been in place since 1991 and did not adequately provide the funding needed for capital improvements and expansions to the Water System. The Water Rate Study included a recommendation for the implementation of a "Capital Facility Charge" and a "Water Resource Development Fee" to fund new water supply projects to accommodate future growth. Effective January 1, 2003, the Capital Facility Charge is \$341 per meter equivalent and the Water Resource Development Fee is \$2,792 per meter equivalent. These fees, which are excluded from the definition of Water System Revenues, are paid as set forth in Table 8 below.

**TABLE 8
CITY OF OXNARD WATER SYSTEM
Connection Fee Equivalency Factor, Charges and Fees**

<u>Meter Size</u>	<u>Equivalency Factor</u>	<u>Capital Facility Charge</u>	<u>Water Resource Development Fee</u>	<u>Total</u>
3/4"	1	\$341	\$2,792	\$3,133
1"	2	682	5,583	6,265
1 1/2"	3	1,023	8,375	9,398
2"	5	1,706	13,958	15,664
3"	11	3,752	30,708	34,460
4"	17	5,799	47,458	53,257
6"	33	11,257	92,125	103,382
8"	53	18,080	147,958	166,038
10"	113	38,548	315,457	354,005
12"	180	61,404	502,498	563,902
Over 12"		to be calculated by Public Works Director		

Source: Kennedy/Jenks Consultants.

Comparative Water Rates

Set forth below is a schedule of comparative rates pursuant to the Black and Veatch, January 2003 report.

TABLE 9
CITY OF OXNARD WATER SYSTEM
Comparative Rates

<u>Area</u>	<u>Water Service Provider</u>	<u>\$ per 1,000 gallons</u>	<u>Residential Meter Monthly Service Charge</u>
Bell Canyon	Ventura County Waterworks District No. 17	\$2.45	\$38.97
Camarillo	Camrosa Water District	1.52	22.28
Camarillo	City of Camarillo	1.67	28.32
Channel Islands Beach	Channel Islands Beach Community Serv. Dist.	2.60	47.31
Fillmore	City of Fillmore	0.83	27.46
Lake Sherwood	Lake Sherwood Community Services District	1.87	33.12
Moorpark	Ventura County Waterworks District No. 1	1.71	25.03
Oak View	Casitas Municipal Water District	1.18	25.38
Ojai	Southern California Water Company	2.16	38.91
Oxnard	City of Oxnard	1.70	24.19
Port Hueneme	City of Port Hueneme	2.00	35.21
San Buenaventura	City of San Buenaventura	2.22	28.72
Santa Paula	City of Santa Paula	2.00	36.89
Simi Valley	Southern California Water Company	2.46	36.76
Simi Valley	City of Simi Valley	1.98	33.96
Somis	Ventura County Waterworks District No. 19	1.47	25.41
Thousand Oaks	California Water Service Company	2.41	34.99
Thousand Oaks	City of Thousand Oaks	2.17	30.80

Source: Black and Veatch; January 2003 report.

Billing and Collection Procedures and Delinquencies

Customers are billed on a monthly basis for approximately 30 day periods. Bills are due upon presentation and are considered delinquent after 21 days. If the amount due is unpaid after 30 days, a late charge of 10% of the current charges is assessed. When late charges are assessed, a late notice is mailed to the customer stating the date their service will be terminated if the account is not brought current. The customer is allowed 14 days after the notice is mailed to pay, or service will be terminated. Two working days prior to termination of service, a notice of closure is delivered to the service address and a notice fee of \$11.00 is charged to the account. If the customer still does not pay, service is terminated and a turn-off fee of \$64.00 is charged to the account. The customer must pay outstanding fees and charges before water service is restored.

Financial Information

Financial Statements. A copy of the most recent audited financial statements (the “Financial Statements”) of the City, including information on the Water System, prepared by the City’s accountant (the “Auditor”) is included as Appendix C hereto. 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, 2003 and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles. The Financial Statements should be read in their entirety with particular emphasis on pages 24 through 28, which deal with the City’s enterprise funds. The Auditor has not reviewed or audited this Official Statement.

The summary operating results contained under “Historic Operating Results and Debt Service Coverage” are derived from the Financial Statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

Historic Operating Results and Debt Service Coverage. Tables 10 and 11 below presents a summary of operating results of the Water System for the fiscal years ending June 30, 1999 through 2003. The tables have not been reviewed or audited by the City’s Auditor.

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TABLE 10
CITY OF OXNARD WATER SYSTEM
Combining Statement of Revenues, Expenses
and Changes in Retained Earnings
(For the Year ending June 30)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<i>Operating Revenues</i>					
Charges for Services	\$14,496,137	\$15,964,414	\$15,775,398	\$17,206,345	\$20,465,812
<i>Operating Expenses</i>					
Salaries and Wages	1,689,763	1,774,028	1,847,639	2,506,847	2,821,213
Contractual Services	303,728	249,299	508,371	1,341,857	596,674
Operating Supplies	9,395,616	10,568,770	10,234,082	10,984,436	11,479,889
Utilities	832,478	877,899	1,007,036	1,115,377	502,753
Depreciation and Amortization	1,845,610	1,522,656	1,147,024	1,679,478	1,762,232
General and Administrative	1,439,744	1,413,154	1,624,860	2,032,852	1,189,380
Repairs and Maintenance	<u>119,258</u>	<u>174,097</u>	<u>125,739</u>	<u>160,287</u>	<u>192,942</u>
Total Operating Expenses	<u>\$15,626,197</u>	<u>\$16,579,903</u>	<u>\$16,494,751</u>	<u>\$19,821,134</u>	<u>\$18,545,083</u>
Operating Income (Loss):	\$(1,130,060)	\$(615,489)	\$(719,353)	\$(2,614,789)	\$1,920,729
<i>Non Operating Revenues (Expenses)</i>					
Interest Income	484,666	564,714	451,063	649,749	136,667
Interest Expense	(128,855)	(242,351)	(236,322)	(767,540)	(730,142)
Other	=	=	=	=	=
Total Nonoperating Revenues (Expenses)	<u>\$355,811</u>	<u>\$322,363</u>	<u>\$214,741</u>	<u>\$(117,791)</u>	<u>\$(593,475)</u>
Net Income (loss)	(774,249)	(293,126)	(504,612)	(2,732,580)	1,327,254
<i>Depreciation on Fixed Assets Acquired With Contributed Capital</i>					
	558,796	470,885	738,689	1,597,676	1,356,735
Net Income (Loss) to Retained Earnings	(215,453)	177,759	234,077	(1,134,904)	2,683,989
Retained Earnings, July 1	\$35,043,826	\$34,828,373	\$61,371,038 ⁽¹⁾	\$61,518,419	\$60,383,515
Retained Earnings, June 30	\$34,828,373	\$35,006,132	\$61,518,419	\$60,383,515	\$63,067,504

⁽¹⁾ As a result of the City's compliance with GASB 34, the balance sheet for 2001, specifically the line item for Retained Earnings, will not reconcile with the balance sheet for 2000.

Source: City of Oxnard Comprehensive Annual Financial Report.

TABLE 11
CITY OF OXNARD WATER SYSTEM
Historic Revenues, Expenses and Debt Service Coverage
For the Year (ending June 30)

	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
<i>Revenues</i>					
Charges for Services	\$14,496,137	\$15,964,414	\$15,775,398	\$17,206,345	\$20,465,952
Interest Income	484,666	564,714	451,063	649,749	136,667
Other Income	--	--	--	--	922,751
Total Revenues	\$14,980,803	\$16,529,128	\$16,222,461	\$17,856,094	\$20,602,479
<i>Expenses</i>					
Total Operation and Maintenance Expenses	13,780,587	15,057,247	15,347,727	18,141,656	16,782,851
Net Water System Revenues	\$1,200,216	\$1,471,881	\$878,734	(\$285,562)	\$3,819,628
Annual Debt Service ⁽²⁾	\$672,392	\$776,994	\$746,812	\$806,177	\$805,196
Coverage	1.78	1.89	1.18	(0.35)	4.74
Cash and Cash Equivalents ⁽³⁾			\$6,654,245 June 30, 2000	\$6,014,398 June 30, 2001	\$6,714,232 June 30, 2002

⁽¹⁾ Table excludes developer connections.

⁽²⁾ Fiscal year 2002-03 CAFR includes the 2002 defeased debt related to the Water Revenue Bonds, Series 1993.

⁽³⁾ Cash on hand includes the Water Enterprise cash balance.

Source: City of Oxnard.

Projected Operating Results and Debt Service Coverage

The City's estimated projected operating results for the Water System for the fiscal years ending June 30, 2004 through June 30, 2008 are set forth in Table 12, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

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**TABLE 12
CITY OF OXNARD WATER SYSTEM**

**Projected Revenues, Expenses and Debt Service Coverage
For the Year Ended June 30**

	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
<i>Revenues</i>					
Charges for Services ¹	\$22,777,899	\$ 23,404,291	\$ 24,047,909	\$24,709,227	\$25,388,730
Interest Income ²	157,796	232,737	307,673	349,114	359,394
Other Income ²	451,893	456,413	460,977	465,587	470,242
Total Revenues	\$23,387,588	\$24,093,441	\$24,816,559	\$25,523,928	\$26,218,366
<i>Expenses²</i>					
Total Operation and Maintenance Expenses	\$18,625,355	\$18,847,617	\$19,036,093	\$19,226,454	\$19,418,719
Net Water System Revenues	\$4,762,233	\$5,245,824	\$5,780,466	\$6,297,474	\$ 6,799,647
Annual Debt Service³	\$1,412,905	\$3,832,330	\$3,834,430	\$3,830,730	\$ 3,831,330
Coverage⁴	3.37	1.37	1.51	1.64	1.77

(1) Varies from Water Rate Study, December 2002, Table 4-11 for FY 2003-04 through 2006-07 because adjustments have been made in all years for revised revenue from P&G.

(2) Varies from Water Rate Study, December 2002, Table 4-11 for FY 2003-04 through 2006-07 because neither the P&G Water Service Agreement nor the Three Party Agreement among the City, CMWD and PHWA were in place at the time the Water Rate Study was implemented. Revenue adjustments are based on actual revenues received as a direct result of these agreements.

(3) Includes Debt Service on the Bonds and the 2001 Bonds.

(4) Debt Service is calculated by dividing Net Water System Revenues by Annual Debt Service. The Debt Service coverage ratio does not take into consideration the balance in the Revenue Fund for purposes of satisfaction of the City's Rate Covenant.

Source: City of Oxnard.

Investment of City Funds

The Revenue Fund, into which all Water System Revenues are initially deposited, the Reserve Fund, and all other funds held under the Installment Purchase Agreement and Indenture are required to be invested in certain Permitted Investments as provided under the Indenture and the Installment Purchase Agreement. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto for the definition of Permitted Investments.

All other funds held by the City are invested in accordance with the City's Investment Policy. The primary objectives of the City's Investment Policy are, in order of priority, safety of principal, liquidity and yield. These objectives are intended to assure the economic status of the City while protecting funds and obtaining the highest yield with the understanding that all investments meet specified criteria for safety and liquidity. The City's current comprehensive Investment Policy was adopted by the City Council in September 2000.

All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or the Installment Purchase Agreement, or other amounts held by the City, could have a material adverse affect on the City's finances. See the

audited financial statements of the City attached hereto as Appendix C for a description of the City's investments at June 30, 2003.

The City's Investment Policy may be changed at any time by the City Council (subject to the State law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under State law or the Investment Policy or that the objectives of the City with respect to investments or its investment holdings at any point will not change.

No Prepayment from Net Proceeds

In the event of any damage to or destruction of the Water System caused by the perils covered by insurance, or in the event all or any part of the Water System is taken by eminent domain proceedings, the Net Proceeds from such damage or taking, as applicable, will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System or, in the case of eminent domain proceedings, applied to additions, betterments, extensions or improvements to the Water System. The Indenture contains no provision to prepay the principal of or interest on the Bonds from Net Proceeds. In such circumstances revenue generated by the Water System could be impaired and could affect the ability of the City to make the Installment Payments. Such impairment could affect the payment of the principal of and interest on the Bonds. See the caption "THE WATER SYSTEM – Insurance; Reconstruction, Repair and Replacement."

TAX MATTERS

Bond Counsel Opinion

In the opinion of Pillsbury Winthrop LLP, Los Angeles, California, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto and will accompany the Bonds.

The Internal Revenue Code of 1986, as amended (the "Code") imposes various restriction, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest received by persons such as the registered owners of the Bonds. The City and the Authority have covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in gross income for federal income tax purposes. Failure to comply with those covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with those 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) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Installment Purchase Agreement 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, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of bond counsel other than Bond Counsel.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the federal or state tax status of interest on the Bonds or the tax consequences of ownership of the Bonds. No assurance can be given that future legislation, including amendments to the Code or interpretations thereof, if enacted into law, will not contain provisions, which could directly or indirectly reduce the benefit of the excludability of the interest on the Bonds from gross income for federal income tax purposes.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal and California State personal income tax purposes, a Bondholder's federal and State tax liability may otherwise be affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the Bondholder's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, or in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds; (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds; (iii) with respect to life insurance companies, life insurance company taxable income subject to the tax imposed by Section 801 of the Code is determined by permitting deductions for certain dividends received but not to the extent such dividend is from a non-insurance corporation and is out of tax-exempt interest, including interest on the Bonds; (iv) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code; (v) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; (vi) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds; and (vii) under Section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors concerning collateral tax consequences with respect to the Bonds.

Risk of Audit by Internal Revenue Service

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service is likely to treat the Authority as the taxpayer and the owners of the Bonds may have no right to participate in such procedure.

Bond Counsel's opinion represents its legal judgment based upon its review of existing law, regulations, rulings, judicial decisions, and other authorities, and upon the covenants and representations of the parties and such other facts as it has deemed relevant to render such opinion, and is not a guarantee of a result. Neither the Underwriter nor Bond Counsel is obligated to defend the tax-exempt status of the Bonds. Neither the Authority, Bond Counsel, nor the Underwriter is responsible to pay or reimburse the costs of any owner with respect to any audit or litigation relating to the Bonds.

Original Issue Discount/Premium

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the 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 Bonds accrues daily over the term to maturity of such 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 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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 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 purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

RATINGS

Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies ("S&P") has assigned its municipal bond rating of "AAA" to the Bonds based upon the issuance of the Insurance Policy by the Insurer. In addition S&P has assigned an underlying municipal bond rating of "A" to the Bonds. There is no assurance that any such rating will be in effect for any given period of time or that either or both will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds. Such ratings reflect only the views of S&P and an explanation of the significance of the rating may be obtained only from S&P.

CONTINUING DISCLOSURE

The Authority will covenant in the Continuing Disclosure Agreement to provide certain financial information and operating data relating to the City and the Authority and notices of certain events, if material. Such information and notices will be filed by the Authority with certain Nationally Recognized Municipal Securities Repositories. The specific nature of the information to be provided is set forth in the Continuing Disclosure Agreement, a form of which is attached hereto as Appendix E. This covenant has been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), as amended. The Authority has never defaulted in any previous continuing disclosure undertaking. See "APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

UNDERWRITING

The Bonds are being purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$49,067,921.40 (which represents the aggregate principal amount of the Bonds, less an Underwriter's discount of \$205,948.50, plus a net original issue premium of \$1,378,869.90).

The contract of purchase pursuant to which the Bonds are being purchased by the Underwriter provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the contract of purchase.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices or yields different from the prices or yields stated on the cover page of this Official Statement. In addition, the offering prices or yields may be changed from time to time by the Underwriters.

Although the Underwriter expects to maintain a secondary market in the Bonds after the initial offering, no guarantee can be made that such a market will develop or be maintained by the Underwriter or others.

LITIGATION

The City and the Authority will certify, and the City Attorney will render opinions on behalf of the City and the Authority upon the issuance of the Bonds to the effect that, there is no action, suit or proceeding known to the City or the Authority to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Installment Purchase Agreement or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceeding of the City or the Authority taken with respect to any of the foregoing or that will materially adversely affect the City's ability to pay Installment Payments when due.

CERTAIN LEGAL MATTERS

Pillsbury Winthrop LLP, Los Angeles, California, Bond Counsel, will render an opinion with respect to the Bonds in substantially the form set forth in Appendix D hereto. Copies of such opinion will be furnished to the Underwriter at the time of delivery of the Bonds. Certain legal matters will be passed upon for the City and the Authority by the City Attorney and by Disclosure Counsel, Pillsbury Winthrop LLP, Los Angeles, California.

MISCELLANEOUS

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds and other documents contained herein do not purport to be complete and reference is made to said documents for full and complete statements of their provisions.

Appropriate City and Authority officials, acting in their official capacity, have reviewed this Official Statement and have determined that as of the date thereof the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. The appropriate City and Authority officials will execute a Certificate to this effect upon delivery of the Bonds. This Official Statement and its distribution have been duly authorized and approved by the City and the Authority.

CITY OF OXNARD FINANCING AUTHORITY

By: /s/ Stan Kleinman
Controller

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APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Trust Indenture and the Installment Purchase Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to said documents.

SELECTED DEFINITIONS

“Additional Payments” means the following additional payments, made solely from the Water System Revenues and from no other source, in consideration for the purchase of the Project:

(a) all reasonable compensation to the Trustee pursuant to the Indenture for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;

(b) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Installment Purchase Agreement or the Indenture; and

(c) to the extent not already paid under the 2001 Restated Installment Purchase Agreement, all amounts necessary to pay any insurance premiums required to be made from time to time under the Installment Purchase Agreement.

“Assignment Agreement” means that certain Assignment Agreement, by and between the Authority and the Trustee, dated as of February 1, 2004, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

“Authorized City Representative” means the City Manager (or his or her designee), the Treasurer (or his or her designee), the Finance and Management Services Director (or his or her designee) of the City, or such other officer or employee of the City or other person who has been designated as such representative by resolution of the City Council of the City.

“Beneficial Owner” means with respect to any Book-Entry Bond, the person who is the beneficial owner of such Bond, according to the records of the Depository or its agent, and with respect to any Bond not in book-entry form, the Owner thereof.

“Bond Year” means any twelve-month period beginning on June 2 in any year and extending to the next succeeding June 1, both dates inclusive, except that the first Bond Year shall end on June 1, 2004.

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

“Business Day” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, the State of New York, or in any state in which the office of the Trustee is located, are closed.

“Certificate of the Finance Director” means an instrument in writing signed by the Finance and Management Services Director (or his or her designee) of the City, or by and other official of the City duly authorized by the City for that purpose.

“City Bonds” means all revenue bonds or notes of the City authorized, executed, issued and delivered by the City, the payments of which are on a parity with the Installment Payments and which are secured by a pledge of and lien on the Water System Revenues.

“Code” means the Internal Revenue Code of 1986, as amended.

“Contract Payments” means the installment or lease payments of interest and principal or, if there are no separate payments of interest and principal, the installment of lease payments, scheduled to be paid by the City under and pursuant to the Contracts.

“Contracts” means the Installment Purchase Agreement and any amendments and supplements, the 2001 Contract, and all contracts of the City authorized and executed by the City, the Contract Payments under which are on a parity with the Installment Payments and which are secured by a pledge and lien on the Water System Revenues.

“Cost of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or City and related to the authorization, execution and delivery of the Installment Purchase Agreement, the Indenture and the related sale of the Bonds, including, but not limited to, fees of the provider of a Reserve Fund Surety Bond, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, municipal bond insurance, filing fees, initial fees and charges of the Trustee, fees and charges of the Authority, legal fees and charges, fees and expenses of consultants and professionals, fees and expenses of the financial advisor, fees and charges for preparation, execution and safekeeping of the Bonds and any other charge, cost or fee in connection with the original sale, execution and delivery of the Bonds.

“Debt Service” means, for any Fiscal Year, the sum of:

- (a) the interest payable during such Fiscal Year or 12-month period on all outstanding City Bonds, assuming that all outstanding serial City Bonds are retired as scheduled and that all outstanding term City Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized),
- (b) that portion of the principal amount of all outstanding serial City Bonds maturing in such Fiscal Year or other 12-month period,
- (c) that portion of the principal amount of all outstanding term City Bonds required to be prepaid or paid in such Fiscal Year or other 12-month period, and
- (d) that portion of the Contract Payments payable during such Fiscal Year or other 12-month period (except to the extent such interest is capitalized);

provided that, as to any such City Bonds or Installment Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the rate set forth in the applicable Qualified Swap, and if there is no Qualified Swap in effect with respect thereto, the greatest of (a) the actual interest rate on such City Bonds or Contract Payments on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding), (b) if the City Bonds or Contracts have been outstanding for at least twelve months, the

average rate over the twelve calendar months immediately preceding the date of calculation, and (c) (1) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer "Revenue Bond Index" (or comparable index if no longer published) plus 50 basis points, or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of Section 5.3 (Additional Obligations) and Section 6.13 (Amount of Rates and Charges), measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period; and

provided further that, if any series or issue of such City Bonds or Contract Payments have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year or other 12-month period of determination as if the principal of and interest on such series or issue of such City Bonds or Contract Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such City Bonds or Contract Payments or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such City Bonds or Contract Payments or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that, the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the City Bonds and Contracts for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and

provided further that, Debt Service shall not include interest which is paid from investment earnings on amounts on deposit in the Reserve Fund and transferred to the Payment Fund.

"Delivery Date." means the date of execution and delivery of the Bonds.

"Depository" means DTC and its successors and assigns or, if (a) the then Depository resigns from its functions as securities depository of the Bonds, or (b) the Authority discontinues use of the Depository pursuant to the Indenture, any other securities depository which agrees to follow procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Authority with the consent of the Trustee

"Fiscal Year" means the period beginning on July 1 of each year and ending on the last day of June of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the City

"Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

"Independent Financial Consultant" means a financial consultant or firm of such consultants appointed by the City, and who, or each of whom:

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

(b) does not have any substantial interest, direct or indirect, with the City; and

(c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services “Called Bond Service,” 55 Broad Street, 28th Floor, New York, New York 10004; Moody’s Investors Service “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; Standard and Poor’s Corporation “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the City may designate in a Written Request of the City delivered to the Trustee.

“Insurance Policy” or “Municipal Bond Insurance Policy” means the municipal bond insurance policy issued by XL Capital Assurance Inc. insuring the payment when due of the principal of and interest with respect to the Bonds.

“Insurer” means XL Capital Assurance Inc., or any successor thereto.

“Insurer’s Fiscal Agent” means the Insurer’s designated agent as specified in the Indenture.

“Interest Payment Date” means December 1 and June 1 in each year commencing on June 1, 2004 and any date on which the unpaid 2004 Installment Payments are declared to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with the Installment Purchase Agreement.

“Letter of Representations” means the letter of the Authority (and accepted by the Trustee) delivered to and accepted by DTC on or prior to delivery of the Book-Entry Bonds setting forth the basis on which DTC serves as depository for such Book-Entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the Authority (and accepted by the Trustee) delivered to and accepted by DTC.

“Maintenance and Operation Costs” means (1) costs spent or incurred for maintenance and operation of the Water System calculated in accordance with generally accepted accounting principles applicable to governmental agencies, including, but not limited to, the 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 administrative costs of the City that are charged directly or apportioned to the Water System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges (other than debt service payments) required to be paid by it to comply with the terms of the 2001 Restated Installment Purchase Agreement, the Installment Purchase Agreement, City Bonds or any Contract or of any resolution or indenture authorizing the issuance of any City Bonds or Contract, and (2) all payments under any contract for the purchase of water; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

“Maximum Annual Debt Service” as of the date of calculation, means the largest amount of Debt Service coming due and payable on the City Bonds and Contracts in the current or any future Fiscal Year.

“Moody’s” means Moody’s Investors Service and its successors and assigns.

“Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

“Net Water System Revenues” means (i) for any Fiscal Year, the Water System Revenues for such Fiscal Year less the Maintenance and Operation Costs for such Fiscal Year, or (ii) in applying the Installment Purchase Agreement, the Water System Revenues for the selected 12-month period less the Maintenance and Operation Costs for the same 12-month period.

“Nominee.” means, initially, Cede & Co., as nominee of the Depository, as determined from time to time pursuant hereto.

“Original Purchaser” means Stone & Youngberg LLC.

“Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except:

- (a) Bonds cancelled by the Trustee or delivered to the Trustee for cancellation;
 - (b) Bonds paid or deemed to have been paid within the meaning of the Indenture;
- and
- (c) Bonds in lieu of or in substitution for which other Bonds shall have been executed and delivered by the Trustee pursuant to the Indenture.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Book-Entry Bonds as securities depository.

“Permitted Investments” means, if and to the extent permitted by law:

- (a) for all purposes including defeasance investments in refunding escrow accounts (the Trustee is entitled to rely upon investment direction of the City as a certification that such investment is a Permitted Investment):
 - (i) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below); or
 - (ii) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;
- (b) For all purposes other than defeasance investments in refunding escrow accounts:
 - (i) 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, Farm Credit System Financial Assistance Corporation, Rural Economic Community Development Administration (formerly the Farmers Home Administration), General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage

Association (GNMA), U.S. Department of Housing & Urban Development (PHA's), Federal Housing Administration and Federal Financing Bank;

(ii) 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 rated "Aaa" by Moody's or "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of other government sponsored agencies approved by the Insurer;

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

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

(v) 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;

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

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

(2) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described above, 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 (2) 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;

(vii) any investment agreement that is approved in writing by the Insurer (supported by appropriate opinions of counsel) with notice to S&P;

(viii) a pooled investment fund managed by the State of California Treasurer's office meeting all legal guidelines and requirements for the investment of California public agency funds, provided, as to any investment made by the Trustee, the Trustee shall be entitled to make investments and withdrawals directly in its own name as the Trustee; and

(ix) other forms of investments (including repurchase agreements) approved in writing by the Insurer with notice to S&P.

"Principal Corporate Trust Office" means the corporate trust office of the Trustee at 707 Wilshire Boulevard, 17th Floor, Los Angeles, California 90017, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust business shall be conducted.

"Qualified Swap" means any financial arrangement (i) that is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) which provides that the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Authority Bonds Outstanding, and that such entity shall pay to the City an amount based on the interest accruing on such principal amount at a variable rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Authority Bonds) or that one shall pay to the other any net amount due under such arrangement; (iii) which has been designated in writing to the Trustee by the City and the Authority as a Qualified Swap with respect to the Authority Bonds; and (iv) which has been approved by the Insurer.

"Qualified Swap Provider" means a financial institution whose senior long term debt obligations or an insurance provider whose claims-paying ability, or whose obligations under a Qualified Swap are guaranteed by a financial institution whose senior long term debt obligations or by an insurance provider whose claims-paying ability, are rated (at the time the subject Qualified Swap is entered into) not lower than Aa3 by Moody's and AA- by S&P, or the equivalent thereof by any successor thereto.

"Redemption Price" means, with respect to any Bond (or portion thereof), the principal amount with respect to such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

"S&P" means Standard & Poor's Ratings Service, a division of McGraw-Hill, and its successors and assigns.

"Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227- 4039 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses as such depositories may specify and/or such other securities depositories as the City may designate in a Written Request of the City delivered to the Trustee.

"Separate Facilities" means any capital items acquired on or after the date of the Installment Purchase Agreement and which were not financed from the proceeds of the City Bonds or Contracts of the City having a parity claim on the Revenue Fund or Water System Revenues.

"State" means the State of California.

“Statement of the Authority” means a statement signed by or on behalf of the Authority by its Chairman, Vice Chairman, or Controller, or by any other person (whether or not members of the governing board of the Authority) who are specifically authorized by resolution of the Authority to sign or execute such a document on its behalf.

“Statement of the City” means a statement signed by or on behalf of the City by the Mayor, City Manager, or the Finance and Management Services Director or by any other person (whether or not members of the City Council of the City) who is specifically authorized by resolution of the City to sign or execute such a document on its behalf.

“Tax Certificate” means the Tax Certificate, dated as of the Delivery Date, concerning matters pertaining to the use and investment of proceeds of the Bonds executed and delivered by the Authority on the date of execution and delivery of the Bonds, including any and all exhibits attached thereto.

“2001 Agreements” means the 2001 Restated Installment Purchase Agreement and the 2001 Trust Indenture.

“2001 Bonds” means the City of Oxnard Financing Authority, Water Revenue Refunding and Project Bonds, Series 2001 (Water System Capital Improvements Project) issued pursuant to the 2001 Trust Indenture.

“2001 Contract” means the 2001 Restated Installment Purchase Agreement.

“2001 Project” means the water system improvements designated in the 2001 Restated Installment Purchase Agreement.

“2001 Restated Installment Purchase Agreement” means the Amended and Restated Installment Purchase Agreement, dated June 1, 2001, by and between the City and the Authority, relating to the 2001 Project.

“2001 Trust Indenture” means the Trust Indenture, dated as of June 1, 2001, by and among the Authority, the City and Wells Fargo Bank, National Association, as trustee.

“2004 Installment Payment Date” means the date on which 2004 Installment Payments are scheduled to be paid by the City pursuant to the Installment Purchase Agreement.

“2004 Installment Payments” means the 2004 Installment Payments payable by the City pursuant to the Installment Purchase Agreement and in the amounts and at the times set forth in the Installment Purchase Agreement.

“Value” means that the value of any investments shall be calculated as follows:

(a) The value of the securities is computed on the basis of the closing bid price quoted by Interactive Data Systems, Inc.; or

(b) the valuation of the securities is performed by a nationally recognized and accepted pricing service acceptable to the Insurer whose valuation method consists of the composite average of various bid price quotes on the valuation date; or

(c) the valuation of the collateral is based on the lower of two dealer bids on the valuation date. The dealers or their parent holding companies must be rated at least investment grade by S&P and Moody's. In addition, the dealers must be market makers in the securities being valued.

(d) As to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest.

(e) As to any investment not specified above, the value thereof established by prior agreement between the City, the Trustee and the Insurer.

(f) As an alternative to any of the foregoing, the value of any investment may be determined as of the end of each month by the manner currently employed by the Trustee or any other manner consistent with industry standard.

"Water Service" means the water distribution service provided by the City.

"Water System" means the whole and each and every part of the waterworks system serving the City (including, but not limited to, the 2001 Project and the Project), whether owned or operated by the City or another party, including the portion thereof existing on the date of the Installment Purchase Agreement, and including all additions, betterments, extensions and improvements to such water system or any part thereof hereafter acquired or constructed, but not including any Separate Facilities.

"Water System Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership of or operation of the Water System, including, without limiting the generality of the foregoing, (1) all in lieu charges and groundwater augmentation charges (including investment earnings thereon) collected by or on behalf of the City, (2) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of the water, drainage or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, proceeds or other moneys, including City reserves; but excluding in all cases (a) customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City, (b) proceeds of taxes or benefit assessments restricted by law to be used by the City to pay amounts due on bonds or other obligations hereafter incurred, (c) any and all revenues derived from the ownership or operation of or in connection with, and pledged to, Separate Facilities, and (d) connection fees and charges.

"Written Consent of the Authority;" "Written Order of the Authority;" "Written Request of the Authority;" and "Written Requisition of the Authority" mean, respectively, a written consent, order, request or requisition signed by or on behalf of the Authority by its Chairman, Vice Chairman, or Controller, or any other person (whether or not a member of the governing board of the Authority) who is specifically authorized by resolution of the Authority to sign or execute such a document on its behalf.

"Written Consent of the City;" "Written Order of the City;" "Written Request of the City;" and "Written Requisition of the City" mean, respectively, a written consent, order, request or requisition signed by or on behalf of the City by the Mayor, City Manager, the Finance and Management Services Director or the Treasurer, or by any person (whether or not a member of the City Council of the City) who is specifically authorized by resolution of the City to sign or execute such a document on its behalf.

TRUST INDENTURE

Denominations; Medium and Place of Payment; Dating

The Bonds shall be delivered in the form of fully registered Bonds in the denomination of \$5,000 each or any integral multiple thereof, provided that no Bond shall have principal represented thereby maturing in more than one year. The Bonds shall be payable in lawful money of the United States of America.

The principal and Redemption Price with respect to all Bonds shall be payable upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee. Interest with respect to Bonds shall be payable by check of the Trustee mailed by first class mail on the Interest Payment Dates of such Bonds to the respective Bond Owners of record thereof as of the close of business on the Record Date at the addresses shown on the books required to be kept pursuant to the Indenture except that an Owner of \$1,000,000 or more in aggregate principal amount of Outstanding Bonds may, upon written request to the Trustee prior to the applicable Record Date, be paid such interest by wire transfer in immediately available funds to an account designated by such owner, except in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Owners in whose names any such Bonds are registered at the close of business on a special record date as determined by the Trustee.

The Bonds shall be dated the Delivery Date. Interest with respect to Bonds shall be payable from the Interest Payment Date preceding their date of execution, unless such date shall be after a Record Date and on or before the succeeding Interest Payment Date, in which case interest shall be payable from such Interest Payment Date or unless such date shall be on or before the first Record Date, in which case interest shall be payable from the Delivery Date, provided, however, that if, as shown by the records of the Trustee, interest represented by the Bonds shall be in default, Bonds executed in exchange for Bonds surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from the Delivery Date.

Execution

The Bonds shall be executed by and in the name of the Authority by the manual or facsimile signature of its Chairman, attested by the manual or facsimile signature of its Secretary. The Bonds may carry a seal, and such seal may be in the form of a facsimile of the Authority's seal and may be reproduced, imprinted or impressed on the Bonds. The Bonds shall then be delivered to the Trustee for authentication by it. In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers of the Authority before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee, or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and attested the same had continued to be such officers of the Authority, and also any Bonds may be signed and attested on behalf of the Authority by such persons as at the actual date of execution of such Bonds shall be the proper officers of the Authority although at the nominal date of such Bonds any such person shall not have been such officer of the Authority.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in the Indenture, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered under the Indenture and are entitled to the benefits of the Indenture. The Bonds shall be authenticated by and in the name of the Trustee by the manual signature of any authorized signatory of the Trustee. The Trustee shall insert the date of execution of each Bond in the place provided thereon.

Transfer of Bonds

Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Indenture, by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Trustee shall execute and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount and of authorized denomination or denominations. The Trustee may require the payment by any Bond Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the City. Following any transfer of Bonds the Trustee shall cancel and destroy the Bonds it has received.

Exchange of Bonds

Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing Bonds and any services rendered or expense incurred by the Trustee in connection with any exchange shall be paid by the City. Following any exchange of Bonds the Trustee shall cancel and destroy the Bonds it has received.

The Trustee shall not be required to register the exchange, or transfer pursuant to the Indenture, of any Bond (i) within 15 days preceding selection of Bonds for redemption or (ii) selected for redemption.

Bond Registration Books

The Trustee will keep or cause to be kept, at its Principal Corporate Trust Office, sufficient books for the registration and transfer of the Bonds, which shall upon reasonable prior notice and at all reasonable times be open to inspection by the Authority or the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided in the Indenture.

The person in whose name any Bond shall be registered shall be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest with respect to and principal of and Redemption Price represented by such Bond shall be made only to or upon the order in writing of such registered owner, which payments shall be valid and effectual to satisfy and discharge liability upon such Bond to the extent of the sum or sums so paid.

Temporary Bonds

The Bonds may be initially executed and delivered in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in registered form and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Trustee executes and delivers temporary Bonds it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Corporate Trust Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of the same maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Indenture as definitive Bonds executed and delivered under the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen

If any Bond shall become mutilated, the Trustee shall execute and deliver a new Bond of like tenor, maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated.

Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and destroyed. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given indemnifying the Trustee, the Authority and the City, the Trustee, at the expense of the Bond Owner, shall execute and deliver a new Bond of like tenor and maturity, and numbered as the Trustee shall determine, in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond executed and of the expenses which may be incurred by the Trustee. Any Bond so executed in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture. The Trustee shall not be required to treat both the original Bond and any replacement Bond as being outstanding for the purpose of determining the principal amount of Bonds which may be executed under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of the Indenture, in lieu of delivering a new Bond for a Bond which has been mutilated, lost, destroyed or stolen and which has matured, the Trustee may make payment of such Bond upon receipt of indemnity satisfactory to the Trustee.

Establishment and Application of Acquisition Fund

There has been established with the Trustee a special trust fund to be designated the "Acquisition Fund." There shall be credited to the Acquisition Fund any other funds from time to time deposited with the Trustee for such purpose. The Trustee shall keep the Acquisition Fund separate and apart from all other funds and accounts held by it and shall administer the Acquisition Fund as provided in the Indenture and the Installment Purchase Agreement.

Except as provided in the Indenture, disbursements from the Acquisition Fund shall be made by the Trustee upon receipt of a requisition for disbursement executed or approved by a Written Requisition of City in the form set forth in the Indenture.

Upon receipt by the Trustee of a Written Order of City that the 2004 Project has been completed and that all 2004 Project costs and Cost of Issuance have been paid any amounts then remaining in the Acquisition Fund not encumbered or needed to pay 2004 Project costs and Costs of Issuance or to pay for other projects, as evidenced by a certificate of a Written Order of City, shall be deposited by the Trustee in the Rebate Fund if the City has notified the Trustee such funds are needed to pay arbitrage rebate payments to the federal government and the balance shall be deposited in the Payment Fund and be applied from time to time on behalf of the City as a credit against the next subsequent 2004 Installment Payments due. In no event will amounts in the Acquisition Fund after the date three years from the Delivery Date be invested at a yield in excess of the yield on the Bonds within the meaning of Section 148 of the Code and the regulations thereunder.

Establishment and Application of Costs of Issuance Fund

There has been established with the Trustee a special trust fund to be designated as the "Costs of Issuance Fund," to the credit of which a deposit shall be made as required by the Indenture. Moneys in the Costs of Issuance Fund shall be held in trust by the Trustee and shall be disbursed as provided in the Indenture for the payment or reimbursement of Costs of Issuance.

Amounts in the Costs of Issuance Fund shall be disbursed from time to time to pay Costs of Issuance, as set forth in a Written Requisition of the Authority in the form set forth in the Indenture. The Trustee shall pay all Costs of Issuance after receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee pursuant to a Written Requisition of the Authority requesting payment of Costs of Issuance. The Trustee shall maintain the Costs of Issuance Fund for a period of 180 days from the Delivery Date of the Bonds and then shall transfer any moneys remaining therein, including any investment earnings thereon, to the Acquisition Fund.

Moneys in the Costs of Issuance Fund shall be invested and deposited in accordance with the Indenture. Interest earnings and profits resulting from said investment shall be retained by the Trustee in the Costs of Issuance Fund to be used for the purposes of such fund.

Investment of Moneys in Funds

Moneys in the funds established under the Indenture shall be invested by the City or, upon the Written Request of the City, by the Trustee, as the case may be, in Permitted Investments which will mature on or before the dates when such moneys are scheduled to be needed for payment from such fund and in accordance with the limitations set forth in the Indenture and the Tax Certificate. Any such Written Request of the City shall be deemed a representation that such direction complies with the Indenture and the Tax Certificate, and the Trustee may conclusively rely thereon. Securities acquired as an investment of moneys in a fund shall be credited to such fund. The Trustee shall determine the value of investments hereunder at least monthly. In the absence of written investment direction from the City, the Trustee shall invest moneys held by it solely in Permitted Investments specified in the definition of Permitted Investments. The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic transaction statements which include detail for all investment transactions made by the Trustee under the Indenture. The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee.

Any interest, profit or other income on investments in the Acquisition Fund, shall be retained in the Acquisition Fund and used for Project costs until completion of the Project. Any interest, profit or other income on investments in any other fund shall be credited to such fund. The Trustee may sell or present for redemption any obligations so purchased at the direction of the City whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee may act as principal or agent in the acquisition or disposition of any investment. The Trustee may commingle moneys on deposit in any of the funds or accounts established pursuant to the Indenture (other than the Rebate Fund) into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee shall be accounted for separately notwithstanding such commingling.

Tax Covenants of the City

Pursuant to the Indenture, the City has covenanted to the Authority and the Trustee to comply with all applicable requirements of the Code necessary to preserve the exclusion from gross income for interest received by the Owners and specifically covenants, without limiting the generality of the foregoing, as follows:

Private Activity. The City will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

Arbitrage. The City will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

Federal Guarantee. The City will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

Miscellaneous. The City will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

Rebate Fund

The Trustee shall establish the Rebate Fund and the City shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the Bonds shall be governed by the Indenture and the Tax Certificate for the Bonds, unless the City delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the Bonds will not be adversely affected if such requirements are not satisfied.

Computation. Prior to the fifth Bond Year, the City shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments

exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1-1/2% Penalty") has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1 (b) of the Treasury Regulations (the "Rebatable Arbitrage"). The City shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

Transfer. Prior to the fifth Bond Year, upon the Written Request of the City, an amount shall be deposited to the Rebate Fund by the Trustee from any moneys legally available for such purpose (as specified by the City in the Written Request of the City), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with the Indenture. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the City, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Revenue Fund.

Payment to the Treasury. The Trustee shall pay, as directed by request of the City, to the United States Treasury, out of amounts in the Rebate Fund:

(g) Not later than 60 days after the end of (1) the fifth Bond Year, and (2) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(h) Not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the Indenture shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T prepared by the City, or shall be made in such other manner as provided under the Code.

Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the Bonds and the payments described in subsection (a) above being made may be withdrawn by the City and utilized in any manner by the City.

Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture shall survive the defeasance or payment in full of the Bonds.

Authority and City to Perform Installment Purchase Agreement

The Authority and City covenant and agree with the Owners of the Bonds to perform all obligations and duties imposed on them under the Installment Purchase Agreement and, together with the Trustee, to enforce such Installment Purchase Agreement against the other party thereto in accordance with its terms.

The Authority and the City will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Installment Purchase Agreement to be kept, performed and complied with by it.

The Authority and the City agree not to do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Purchase Agreement.

Tax Covenants

Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest with respect to the Bonds will not be adversely affected for federal income tax purposes, the City covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income, as set forth in the Indenture.

Accounting Records and Reports

The Trustee shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions made by it relating to the receipts, disbursements, allocation and application of the 2004 Installment Payments, and such books shall be available for inspection by the City and by any owner of Bonds, or his agent or representative, at reasonable hours and under reasonable conditions. Each month, so long as the Bonds are outstanding, the Trustee shall furnish to the City a statement covering receipts, disbursements, allocation and application of amounts on deposit in the funds and accounts created under the Indenture held by it.

Compliance with Indenture

The Trustee will not execute, or permit to be executed, any Bonds in any manner other than in accordance with the provisions of the Indenture, and the City will not suffer or permit any default by it to occur under the Indenture, but will faithfully observe and perform all the covenants, conditions and requirements of the Indenture.

Observance of Laws and Regulations

To the extent necessary to assure their performance under the Indenture, the Authority and the City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the Authority or the City respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Compliance with Contracts

The City shall comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the 2004 Project by the City, and all other contracts and agreements affecting or involving the 2004 Project to the extent that the City is a party thereto.

Prosecution and Defense of Suits

The City shall promptly, upon request of the Trustee or any Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water System or any part thereof (other than Separate Facilities), whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose.

Recordation and Filing

The Trustee, upon written direction of the City, shall record, register, file, renew, refile and re-record all such documents, including financing statements, as may be required by law in order to maintain a security interest in the Indenture and the Assignment Agreement, all in such manner, at such times and in such places as may be required by, and to the extent permitted by, law in order fully to preserve, protect and perfect the security of the Bond Owners and the rights and security interests of the Trustee. The Trustee, upon written direction of the City, shall (subject to the Indenture) do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of the Indenture and the Assignment Agreement.

Eminent Domain

If all or any part of the 2004 Project shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom shall be applied in the manner specified in Section 6.15 of the Installment Purchase Agreement.

Further Assurances

The Authority and the City will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Bond Owners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture.

Notice of Non-Payment

In the event of delinquency in the payment of any 2004 Installment Payments due by the City pursuant to the Installment Purchase Agreement, the Trustee shall, after one Business Day following the date upon which such delinquent 2004 Installment Payment was due, immediately give written notice of the delinquency and the amount of the delinquency to the City and the Authority.

Action on Default or Termination

Upon the occurrence of an Event of Default (as that term is defined in the Installment Purchase Agreement), which event shall constitute a default under the Indenture, and in each and every such case during the continuance of such Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of Bonds at the time Outstanding, with the written consent of the Insurer, shall be entitled, upon notice in writing to the City, to exercise the remedies provided to the Authority in the Installment Purchase Agreement; provided, however, that no effect shall be given to payments made under the Insurance Policy in determining whether an Event of Default exists.

Upon declaration of the entire principal amount of the unpaid 2004 Installment Payments and the accrued interest thereon to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with the Installment Purchase Agreement, the Trustee may, upon written consent of the Insurer, and, at the written request of the Insurer, shall apply all moneys received as 2004 Installment Payments and all moneys held in any fund or account under the Indenture (other than the Rebate Fund) to the payment of the entire principal amount of the Bonds and the accrued interest with respect thereto, with interest on the overdue Bonds at the rate or rates of interest applicable to the Bonds if paid in accordance with their terms. The Insurer, acting alone, shall have the right to direct all remedies upon an Event of Default including, but not limited to, the right to declare the 2004 Installment Payments due and payable in full and to institute any suit, action or proceeding, at law or in equity, on the same terms as the Owners of the Bonds. For purposes of exercising all rights and remedies provided in the Indenture, so long as the Insurance Policy is in effect, the Insurer shall be deemed the Owner of the Authority Bonds. Further, no waiver of an Event of Default shall be granted without obtaining the prior written consent of the Insurer.

Other Remedies of the Trustee

The Trustee shall have the right —

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

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

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

Non-Waiver

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

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

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or the Insurer 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 Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. If any remedial action is discontinued or abandoned the Owners of the Bonds shall be restored

to their former position. The Insurer shall be entitled to request the Trustee to intervene in judicial proceedings that affect the Bonds or security therefor.

No Obligation by the City to Owners

Except for the payment of 2004 Installment Payments when due in accordance with the Installment Purchase Agreement and the performance of the other covenants and agreements of the City contained in said Installment Purchase Agreement and in the Indenture, the City shall have no obligation or liability to the Owners of the Bonds with respect to the Indenture or the execution, delivery or transfer of the Bonds, or the disbursement of 2004 Installment Payments to the Owners by the Trustee; provided however that nothing shall affect the rights, duties or obligations of the Trustee expressly set forth in the Indenture.

No Obligation with Respect to Performance by the Trustee

Neither the City nor the Authority shall have any obligation or liability to any of the other parties to the Indenture or to the Owners of the Bonds with respect to the performance by the Trustee of any duty imposed upon it under the Indenture.

No Liability to Owners for Payment

The Authority shall not have any obligation or liability to the Owners of the Bonds with respect to the payment of the 2004 Installment Payments by the City when due, or with respect to the performance by the City of any other covenant made by it in the Installment Purchase Agreement or in the Indenture. Except as provided in the Indenture, the Trustee shall not have any obligation or liability to the Owners of the Bonds with respect to the payment of the 2004 Installment Payments by the City when due, or with respect to the performance by the City of any other covenant made by it in the Installment Purchase Agreement or in the Indenture.

No Responsibility for Sufficiency

The Trustee shall not be responsible for the sufficiency of the Indenture, the Installment Purchase Agreement, or of the assignment made to it by the Assignment Agreement of rights to receive 2004 Installment Payments pursuant to the Installment Purchase Agreement, or the value of or title to the 2004 Project. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with the Indenture, to the extent permitted by law.

Trustee; Duties, Removal and Resignation

By executing and delivering the Indenture, the Trustee accepts the duties and obligations of the Trustee provided in the Indenture, but only upon the terms and conditions set forth in the Indenture.

With the written consent of the Insurer, the Authority, or, if the City is in default under the Installment Purchase Agreement, the Owners of a majority in aggregate principal amount of all Bonds Outstanding, may by written request to the Trustee, remove the Trustee initially a party to the Indenture, and any successor thereto, and may appoint a successor Trustee, but any such successor shall be a bank or trust company doing business and having a corporate trust office in California, which has (or the parent holding company of which has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to

law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall meet the requirements set forth in the Indenture, shall be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding.

The Trustee may resign by giving thirty (30) days' written notice to the Authority and the Insurer and by giving to the Bond Owners notice of such resignation by mail at the addresses shown on the Bond Register maintained by the Trustee. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the Authority does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may at the expense of the Authority petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee.

Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, shall be appointed by the Authority.

Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Owners as if there were no Insurance Policy.

Protection of the Trustee

The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, opinion, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an owner of any Bond or to take any action at the request of any such person unless such Bond shall be deposited with the Trustee or satisfactory evidence of the ownership of such Bond shall be furnished to the Trustee. The Trustee may consult with counsel, who may be counsel to the Authority or the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith in accordance therewith.

Whenever in the administration of its duties under the Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed) shall be deemed to be conclusively proved and established by a certificate of the Authority or the City and such

certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may (but shall have no duty), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds provided pursuant to the Indenture, and may join in any action which any owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the City or the Authority, and may act as depositary, trustee, or agent for any committee or body of Owners of Bonds or of obligations of the Authority or the City as freely as if it were not the Trustee under the Indenture.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duties under the Indenture, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent or receiver selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under the Indenture or for anything whatever in connection with the funds and accounts established under the Indenture, except only for its own willful misconduct or negligence.

The recitals, statements and representations by the City or the Authority contained in the Indenture or in the Bonds shall be taken and construed as made by and on the part of the City or Authority and not by the Trustee and the Trustee does not assume, and shall not have, any responsibility or obligations for the correctness of any thereof.

The Trustee undertakes to perform such duties, and only such duties as are specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee.

No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture.

In accepting the trust created by the Indenture, the Trustee acts solely as the Trustee for the Owners and not in its individual capacity; and all persons, including without limitation the Owners and the City or the Authority having any claim against the Trustee arising from the Indenture shall look only to the funds and accounts held by the Trustee under the Indenture for payment except as otherwise provided in the Indenture. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

The Trustee makes no representation or warranty express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City or the Authority of the 2004 Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Installment Purchase Agreement or the Indenture for the existence, furnishing or use of the 2004 Project.

The Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture or under the Installment Purchase Agreement unless and until it shall have actual knowledge thereof or have received notice thereof at its corporate trust office at the address set forth in the Indenture.

The Trustee shall not be accountable for the use or application by the City, or the Authority or any other party of any funds which the Trustee has released in accordance with the terms of the Indenture.

The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

The Trustee is authorized and directed to execute in its capacity as the Trustee the Assignment Agreement.

Before taking any action under the Indenture the Trustee may require indemnity satisfactory to the Trustee be furnished for any expenses and to protect it against any liability it may incur under the Indenture.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for in the Indenture) in aggregate principal amount of Bonds Outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty.

The Trustee's rights to immunities and protection from liability under the Indenture and its rights to payment of its fees and expense shall survive its resignation or removal and final payment or defeasance of the Bonds.

Amendments of the Indenture

The Indenture and the rights and obligations of the City and of the Owners of the Bonds and of the Trustee may be modified or amended at any time by an amendment to the Indenture which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then outstanding, exclusive of Bonds disqualified as provided in the Indenture, shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the Bonds, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of owners of Bonds whose consent is required for the execution of any amendment or modification of the Indenture, or (3) modify any of the rights or obligations of the Trustee or the Authority without its written consent thereto.

The Indenture and the rights and obligations of the Authority and the City and of the Owners of the Bonds may also, with the written consent of the Insurer, be modified or amended at any time by an amendment to the Indenture which shall become binding upon adoption, without the consent of the owners of any Bonds, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority or the City contained in the Indenture other covenants and agreements thereafter to be observed or to surrender any right or power reserved to or conferred upon the Authority or the City, and which shall not adversely affect the interests of the Owners of the Bonds;

(b) to cure, correct or supplement any ambiguous or defective provision contained in the Indenture or in regard to questions arising under the Indenture, as the Authority or the City may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Bonds; and

(c) to make such other amendments or modifications as may be in the best interests of the Owners of the Bonds.

Disqualified Bonds

Bonds owned or held by or for the account of the Authority or the City (but excluding Bonds held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in the Indenture, and shall not be entitled to consent to or take any other action provided for in the Indenture, unless all Bonds are so held. Upon request of the Trustee, the City shall specify to the Trustee those Bonds disqualified pursuant to the Indenture.

Defeasance

When the obligations of the City under the Installment Purchase Agreement shall cease pursuant to the Installment Purchase Agreement (except for the right of the Trustee and the obligation of the City to have the money and Permitted Investments mentioned therein applied to the payment of 2004 Installment Payments as therein set forth and the obligation to apply moneys on deposit in the Rebate Fund as provided in the Indenture), then and in that case the obligations created by the Indenture shall thereupon cease, terminate and become void except for the obligation of the City to direct the Trustee to apply money on deposit in the Rebate Fund as provided in the Indenture which shall continue until such moneys are so applied and the right of the Owners to have applied and the obligation of the Trustee to apply such moneys and Permitted Investments to the payment of the Bonds as set forth in the Indenture, and subject to application of moneys on deposit in the Rebate Fund as provided in the Indenture, the Trustee shall turn over to the City, after provision for payment of amounts due the Trustee in the Indenture, as an overpayment of 2004 Installment Payments, any surplus in the Payment Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Bonds at maturity or on redemption, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Bonds, and after such payment, the Indenture shall become void.

If moneys or securities described in the definition of Permitted Investments are deposited with and held by the Trustee as provided for in the Indenture, the Trustee shall within thirty (30) days after such moneys or Permitted Investments shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners at the addresses listed on the Bond Register kept by the Trustee pursuant to the Indenture, setting forth (a) the date fixed for redemption of the Bonds, (b) a description of the moneys or securities described in the definition of Permitted Investments so held by it, and (c) that the Indenture has been released in accordance with the provisions of the Indenture.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due with respect to the Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the City to the Owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

Deposit of Money or Securities with the Trustee

Whenever in the Indenture or the Installment Purchase Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Bonds, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(d) lawful money of the United States of America in an amount equal to the principal amount represented by such Bonds and all unpaid interest represented thereby to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price and all unpaid interest to such date of redemption if any, represented by such Bonds; or

(e) non-callable securities described in the definition of Permitted Investments which will provide money sufficient, in the opinion of an Independent Certified Public Accountant, to pay the principal at maturity or upon redemption plus all accrued interest to maturity or to the redemption date, as the case may be, represented by the Bonds to be paid or redeemed, as such amounts become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture and the Installment Purchase Agreement or by Written Request of the City) to apply such money or securities to the payment of such principal or Redemption Price and interest represented by such Bonds.

Unclaimed Moneys

Notwithstanding anything contained in the Indenture to the contrary, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal or Redemption Price represented by any of the Bonds which remain unclaimed for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal or Redemption Price represented by such Bonds have become payable, shall be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the City for the payment of the interest and principal or Redemption Price represented by such Bonds; provided, however, that before being required to make any such payment to the City, the Trustee shall, at the written request and expense of the City, first mail a notice to the owners of the Bonds so payable that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the City.

INSTALLMENT PURCHASE AGREEMENT

The Installment Purchase Agreement is entered into between the City and the Authority and pursuant to its terms, the City shall purchase the Project from the Authority and the Authority shall sell the Project to the City.

Deposit of Moneys

Pursuant to the Installment Purchase Agreement, in order to induce the City to purchase the Project from the Authority and to assure the City that the moneys needed to pay the costs of the Project will be available, the Authority will issue the Bonds and the proceeds of the Bonds will be deposited in the Acquisition Fund held by the Trustee pursuant to the Indenture.

Acquisition and Construction of the 2004 Project

The Authority has agreed to cause the 2004 Project to be constructed, acquired and installed and has designated the City as its agent for the purpose of such construction, acquisition and installation. The City shall enter into contracts and provide for, as agent for the Authority, the complete construction, acquisition and installation of the 2004 Project. The City has agreed that it will cause the construction, acquisition and installation of the 2004 Project to be diligently performed after the deposit of funds with the Trustee. It is expressly understood and agreed that, except for the deposits of the proceeds of the Authority Bonds as described in the Installment Purchase Agreement, the Authority shall be under no liability of any kind or character whatsoever for the payment of any cost of the 2004 Project and that all such costs and expenses shall be paid by the City, regardless of whether the funds deposited in the Acquisition Fund are sufficient to cover all such costs and expenses.

Changes to the 2004 Project

The City may, at any time, substitute other capital items for those listed as components of the 2004 Project in the Installment Purchase Agreement, but only if the City first obtains the written consent of the Insurer and files with the Authority, the Trustee and the Insurer a statement of the City:

(a) identifying the capital items to be substituted and the City capital items they replace in the 2004 Project; and

(b) stating that the estimated costs of acquisition of the substituted capital items are not less than such costs for the capital items previously planned;

together with an opinion of special counsel to the City expert in matters pertaining to the issuance of obligations of municipalities the interest on which is excluded from gross income for federal income tax purposes to the effect that the substituted capital items will not adversely affect the exclusion of the interest on the Authority Bonds from gross income of the owners of the Authority Bonds for federal income tax purposes.

Title

All right, title and interest in each component of the 2004 Project shall vest in the City immediately upon the acquisition, construction and installation thereof. Such vesting will occur without further action by the Authority or the City, and the Authority will deliver any and all documents required to assure such vesting.

Purchase Price

The Purchase Price for the Project to be paid by the City to the Authority, solely from Net Water System Revenues and from no other sources, is the aggregate amount of debt service scheduled to be paid on the Bonds, subject to prepayment as provided in the Installment Purchase Agreement.

Installment Payments

The City shall, subject to its rights of prepayment provided in the Installment Purchase Agreement, pay to the Authority, solely from the Net Water System Revenues and from no other sources, the Purchase Price in installment payments of interest and principal in the amounts and on the 2004 Installment Payment Dates as set forth in the Installment Purchase Agreement. Pursuant to the Indenture, the 2004 Installment Payments are to be applied to the payment of the principal of and interest on the Bonds, and the 2004 Installment Payments shall be made in amounts that are sufficient, but no more than sufficient, to pay the scheduled payments of principal of and interest on the Outstanding Bonds. Other than any payments made by the Insurer, if and to the extent that, on any 2004 Installment Payment Date, there are amounts on deposit in the Payment Fund established under the Indenture, which amounts are not being held for the payment of specific Authority Bonds, said amounts shall be credited against the 2004 Installment Payment due on such date. If all or a portion of the Bonds are no longer Outstanding as a result of redemption, early retirement through purchase by the City or the Authority, or defeasance of such Bonds, the schedule of 2004 Installment Payments set forth in the Installment Purchase Agreement shall be deemed to have been modified so that the 2004 Installment Payments are sufficient, but no more than sufficient, to pay the scheduled payments of principal of and interest on the Outstanding Bonds. Upon any such redemption, purchase, or defeasance, the City shall recalculate 2004 Installment Payments and shall provide the Trustee with a modified schedule of 2004 Installment Payments.

Each 2004 Installment Payment shall be paid to the Authority in lawful money of the United States of America. In the event the City fails to make any of the payments required to be made by it under the Installment Purchase Agreement, such payment shall continue as an obligation of the City until such amount shall have been fully paid and the City agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the 2004 Installment Payments if paid in accordance with their terms.

Subject to the Installment Purchase Agreement, the obligation of the City to make the 2004 Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the City will not discontinue or suspend any 2004 Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and whether or not the Project has been completed, and such payments shall not be subject to reduction (except as provided in the Installment Purchase Agreement) whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Additional Payments

In addition to the 2004 Installment Payments, the City shall pay when due, solely from the Water System Revenues and from no other source, the following additional payments in consideration for the purchase of the Project:

(a) all reasonable compensation to the Trustee pursuant to the Indenture for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;

(b) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Installment Purchase Agreement or the Indenture; and

(c) to the extent not already paid under the 2001 Restated Installment Purchase Agreement, all amounts necessary to pay any insurance premiums required to be made from time to time under the Installment Purchase Agreement.

Pledge of the Net Water System Revenues

All Water System Revenues and those amounts on deposit in the Revenue Fund are hereby irrevocably pledged to the payment of the 2004 Installment Payments, amounts payable under the 2001 Restated Installment Purchase Agreement, the Additional Payments and any and all other amounts payable hereunder as provided in the Installment Purchase Agreement, and the Water System Revenues shall not be used for any other purpose while any of the 2004 Installment Payments, amounts payable under the 2001 Restated Installment Purchase Agreement, the Additional Payments and any and all other amounts payable under the Installment Purchase Agreement remain unpaid; provided that out of the Water System Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. The pledge to the payment of the 2004 Installment Payments and amounts payable under the 2001 Restated Installment Purchase Agreement shall constitute a first and exclusive lien on (i) Water System Revenues and (ii) subject to application of amounts on deposit therein as permitted herein and in the 2001 Agreements, the Revenue Fund and the other funds and accounts created hereunder, for the payment of the Installment Payments and amounts payable under the 2001 Restated Installment Purchase Agreement, and all other Contracts and City Bonds in accordance with the terms of the Installment Purchase Agreement, the Indenture and the 2001 Agreements.

Allocation of Water System Revenues

In order to carry out and effectuate the pledge and lien contained in the Installment Purchase Agreement and in the 2001 Restated Installment Purchase Agreement, the City agrees and covenants that all Water System Revenues shall be received by the City in trust and shall be deposited when and as received in a special fund designated as the "Revenue Fund," which fund was established by the 2001 Restated Installment Purchase Agreement, and which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any 2004 Installment Payments, Additional Payments or Authority Bonds remain unpaid. Moneys in the Revenue Fund shall be used and applied by the City as provided in the Installment Purchase Agreement, the Indenture, and the 2001 Agreements.

The City shall, from the moneys in the Revenue Fund, pay all Maintenance and Operation Costs as they become due and payable.

All remaining moneys in the Revenue Fund shall be transferred, without preference or priority, to (a) the Trustee, to pay Debt Service under the Installment Purchase Agreement, in the amounts and at the times required in the Installment Purchase Agreement, (b) the trustee for the 2001 Bonds, to pay Debt Service under the 2001 Restated Installment Purchase Agreement, in the amounts and at the times required by the 2001 Restated Installment Purchase Agreement, and (c) other trustees or parties entitled to payment for City Bonds or other Contracts on a parity with the 2004 Installment Payments, to pay Debt Service on City Bonds and other Contracts, in the amounts and at the times required by the documents executed in connection with the issuance of the City Bonds or other Contracts. In the event of any insufficiency of such moneys to pay all amounts in (a) – (c) above, the City shall transfer moneys in the Revenue Fund to the parties in (a) – (c) above ratably without any discrimination or preference.

After the deposits set forth in the immediately preceding paragraph have been made, remaining moneys in the Revenue Fund shall be transferred, without preference or priority, to (x) the Trustee, to replenish the Reserve Fund (or the Reserve Fund Surety Bond), in the amounts and at the times required below, (y) the trustee for the 2001 Bonds, to replenish any reserve fund (or reserve fund surety bond) securing the 2001 Bonds, in the amounts and at the times required by the 2001 Restated Installment Purchase Agreement, and (z) other trustees or parties entitled to payment for City Bonds or other Contracts on a parity with the 2004 Installment Payments, to replenish any reserve fund (or reserve fund surety bond) securing the City Bonds or other Contracts, in the amounts and at the times required by the documents executed in connection with the issuance of the City Bonds or other Contracts. In the event of any insufficiency of such moneys to pay all amounts in (x) – (z) above, the City shall transfer moneys in the Revenue Fund to the parties in (x) – (z) above ratably without any discrimination or preference.

All 2004 Installment Payments shall be set aside by the City at the following times in the following respective special funds, in the following order of priority and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes hereinafter authorized in the Installment Purchase Agreement:

(d) Payment Fund. On or before the fifth last Business Day of each month, the City shall, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund a sum equal to (1) 1/6 of the portion of the next 2004 Installment Payment designated as interest and coming due on the next 2004 Installment Payment Date (provided, however, that if there are fewer than six such dates prior to the first Interest Payment Date, then the portion of such interest coming due on such 2004 Installment Payment Date that is payable monthly on each such date is a fraction the numerator of which is one and the denominator of which is the number of such dates) and (2) 1/12 of the portion of the next 2004 Installment Payment designated as principal and coming due on the next applicable 2004 Installment Payment Date (provided, however, that if there are fewer than twelve such dates prior to the first Interest Payment Date on which principal of Bonds is payable, then the portion of such principal coming due on such 2004 Installment Payment Date that is payable monthly on each such date is a fraction the numerator of which is one and the denominator of which is the number of such dates).

No deposit need be made in the Payment Fund of 2004 Installment Payments if the amount in the Payment Fund is at least equal to the amount of the 2004 Installment Payment due and payable during the current Bond Year (as defined in the Indenture).

(e) Reserve Fund. On or before the last day of each month, the City shall, from the moneys in the Revenue Fund after the transfers described in subparagraph (a) immediately above have been made, transfer to the Trustee for deposit in the Reserve Fund that sum, if any, equal to one-twelfth (1/12) of the amount necessary, calculated on the date of any transfer described above, to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement; provided however, that the City may provide for the Reserve Fund at any time, in whole or in part, by (i) a policy of insurance issued by a

municipal bond insurance company rated in the highest rating category of each rating agency then rating the Authority Bonds, (ii) a letter of credit rated in the two highest rating categories (excluding gradations within a rating category) of each rating agency then rating the Authority Bonds, (iii) a surety bond rated in the highest rating category of each rating agency then rating the Authority Bonds, or (iv) any other security device rated in the highest rating category of each rating agency then rating the Authority Bonds or, in each case, with such other rating as is approved by the Insurer and in each case in a form meeting the requirements of the Insurer for such instruments; provided further, that to the extent a draw has been made by the Trustee on any Reserve Fund Surety Bond, the Trustee shall withdraw from the Revenue Fund such amounts as are sufficient to reimburse the provider thereof (or multiple providers on a ratable basis) for all draws (including interest on all amounts advanced under the Reserve Fund Surety Bond) thereby reinstating the Reserve Fund Surety Bond.

No transfer of moneys for deposit to the Reserve Fund in connection with the 2004 Installment Payments need be made if the amount contained therein or amount represented by a Reserve Fund Surety Bond is at least equal to the Reserve Fund Requirement.

(f) Surplus. On the last day of each month, moneys on deposit in the Revenue Fund not necessary to make any of the payments required above and not disbursed under the 2001 Agreements and any agreements relating to City Bonds or other Contracts may be expended by the City at any time to pay for (i) Additional Payments and (ii) any purpose permitted by law.

Additional Obligations

The City may at any time execute any Contract or issue any City Bonds, as the case may be, in accordance with the Installment Purchase Agreement, provided that Section 5.3 of the 2001 Restated Installment Purchase Agreement has been satisfied and:

(a) there shall not have occurred and be continuing an Event of Default under the terms of the Installment Purchase Agreement or the Indenture; and

(b) the City obtains or provides a certificate or certificates prepared by an Independent Financial Consultant showing that:

(i) the Net Water System Revenues, as shown by the books of the City for the twelve (12) calendar months ending ninety (90) days prior to the end of the month in which such additional obligations are incurred (the "Look-Back Period"), shall have amounted to at least the sum of (x) one hundred percent (100%) of Debt Service for such Look-Back Period, plus (y) the amount by which the amount on deposit on the Revenue Fund on the first day of such Look-Back Period was less than twenty-five percent (25%) of Maximum Annual Debt Service calculated on the first day of such Look-Back Period; for purposes of preparing the certificate or certificates described above, the Independent Financial Consultant or Consultants may rely upon financial statements prepared by the City for all or any part of the Look-Back Period, which have not been subject to audit by an Independent Certified Public Accountant if audited financial statements for the Fiscal Year or Look-Back Period are not available;

(ii) the estimated Net Water System Revenues for the twelve (12) calendar months following the date of incurring such additional obligations will be at least equal to one hundred percent (100%) of Maximum Annual Debt Service on all City Bonds and Contracts to be outstanding immediately after the incurring of such additional obligations; and

(iii) the amount on deposit in the Revenue Fund on the date of incurring such additional obligations is at least equal to twenty five percent (25%) of Maximum Annual Debt Service as of the date of incurring of such additional obligations.

For purposes of the computations to be made as described in the Installment Purchase Agreement, the determination of the Net Water System Revenues:

(c) may take into account any increases in rates and charges which relate to the Water System and shall take into account any reduction in such rates and charges, which will be effective prior to or at the time of incurring such proposed additional obligations;

(d) may take into account an allowance for any estimated increase in such Net Water System Revenues from any revenue producing additions to or improvements or extensions of the Water System to be made with the proceeds of such additional obligations or with the proceeds of obligations previously issued, as shown by a certificate of an Independent Financial Consultant; and

(e) for the period contemplated by the Installment Purchase Agreement, Maintenance and Operation Costs of the Water System shall be deemed to be the same as for the period for which a calculation is done pursuant to the Installment Purchase Agreement, but adjusted, if deemed necessary by the Independent Financial Consultant, for any increased Maintenance and Operation Costs of the Water System which are, in the judgment of the Independent Financial Consultant, essential to maintaining and operating the Water System.

The certificate or certificates described above shall not be required if the additional obligations being incurred are for the purpose of refunding then Outstanding City Bonds or Contracts and at the time of the incurring of such additional obligations a certificate of an Authorized City Representative shall be delivered showing that Maximum Annual Debt Service on all outstanding City Bonds or Contracts after the incurring of such additional obligations will not exceed Maximum Annual Debt Service on all City Bonds or Contracts outstanding prior to the incurring of such additional obligations.

Other than additional obligations satisfying the requirements of the Installment Purchase Agreement or which are incurred for the purpose of refunding then Outstanding City Bonds or Contracts as described in the immediately preceding paragraph, the incurring of any City Bonds or Contracts shall require the written consent of the Insurer.

Covenants of the City

Compliance with Installment Purchase Agreement and Ancillary Agreements

The City will punctually pay the 2004 Installment Payments and the Additional Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 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 Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected to the Installment Purchase Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake,

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

The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Indenture required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the Installment Purchase Agreement and the Indenture that, subject to the Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the purchase of and payment for the Project by the City pursuant to, and in accordance with, and as authorized under the Law.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and City Bonds (including, but not limited to, the Installment Purchase Agreement, the Indenture and the 2001 Agreements) as such may from time to time be executed or issued, as the case may be.

Against Encumbrances

The City will not make any pledge of or place any lien on Water System Revenues or the moneys in the Revenue Fund except as provided in the Installment Purchase Agreement or as provided for in the 2001 Agreements. The City may at any time, or from time to time, with the written consent of the Insurer, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Water System Revenues or any moneys in the Revenue Fund as may from time to time be deposited therein (as provided in the Installment Purchase Agreement), provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided in the Installment Purchase Agreement and in the 2001 Agreements.

Against Sale or Other Disposition of Property

The City will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Water System Revenues for the payment of the 2004 Installment Payments, Additional Payments, or Debt Service on outstanding Contracts or City Bonds, or which would otherwise impair the rights of the Authority under the Installment Purchase Agreement or under the 2001 Agreements or the operation of the Water System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the City to pay the 2004 Installment Payments, the Additional Payments and Debt Service on outstanding Contracts and City Bonds, and if the proceeds of such sale are deposited in the Revenue Fund.

Against Competitive Facilities

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

Tax Covenants

Notwithstanding any other provision of the Installment Purchase Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of interest with respect to the Authority Bonds will not be adversely affected for federal income tax purposes, the City and the Authority covenant to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(g) Private Activity. The City and the Authority will not take or omit to take any action or make any use of the proceeds of the Authority Bonds or of any other moneys or property which would cause the Authority Bonds to be "private activity bonds" within the meaning of Section 141 of the Code.

(h) Arbitrage. The City and the Authority will make no use of the proceeds of the Authority Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Authority Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(i) Federal Guarantee. The City and the Authority will make no use of the proceeds of the Authority Bonds or take or omit to take any action that would cause the Authority Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(j) Information Reporting. The City and the Authority will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code.

(k) Miscellaneous. The City and the Authority will take no action inconsistent with the expectations stated in any Tax Certificate executed with respect to the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Installment Purchase Agreement.

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 the Water System Revenues or the funds or accounts created under the Installment Purchase Agreement or under the Indenture or on any funds in the hands of the City pledged to pay the 2004 Installment Payments and Additional Payments or to the Owners prior or superior to the lien to secure the 2004 Installment Payments and the Additional Payments or which might impair the security of the 2004 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 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

(l) The City will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with facilities similar to the Water System so long as such insurance is available at reasonable rates.

In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The City shall begin such reconstruction, repair or replacement promptly after receipt of such Net Proceeds, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens regardless of the availability of Net Proceeds therefore. The City covenants to reconstruct, repair or replace the damaged or destroyed portions of the Water System promptly if a failure to reconstruct, repair or replace such portions would impair or adversely affect the ability of the City to pay 2004 Installment Payments, Additional Payments or Debt Service on outstanding Contracts and City Bonds, none of which payments shall be abated or reduced in the event of any such damage or destruction. Any Net Proceeds not applied to the reconstruction, repair or replacement of the damaged or destroyed portions of the Water System shall be applied either to additions, betterments, extensions or improvements to the Water System or if the City elects not to apply such Net Proceeds to such capital items or if such Net Proceeds are not fully expended for such purposes, such Net Proceeds not required by the City for such purposes shall be deposited in the Revenue Fund and applied to the payment of the 2004 Installment Payments and Debt Service on outstanding Contracts and City Bonds.

(m) The City will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Authority, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water System.

(n) Any insurance required to be maintained by paragraph (a) above, and if the City determines to procure and maintain insurance pursuant to paragraph (b) above, 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 water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained under the Installment Purchase Agreement shall provide that the Authority, the Trustee and the Insurer shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports

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

Protection of Security and Rights of the Authority

The City will preserve and protect the security as provided for in the Installment Purchase Agreement and the rights of the Authority to the 2004 Installment Payments and Additional Payments under the Installment Purchase Agreement and the rights of persons entitled to receive Additional Payments under the Installment Purchase Agreement 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 be lawfully imposed upon the Water System, or any part thereof or upon the Water System 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 Rates and Charges

The City shall, to the fullest extent permitted by law, fix, prescribe and collect rates and charges for the Water Service which will be at least sufficient to yield during each Fiscal Year Net Water System Revenues equal to the sum of (a) one hundred percent (100%) of the Debt Service for such Fiscal Year, plus (b) the amount by which the amount on deposit in the Revenue Fund on the last day of the immediately preceding Fiscal Year was less than twenty-five percent (25%) of Maximum Annual Debt Service as of such day. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Water System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Installment Purchase Agreement.

Collection of Rates, Charges and Assessments

The City will have in effect at all times rules and regulations requiring each landowner or water user located on any land served by the Water System to pay the rates, charges and assessments applicable to the Water Service to such land and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may discontinue such service from the Water System or prohibit groundwater extractions in accordance with City rules and regulations governing such situations of delinquency.

Eminent Domain Proceeds

If all or any part of the Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied either to additions, betterments, extensions or improvements to the Water System or if the City elects not to apply such Net Proceeds to such capital items or if such Net Proceeds are not fully expended for such purposes, such Net Proceeds not required by the City for such purposes shall be deposited in the Revenue Fund and applied to the payment of the 2004 Installment Payments and Debt Service on outstanding Contracts and City Bonds.

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 as set forth in the Installment Purchase Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it in the Installment Purchase Agreement.

Prepayment

The 2004 Installment Payments are subject to optional redemption in whole or in part (in integral multiples of \$5,000) on any Business Day, at the option of the City, at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for the redemption of Authority Bonds as a result thereof and a premium equal to the premium payable on the Authority Bonds to be redeemed as a result thereof.

Notwithstanding any such prepayment, the City shall not be relieved of its obligations under the Installment Purchase Agreement until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been provided to the written satisfaction of the Authority, the Trustee and the Insurer).

In the event of any prepayment of 2004 Installment Payments, the 2004 Installment Payments shall be modified accordingly, and the schedule of 2004 Installment Payments set forth in the Installment Purchase Agreement shall be likewise revised as set forth in a Certificate of the Finance Director and the Authority delivered to the Trustee and the Insurer.

Method of Prepayment

Before making any prepayment, the City shall, within five (5) days following the event permitting the exercise of such right to prepay or creating the obligation to prepay or a determination to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date shall be not less than sixty (60) nor more than seventy-five (75) days from the date such notice is given.

Events of Default and Remedies of the Authority

The occurrence of one or more of the following events shall be considered an "Event of Default":

(a) if default shall be made by the City in the due and punctual payment of the 2004 Installment Payments, Debt Service on the 2001 Contract or Debt Service on any other Contract or City Bond when and as the same shall become due and payable; or

(b) if default shall be made by the City in the performance of any of the agreements or covenants required herein 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; 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

(d) if payment of the principal of any Contract or City Bond (including the Installment Purchase Agreement and the 2001 Restated Installment Purchase Agreement) is accelerated in accordance with its terms;

then and in each and every such case during the continuance of such Event of Default specified in clauses (c) and (d) above, the Authority shall, and for any other such Event of Default the Authority may, by notice in writing to the City and with the consent of the Insurer, and, at the direction of the Insurer, shall declare the entire principal amount of the unpaid 2004 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 herein to the contrary notwithstanding. The Installment Purchase Agreement, however, is subject to the condition that if at any time after the entire principal amount of the unpaid 2004 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 moneys 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 2004 Installment Payments or the unpaid payment of Debt Service on any other Contract or City Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the 2004 Installment Payments or such Contract or City Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid 2004 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 therefore, then and in every such case the Authority, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Any reorganization or liquidation plan with respect to the City must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners of Authority Bonds absent a default by the Insurer under the Insurance Policy insuring such Authority Bonds.

Application of Funds Upon Acceleration

Upon the date of the declaration of acceleration as provided in the Installment Purchase Agreement, all Water System Revenues thereafter received by the City shall be applied in the following order:

First, to the payment, without preference or priority, and in the event of any insufficiency of such Water System Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Authority and Trustee if any, in carrying out the provisions of the Installment Purchase Agreement, including reasonable compensation to their respective accountants and counsel; and

Second, to the payment of the Maintenance and Operation Costs; and

Third, to the payment of the entire principal amount of the unpaid 2004 Installment Payments and the unpaid principal amount of all City Bonds and Contracts (including the 2001 Contract) and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable

to the 2004 Installment Payments and such City Bonds and Contracts (including the 2001 Contract) if paid in accordance with their respective terms.

Other Remedies of the Authority

The Authority shall have the right:

(o) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any director, officer or employee thereof, and to compel the City or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement;

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

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

Remedies Not Exclusive

No remedy conferred upon or reserved to the Authority or the Insurer 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 Installment Purchase Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

Insurer's Right to Control Remedies

Notwithstanding any other provision of the Installment Purchase Agreement, so long as the Insurance Policy is in effect, the Insurer shall direct and control the election and exercise of all remedies granted under the Installment Purchase Agreement, including, but not limited to, the right to declare the 2004 Installment Payments due and payable in full and to institute any suit, action or proceeding, at law or in equity, on the same terms as the Owners of the Authority Bonds. For purposes of exercising all rights and remedies provided in the Installment Purchase Agreement, so long as the Insurance Policy is in effect, the Insurer shall be deemed the Owner of the Authority Bonds.

Discharge of Obligations

The obligations set forth in the Installment Purchase Agreement are discharged when:

(a) all or any portion of the 2004 Installment Payments shall have become due and payable in accordance with the Installment Purchase Agreement or a written notice of the City to prepay all or any portion of the 2004 Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the 2004 Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the 2004 Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in the definition thereof, the principal of and interest on which when due will provide money sufficient, in the opinion of an Independent Certified Public Accountant, to

pay all principal, prepayment premium, if any, and interest of such 2004 Installment Payments to their respective 2004 Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee, any amounts owing to the provider of the Reserve Fund Surety Bond, and all Additional Payments, then and in that event, if an opinion of bond counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to the Installment Purchase Agreement shall not adversely affect the tax exempt status of the interest on the Authority Bonds, the right, title and interest of the Authority in the Installment Purchase Agreement and the obligations of the City under the Installment Purchase Agreement shall, with respect to all or such portion of the 2004 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of such 2004 Installment Payments). In such event, upon request of the City the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the City, after payment of all amounts due the Trustee pursuant to the Indenture, as an overpayment of 2004 Installment Payments, all such moneys or such Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments, as are required for the payment or prepayment of the 2004 Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the 2004 Installment Payments and shall be applied by the Trustee to the payment of the 2004 Installment Payments of the City.

Liability of City Limited to Water System Revenues

Notwithstanding anything contained in the Installment Purchase Agreement, the City shall not be required to advance any moneys derived from any source of income other than the Net Water System Revenues, amounts on deposit in the Revenue Fund and the other funds provided in the Installment Purchase Agreement and in the Indenture for the payment of the 2004 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the 2004 Installment Payments is a special obligation of the City payable solely from such Net Water System Revenues, amounts on deposit in the Revenue Fund and other funds described in the Installment Purchase Agreement, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Amendments

(a) The Installment Purchase Agreement and the rights and obligations of the Authority and the City and of the owners of the Authority Bonds and of the Trustee may be modified or amended, with the written consent of the Insurer, at any time by an amendment to the Installment Purchase Agreement, which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the Bonds, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any

premium payable on the prepayment thereof, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Owners of Bonds whose consent is required for the execution of any amendment or modification of the Installment Purchase Agreement, or (iii) modify any of the rights or obligations of the Trustee or the Authority or the Insurer without its written consent thereto.

(b) The Installment Purchase Agreement and the rights and obligations of the Authority and the City and of the Owners of the Authority Bonds may also be modified or amended, with the consent of the Insurer, at any time by an amendment to the Installment Purchase Agreement which shall become binding upon adoption, without the consent of the Owners of any Bonds, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority or the City contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Installment Purchase Agreement reserved to or conferred upon the Authority or the City, and which shall not adversely affect the interests of the Owners of the Bonds;

(ii) to cure, correct or supplement any ambiguous or defective provision contained in the Installment Purchase Agreement or in regard to questions arising under the Installment Purchase Agreement, as the Authority or the City may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Bonds; and

(iii) to make such other amendments or modifications which are not materially adverse to the interests of the owners of the Bonds.

(c) Notice of any proposed modifications or amendments to the Installment Purchase Agreement shall be provided to the Insurer, along with a copy of the proposed modification or amendment. A copy of any modifications or amendments to the Installment Purchase Agreement that receive the consent of the Insurer shall be delivered to S&P.

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APPENDIX B

GENERAL INFORMATION CONCERNING THE CITY OF OXNARD

The Bonds do not constitute a general obligation debt of the City of Oxnard and the City has not pledged its full faith and credit to the repayment of the Bonds. The following information is presented for informational purposes only.

General

The City of Oxnard (the "City") is located in western Ventura County (the "County") on the shore of the Pacific Ocean. The City is approximately 65 miles northwest of the City of Los Angeles, 35 miles south of the City of Santa Barbara, and 6 miles south of the county seat of the County. The City is the financial hub of the County and the largest city in the County, with a population estimated of 182,000 in 2002, accounting for over 23% of the County's population. The City has become a premier center of County industrial activity since 1996 with the start of nine new industrial buildings representing a total of approximately 750,000 square feet of industrial and commercial space, with significant growth and building in the northeast area of the City.

The City was incorporated as a general law city on June 30, 1903, and operates under a council-manager form of government. The City is governed by a five-member City Council elected at large for four-year alternating terms, with the exception of the Mayor, who is directly elected for a two-year term.

The City has a diversified and expanding economic base composed of light and heavy manufacturing, retail, service and government sectors. The City has maintained a steady population growth rate of, on average, approximately 2.2% for the past decade.

Population

The City's population has grown from approximately 150,300 people in 1993 to approximately 181,800 in 2003. The following table shows the approximate changes in population in the City, the County, the State, and the United States for the years 1993 through 2003.

**Population of
City, County, State and U.S.
1993 through 2003⁽¹⁾**

<u>Year</u>	<u>City</u>	<u>Population Percent Change</u>	<u>County</u>	<u>Percent Change</u>	<u>State (000)</u>	<u>Percent Change</u>	<u>United States (000)</u>	<u>Percent Change</u>
1993	150,300	--	690,000	--	31,150	--	260,255	--
1994	153,400	2.06%	697,200	1.85%	31,418	0.86%	263,436	1.22%
1995	155,700	1.50	702,800	0.80	31,617	0.63	266,557	1.18
1996	157,500	1.16	707,800	0.71	31,837	0.70	269,667	1.17
1997	159,800	1.46	716,100	1.17	32,207	1.16	272,912	1.20
1998	163,000	2.00	725,400	1.30	32,657	1.40	276,115	1.17
1999	166,100	1.90	736,000	1.46	33,140	1.48	279,295	1.15
2000	170,358 ⁽²⁾	2.56	753,197 ⁽²⁾	2.34	33,872 ⁽²⁾	2.21	281,674 ⁽²⁾	0.85
2001	174,500	2.37	763,900	1.42	34,367	1.46	285,094	1.21
2002	178,800	2.46	778,400	1.90	35,000	1.84	287,974	1.01
2003	181,800	1.68	791,300	1.66	35,591	1.69	290,810	0.98

Sources: State of California Department of Finance; U.S. Department of Commerce, Bureau of the Census (U.S. figures only).

(1) Unless otherwise noted, estimates for City, County and State as of January 1, and for U.S. as of July 1.

(2) Actual census figures.

Property Tax Rates

In June of 1978, California voters approved Proposition 13 (the Jarvis-Gann Initiative), which added Article XIII A to the California Constitution. Article XIII A limits *ad valorem* taxes on real property to 1% of the full cash value, plus taxes necessary to repay indebtedness approved by the voters prior to July 1, 1978. Voter-approved obligations of the City are comprised of the City's 1969 Storm Drain Bond and an obligation referred to as the "Public Safety Retirement." The 1969 Storm Drain Bond was redeemed and paid as of June 30, 1994. The following table details the City's property tax rates for the last 10 fiscal years.

City of Oxnard Property Tax Rates 1994 through 2003

Year Ended June 30	County Tax	City District (Public Safety Retirement Debt)	School Districts	Water Districts	Total Tax Rates
1994	1.00%	0.0495%	0.0685%	0.2693%	1.3873%
1995	1.00	0.0380	0.0805	0.2913	1.4098
1996	1.00	0.0362	0.0773	0.3105	1.4240
1997	1.00	0.0367	0.0807	0.3328	1.4502
1998	1.00	0.0367	0.1360	0.3449	1.5176
1999	1.00	0.0367	0.1491	0.1212	1.3070
2000	1.00	0.0475	0.1740	0.0979	1.3194
2001	1.00	0.0475	0.1714	0.0977	1.3166
2002	1.00	0.0575	0.1867	0.0723	1.3165
2003	1.00	0.0675	0.1748	0.0817	1.3140

Source: City's Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2003.

Property Tax Levies, Collections and Delinquencies

The Ventura County Tax Collector collects *ad valorem* property tax levies representing taxes levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding March 1. Unsecured taxes are assessed and payable on March 1 and become delinquent August 31 in the next fiscal year. Accordingly, unsecured taxes are levied at the rate applicable to the fiscal year preceding the one in which they are paid.

One half of the secured tax levy is due November 1 and becomes delinquent December 10; the second installment is due February 1 and becomes delinquent April 10. A ten percent (10%) penalty is added to any late installment.

Property owners may redeem property upon payment of delinquent taxes and penalties. Tax-delinquent properties are subject to a redemption penalty of one and one-half percent (1-1/2%) of the delinquent amount every month commencing on July 1 following the date on which the property became tax-delinquent. Properties may be redeemed under an installment plan by paying current taxes, plus 20% of delinquent taxes each year for five years, with interest accruing at one and one-half percent (1-1/2%) per month on the unpaid balance.

The following table details the City's property tax levies, collections and delinquencies for the last 10 fiscal years.

City of Oxnard
Property Tax Levies, Collections and Delinquencies
1994 through 2003

Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collections as a Percentage of Tax Levy
1994	\$17,571,000	\$17,467,060	99.40%	\$621,750	\$18,088,810	102.95%
1995	17,318,091	17,000,969	98.17	567,432	17,568,401	101.45
1996	18,296,398	16,831,456	91.99	569,431	17,400,887	95.11
1997	18,233,366	17,033,821	93.42	487,301	17,521,122	96.09
1998	18,113,687	17,712,334	97.78	250,440	17,962,774	99.17
1999	15,014,300	14,868,769	99.03	189,551	15,058,320	100.29
2000	17,038,470	17,317,763	101.64	99,032	17,416,795	102.22
2001	23,380,000	23,484,567 ⁽¹⁾	100.45	90,164	23,574,731	100.83
2002	25,900,000	25,718,029	99.30	284,711	26,002,740	100.40
2003	30,040,000	29,892,747	99.51	190,546	29,233,880	97.32

(1) Voter-approved tax for \$3,977,315 was transferred from trust and agency to the special revenue fund in fiscal year 2001.
Source: City's Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2003.

Assessed Property Values

The following table details the assessed value of the real and personal property within the City for the last 10 fiscal years.

City of Oxnard
Assessed Property Values
1994 through 2003

Year Ended June 30	Real Property Assessed Value	Personal Property Assessed Value	Exemptions	Total Assessed Value
1994	\$6,082,455,163	\$108,703,880	\$692,726,941	\$5,498,432,102
1995	6,215,308,381	117,493,334	697,128,516	5,635,673,199
1996	6,312,352,104	119,814,735	667,234,581	5,764,932,258
1997	6,307,831,466	101,123,835	720,506,163	5,688,449,138
1998	6,473,207,602	94,844,935	722,494,121	5,845,558,416
1999	6,605,309,284	95,463,165	737,477,086	5,963,295,363
2000	6,844,276,538	91,597,348	874,969,634	6,060,904,252
2001	7,645,814,717	97,930,553	846,810,724	6,896,934,546
2002	8,351,831,139	111,351,225	905,863,935	7,557,318,429
2003	9,093,618,247	124,301,084	1,110,078,014	8,107,847,317

Source: City's Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2003.

Principal Taxpayers

The following table lists the principal taxpayers in the City as of June 30, 2003.

City of Oxnard Principal Taxpayers			
<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
The Procter & Gamble Paper Products Company	Manufacturing-Paper Products	\$ 266,576,290	3.288%
St. John's Regional Medical Center	Hospital	197,985,333	2.442
Weyerhaeuser Company	Processed Paper Manufacturer	67,743,700	0.836
Seminis Inc.	Seeds	50,181,887	0.619
Fred Kavli	Real Estate Development	46,674,747	0.576
GSA Vintage-Rose Apartment	Real Estate Development	45,440,709	0.560
Tiger Ventura County	Real Estate Development	42,892,799	0.529
Parc Rose Ltd. Partnership	Real Estate Development	40,525,627	0.500
BMW of North America Inc.	Auto Preparation	40,482,613	0.499
AT&T Credit Corporation Trust	Commercial Credit	39,798,173	0.491
Donwen Corporation	Commercial Development	37,884,905	0.467
M&H Realty Partners IV LP	Real Estate Development	37,215,418	0.459
Ocean Vista Power Generation	Utility	32,859,049	0.405
PEGH Investments LLC	Real Estate Development	31,351,458	0.387
Other Taxpayers	Various	<u>7,130,228,609</u>	<u>87.942</u>
Totals		<u>\$8,107,841,317</u>	<u>100.000%</u>

Source: City's Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2003.

Outstanding Debt

The City uses a variety of tax increment, revenue and lease indebtedness to finance various capital acquisitions. The outstanding balances for indebtedness as of June 30, 2003, are set forth in the following table:

City of Oxnard Outstanding Debt (As of June 30, 2003)	
<u>Type of Debt</u>	<u>Outstanding Balance (as of June 30, 2003)</u>
Tax Allocation Bonds ⁽¹⁾	\$ 13,850,000.00
Revenue Bonds ⁽²⁾	89,774,000.00
Certificates of Participation	<u>8,245,000.00</u>
Total	\$111,869,000.00

(1) The tax allocation bonds are paid from the increment revenue of property taxes levied within the City's redevelopment and renewal areas. The Central Revitalization Project and other redevelopment areas currently are administered by the Oxnard Community Development Commission.

(2) Revenue bonds include issues used to finance projects for public parking, civic auditorium, sewer and treatment expansion and public housing. Debt service on these issues is paid from the revenues of the appropriate enterprise funds and the City's General Fund.

Source: City's Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2003.

Direct and Overlapping Bonded Debt

The following table details the City's direct and overlapping bonded debt as of June 30, 2003.

City of Oxnard Direct and Overlapping Bonded Debt (As of June 30, 2003)

<u>Jurisdiction</u>	<u>Net Debt Outstanding (June 30, 2003)</u>	<u>Percentage of Debt Applicable to the City of Oxnard (Before Exclusions)</u>	<u>Less: Exclusions ⁽¹⁾</u>	<u>Amount of Debt Applicable to the City of Oxnard</u>
Direct Bonded Debt:				
City of Oxnard Financing Authorities	\$ 28,985,000	100.000%	\$28,985,000	\$ --
City of Oxnard – Pooled Insurance Obligation	1,079,342	100.000	1,079,342	--
City of Oxnard – 1915 Act Bonds	43,180,000	100.000	43,180,000	--
City of Oxnard Community Facilities District 1	9,740,000	100.000	9,740,000	--
City of Oxnard Community Facilities District 88-1	1,935,000	100.000	1,935,000	--
Oxnard Boulevard Interchange Community District	<u>10,490,000</u>	100.000	<u>10,490,000</u>	--
Total Direct Bonded Debt:	\$ 95,409,342		\$ 95,409,342	--
Overlapping Bonded Debt:				
Metropolitan Water District	\$ 3,194,481	0.719%	--	\$ 22,968
Ventura County Community College District	11,408,700	13.422	--	1,531,276
Ventura County Superintendent of Schools – COP	271,044	13.418	--	36,369
Ventura County Community College District – COP	1,287,841	13.422	--	172,854
Ventura County General Fund Obligations	11,191,954	13.418	--	1,501,736
Ventura County Pension Obligation	11,982,274	13.418	--	1,607,782
Oxnard Union High School District	22,955,092	43.230	--	9,923,486
Oxnard Union High School District – COP	7,984,581	43.230	--	3,451,734
Oxnard School District	68,990,155	90.722	--	62,589,248
Oxnard School District – COP	6,123,735	90.722	--	5,555,575
Rio School District	15,749,257	83.484	--	13,148,110
Rio School District – COP	4,650,059	83.484	--	3,882,055
Hueneme School District	5,577,484	49.934	--	2,785,061
Ocean View School District	1,438,483	38.617	--	555,499
Ocean View School District – COP	<u>880,468</u>	38.617	<u>--</u>	<u>340,010</u>
Total Overlapping Bonded Debt	<u>\$173,685,608</u>		<u>--</u>	<u>\$107,103,763</u>
Total Direct and Overlapping Bonded Debt	<u>\$269,094,950</u>		<u>\$95,409,342</u>	<u>\$107,103,763</u>

(1) Exclusions represent all bonds that are not tax supported obligations of the City.
Source: City's Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2003.

Employment

The following tables present the available labor force data and unemployment rates for five years for the City and the County.

<u>Year</u>	<u>City</u>		<u>County</u>	
	<u>Labor Force</u>	<u>Unemployment Rate</u>	<u>Labor Force</u>	<u>Unemployment Rate</u>
2001	85,200	6.5%	419,800	4.5%
2000	83,850	6.5	413,300	4.5
1999	80,740	6.9	397,400	4.8
1998	79,170	8.0	388,200	5.5
1997	78,140	9.3	381,500	6.5

Source: State of California, Employment Development Department.

Taxable Retail Sales

Consumer spending in calendar year 2001 resulted in \$1,775,146 in taxable sales in the City, which is approximately 9.52% above calendar year 2000. Although the taxable sales figures for each type of business are not yet available from the California Board of Equalization, the following table sets forth information regarding taxable sales in the City for each type of business for calendar years 1997 through 2000.

City of Oxnard
Taxable Retail Sales by Type of Business
1997 - 2000
(000s)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Apparel stores	\$ 43,816	\$ 48,198	\$ 50,341	\$ 43,441
General merchandise stores	256,788	265,886	262,491	241,410
Food stores	62,158	64,708	66,763	66,134
Eating and drinking places	102,099	113,096	121,892	128,529
Home furnishings and appliances	36,777	40,436	45,114	44,273
Building mat. and farm implmts.	154,135	174,486	183,951	187,530
Auto dealers and auto supplies	219,860	226,386	321,044	345,079
Service stations	59,191	55,600	69,170	87,773
Other retail stores	<u>164,866</u>	<u>172,786</u>	<u>188,381</u>	<u>200,655</u>
Total Retail Outlets	1,099,600	1,161,582	1,309,147	1,344,824
All Other Outlets	<u>220,188</u>	<u>223,242</u>	<u>256,213</u>	<u>275,985</u>
Total All Outlets	\$1,319,788	\$1,384,824	\$1,565,360	\$1,620,809

Source: California State Board of Equalization.

Transportation

Oxnard is served by all major modes of transportation. Both U.S. Highway 101 and State Highway 1 pass through the City, linking it with the Los Angeles metropolitan area and Santa Barbara County. Rail passenger service is provided by AMTRAK, which has a station in the City. Two trains daily pass through each direction and stop at the Oxnard station. Metrolink provides commuters from the Oxnard Transportation Center with several daily routes to the Los Angeles basin, including downtown Los Angeles. Southern Pacific Railroad provides freight rail service to the City. The Ventura County Railroad Company connects Port Hueneme, the Ormond Beach Industrial Area, the CB Base and surrounding industrial areas to the Southern Pacific line. The Port of Hueneme, owned and operated by the Oxnard Harbor District, is the only commercial deep-draft harbor between Los Angeles and San Francisco. The port has five 600 to 700 foot berths and a 35-foot entrance channel depth. Completed in 1989 was an \$18 million expansion of the harbor that included the addition of an automobile terminal and the construction of a new wharf. The Port's acquisition of 33 acres from the Navy in 1997 has enabled it to increase facilities for importing foreign automobiles. Automobile imports increased by 12.7% in 1997, making the Port one of the top 10 entry points in the U.S. for foreign automobiles. The Channel Islands Harbor is a modern 3,000 slip boat marina which also serves the Oxnard area in the capacity of a recreational marina. The Oxnard Airport is operated by Ventura County as a general and commercial aviation air field. The Oxnard Airport handles passenger as well as cargo services. Feeder service to Los Angeles International Airport is provided by United Express and American Eagle. Local bus service is provided by South Coast Area Transit System (SCAT), a regional public transit agency funded by the County and member cities. Service is available in Ojai, Ventura, Oxnard and Port Hueneme. The Greyhound bus line provides passenger and parcel service from its Oxnard station. Great American Stagelines provides passenger services between Oxnard and Los Angeles every hour. A multi-modal transportation center located in downtown Oxnard brings together all these forms of transportation.

Education

There are twenty-nine elementary, three junior high and five senior high schools located in and around the City, plus eight parochial and private schools. The City is served by Oxnard College, which has an enrollment of over 5,700 students. The 119-acre campus is located on Rose Avenue between Channel Island Boulevard and Pleasant Valley Road. Oxnard College currently offers degree and certificate programs. The newly-completed California State University campus at Channel Islands (CSUCI) opened in fall 2002 with approximately 1,320 full time transfer students and welcomed freshmen in fall 2003. In addition, two campuses of the University of California, Santa Barbara (UCSB) and Los Angeles (UCLA), one campus of the California State University, Northridge (CSUN), and two private universities, Pepperdine and California Lutheran University, are within a fifty minute drive.

Recreation

The City offers its residents a wide range of recreational facilities. The beach parks, marina and neighborhood and regional parks add up to nearly 1,500 acres of park land. McGrath State Beach Park, located south of the Santa Clara River mouth, covers 295 acres and includes over a mile of ocean frontage. Overnight camping and day picnics are the main use of that park. Oxnard Beach Park includes 62 acres with concession stands and facilities for day picnics and sports. Silver Strand Beach, south of the Harbor entrance, and Hollywood Beach, north of the entrance, are day beach facilities. Channel Islands Marina is a recreational boating marina administered by Ventura County. The City has over thirty neighborhood parks located throughout the City. A tennis and softball center is located at Community Center Park. Additionally, Wilson Park contains the largest senior citizen center in the Tri-County area.

The City owns the River Ridge Golf Course, an 18-hole, 7,010-yard championship golf course located on the south side of the Santa Clara River. The City also owns a 1,600-seat Performing Arts Center located on Hobson Way in the heart of the City.

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APPENDIX C

**CITY OF OXNARD
COMBINED FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003**

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ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT

Honorable City Council,
City of Oxnard, 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 Oxnard, California as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), 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 basic financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the basic 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 and the report of the other auditor provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oxnard, California at June 30, 2003, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis and Required Supplementary Information are not a required part of the basic financial statements but are supplementary information required by the Governmental 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the 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 18, 2003

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**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003**

This management's discussion and analysis provides an overview of financial activities of the City of Oxnard (City) for the fiscal year ended June 30, 2003. Please read this discussion and analysis in conjunction with the accompanying transmittal letter, the basic financial statements, and the accompanying notes to the basic financial statements.

The financial statements presented herein include all financial activities of the City and its component units in accordance with Governmental Accounting Standards Board Statement No.34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government" (GASB 34).

The Government-Wide Financial Statements present the financial position of the City using the economic resources measurement focus and the accrual basis of accounting. These statements present governmental activities and business-type activities separately. Also, these statements include all assets of the City, as well as all liabilities, including long-term debt. Additionally, in accordance with GASB 34, certain eliminations have been made related to interfund activity, payables and receivables.

The Fund Financial Statements include governmental, proprietary and fiduciary funds. The governmental funds are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary funds consist of agency funds, which only report a balance sheet and do not have a measurement focus. A reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is

provided to explain the differences created by the integrated approach under GASB 34.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the City as a whole and its activities. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector entities. 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.

These statements report the City's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and economic trends, such as expansion and development.

In the Statement of Net Assets and the Statement of Activities, the City's activities are categorized as follows:

*Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003*

Governmental Activities

Most of the City's basic services are reported in this category, including the general government activities, such as fire, police, public works, community development, parks, recreation and library services. Property and sales taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-Type Activities

The City charges a fee to customers to pay for the cost of certain services provided. The City's water and wastewater system, solid waste services, housing services, and the operations of the Performing Arts and Convention Center and River Ridge Golf Course are reported in this category.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The Fund Financial Statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help control and manage money for a particular purpose or to show that the City is meeting legal responsibilities for using certain taxes, grants, and other funds.

Governmental Funds

Most of the City's basic services are reported in governmental funds. These funds focus on reporting the flow of money into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between the Governmental Fund Financial Statements and the Government-Wide Financial Statements are explained in a reconciliation following the Government-Wide Financial Statements.

Proprietary Funds

When the City charges customers for services – whether to outside customers or to programs of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. The City's enterprise funds are the same as the business-type activities reported in the Government-Wide Financial Statements, but provide more

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003

detail and additional information, such as cash flows for each enterprise fund. The City also uses internal service funds to report activities that provide supplies and services for the City's internal programs and activities, such as the City's self-insurance, utility customer services, information services, facilities maintenance and equipment maintenance services.

Fiduciary Funds

The City is the trustee, or fiduciary, for certain funds established to account for assets held by the City in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. These activities are excluded from the City's Government-Wide Financial Statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their specified purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The total net assets of the City as of June 30, 2003 were:

Net Assets	2003	2002	Increase (Decrease)
Invested in Capital Assets, Net of Related Debt	\$ 277,222,076	\$ 217,779,326	\$ 59,442,750
Restricted for:			
Capital Projects	36,304,430	9,928,686	26,375,744
Debt Service	3,511,294	1,333,902	2,177,392
Redevelopment Projects	11,122,411	—	11,122,411
Special Revenue Projects	10,900,152	9,908,584	991,568
Unrestricted	54,980,979	114,682,186	(59,701,207)
Total Net Assets	\$ 394,041,342	\$ 353,632,684	\$ 40,408,658

The total net assets of the City increased 11.43 percent from \$353.6 million at June 30, 2002 to \$394.0 million at June 30, 2003. The increase of \$40,408,658 derives from the change in net assets as recorded in the Statement of Activities and which flows through to the Statement of Net Assets.

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003

Governmental Activities

The following schedule summarizes the financial position of the City's governmental activities at June 30, 2003:

	2003	2002	Increase (Decrease)
Current Assets	\$ 141,852,530	\$ 127,897,038	\$ 13,955,492
Capital Assets (Net of Accumulated Depreciation)	139,470,628	107,144,838	32,325,790
Properties Held for Resale	5,040,057	7,263,384	(2,223,327)
Other Assets	—	185,108	(185,108)
Total Assets	286,363,215	242,490,368	43,872,847
Current Liabilities	46,734,948	39,481,520	7,253,428
Non-Current Liabilities	58,899,514	56,553,574	2,345,940
Total Liabilities	105,634,462	96,035,094	9,599,368
Net Assets:			
Invested in Capital Assets, Net of Related Debt	105,248,878	56,440,149	48,808,729
Restricted	59,123,684	18,239,533	40,884,151
Unrestricted	16,356,191	71,775,592	(55,419,401)
Total Net Assets	\$ 180,728,753	\$ 146,455,274	\$ 34,273,479

At the end of Fiscal Year 2003, the current assets are 49.54 percent of the total assets with the remaining 50.46 percent representing capital assets, net of accumulated depreciation and properties held for resale and other assets. The current liabilities are 44.24 percent of the total liabilities. The current ratio for governmental activities at the end of the year is \$3.04 of current assets for every \$1.00 of current liabilities. Of the total

net assets, 58.24 percent was invested in capital assets, 32.71 percent was restricted, and the remaining 9.05 percent represented unrestricted which is available for future operations.

Net assets of the City's governmental activities as of June 30, 2003 and 2002 are comprised of the following:

	2003	2002	Increase (Decrease)
Invested in Capital Assets, Net of Related Debt	\$ 105,248,878	\$ 56,440,149	\$ 48,808,729
Restricted for:			
Capital Projects	36,304,430	9,928,686	26,375,744
Debt Service	796,691	1,333,902	(537,211)
Redevelopment Projects	11,122,411	—	11,122,411
Special Revenue Projects	10,900,152	6,976,945	3,923,207
Unrestricted	16,356,191	71,775,592	(55,419,401)
Total Net Assets	\$ 180,728,753	\$ 146,455,274	\$ 34,273,479

The net assets of the City from governmental activities increased 23.40 percent from \$146.5 million at June 30, 2002 to \$180.7 million at June 30, 2003. The increase of \$34,273,479 is mainly due to increase in net assets invested in capital assets, net of related debt, and restricted net assets related to other projects and Redevelopment Projects authorized during the year.

The cost of all governmental activities during Fiscal Year 2003 was \$110,483,882. The amount that the City's taxpayers ultimately financed, however, was only \$66,212,003. Some of the cost of governmental activities was paid by those who directly benefitted from the programs

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003

(\$21,861,402) or by other government agencies and organizations that subsidized certain programs with operating grants and contributions (\$22,410,477).

Overall, the City generated program revenues from governmental activities amounting to \$44,271,879. The remaining cost of governmental activities (\$66,212,003) was paid by the City's sources of general revenue (taxes and other general revenues).

The City's governmental activities include legislative, general government, administration and support services, public safety (police and fire services), transportation, community development, culture and leisure and libraries.

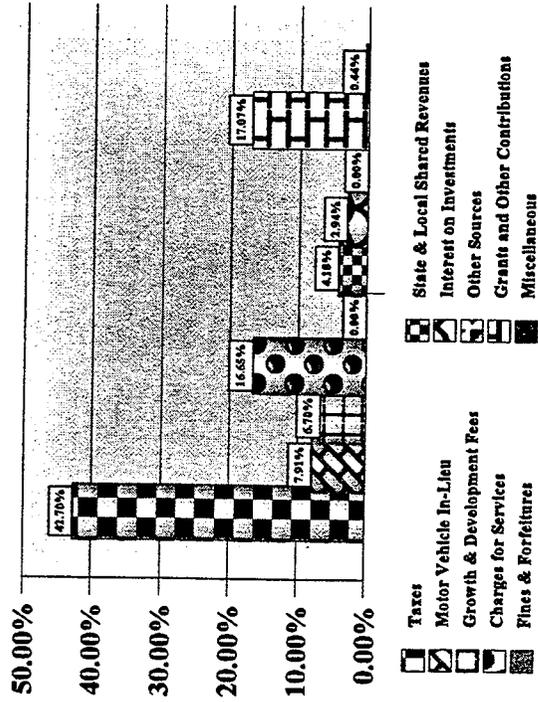
The following table presents the changes in net assets for governmental activities for the year ended June 30, 2003:

	2003	2002	Increase (Decrease)
Program Revenues:			
Charges for Services	\$ 21,861,402	\$ 16,395,769	\$ 5,465,633
Operating Grants and Other Contributions	22,410,477	32,499,675	(10,089,198)
General Revenues:			
Taxes	56,160,724	59,058,879	(2,898,155)
Motor Vehicle In-Lieu	10,382,981	—	10,382,981
Growth and Development Fees	8,796,590	7,432,528	1,364,062
Special Assessment	1,727,674	—	1,727,674
State and Local Share Revenues	5,491,859	5,191,633	300,226
Miscellaneous	573,234	—	573,234
Interest on Investments	3,858,978	4,588,082	(729,104)
Total	131,263,919	125,166,566	6,097,353
Expenses:			
Legislative	15,427	965,297	(949,870)
General Government	9,790,666	10,596,489	(805,823)
Administrative and Support Services	1,283,210	—	1,283,210
Public Safety	51,798,458	47,675,795	4,122,663
Transportation	8,576,565	4,900,486	3,676,079
Community Development	25,632,688	17,583,882	8,048,806
Culture and Leisure	8,194,868	7,917,645	277,223
Libraries	3,115,118	2,908,754	206,364
Interest on Long-term Debt	2,076,882	1,811,687	265,195
Total Expenses	110,483,882	94,360,035	16,123,847
Excess (Deficiency) of Revenues over Expenses	20,780,037	30,806,531	(10,026,494)
Transfers Out	(1,236,947)	(1,672,830)	435,883
Changes in Net Assets - Governmental Activities	\$ 19,543,090	\$ 29,133,701	\$ (9,590,611)

Management's Discussion and Analysis Fiscal Year Ended June 30, 2003

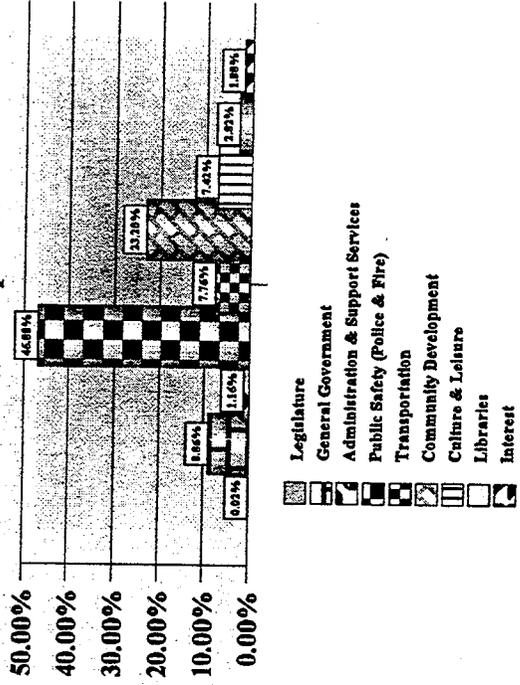
Governmental Activities Sources of Revenues:	2003	2002	Increase (Decrease)
Taxes	\$ 56,160,724	\$ 59,058,879	(2,898,155)
Motor Vehicle In-Lieu	10,382,981	—	10,382,981
Grants and Other Contributions	22,410,477	32,499,675	(10,089,198)
Growth and Development Fees	8,796,590	7,432,528	1,364,062
Charges for Services	21,861,402	16,395,769	5,465,633
Special Assessment	1,727,674	—	1,727,674
Fines and Forfeitures	—	—	—
State and Local Shared Revenues	5,491,859	5,191,633	300,226
Earnings on Investments	3,858,978	4,588,082	(729,104)
Miscellaneous	573,234	—	573,234
Total	\$ 131,263,919	\$ 125,166,566	\$ 6,097,353

Sources of Revenues



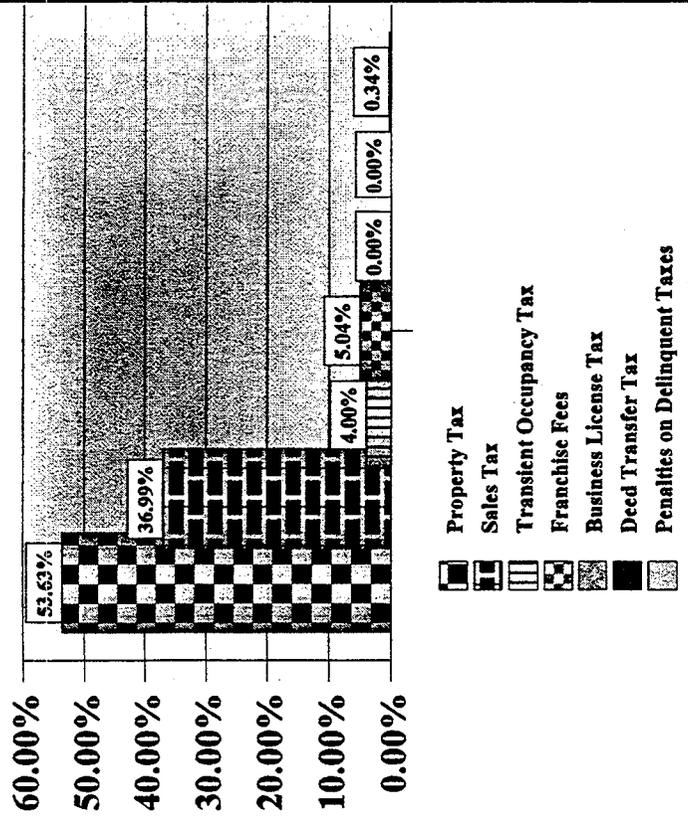
Governmental Activities Functional Expenses:	2003	2002	Increase (Decrease)
Legislative	\$ 15,427	\$ 965,297	(949,870)
General Government	9,790,666	10,596,489	(805,823)
Administration and Support Services	1,283,210	—	1,283,210
Public Safety (Police and Fire)	51,798,458	47,675,795	4,122,663
Transportation	8,576,565	4,900,486	3,676,079
Community Development	25,632,688	17,583,882	8,048,806
Culture and Leisure	8,194,868	7,917,645	277,223
Libraries	3,115,118	2,908,754	206,364
Interest	2,076,882	1,811,687	265,195
Total	\$ 110,483,882	\$ 94,360,035	\$ 16,123,847

Functional Expenses



**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003**

Sources of Tax Revenues



miscellaneous (\$573,234). However, grants and other contributions and earnings on investments showed decreases of (\$10,089,198) and (\$729,104) respectively. All other revenue sources (taxes, state and local shared revenue) and other services offset increases and decreases from last fiscal year.

Taxes, which are the largest source of revenue for the City, decrease by \$2,898,155 or 4.91 percent, which is due to a decrease in transient occupancy tax (\$73,923) and franchise tax fee (\$4,274,739), however, property tax increase (\$4,242,583) and business licenses were reclassified under charges for services (\$3,366,003). The continued construction and sale of new residential houses contributed to the increase in property taxes. Also, the City's sales tax increased by 4.68 percent or \$929,544. Business license was up by \$171,320 due to increase in new businesses, which is a good indicator of our economy bouncing back.

Sources of tax revenues for the fiscal year ended June 30, 2003 and 2002 are as follows:

Sources of Tax:	2003	2002	Increase (Decrease)
Property Tax	\$ 30,115,989	\$ 25,873,406	\$ 4,242,583
Sales Tax	20,775,896	19,846,352	929,544
Transient Occupancy Tax	2,247,831	2,321,758	(73,927)
Franchise Fees	2,830,462	7,085,201	(4,254,739)
Business License Tax	—	3,194,683	(3,194,683)
Deed Transfer Tax	—	555,249	(555,249)
Penalties on Delinquent Taxes	190,546	182,230	8,316
Total	\$ 56,160,724	\$ 59,058,879	\$ (2,898,155)

The City's total sources of revenue showed a major increase of \$6,097,353 as compared to last fiscal year. The major increase in sources of revenue in fiscal year 2003 came from charges for services (\$5,465,633), followed by growth and development fees (\$1,364,062). Motor vehicle in-lieu (\$10,382,981), special assessment (\$1,727,674) and

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003

Business-Type Activities

The following schedule summarizes the financial condition of the City's business-type activities at June 30, 2003:

	2003	2002	Increase (Decrease)
Current Assets	\$ 51,517,191	\$ 50,419,531	\$ 1,097,660
Restricted Assets	—	4,407,399	(4,407,399)
Capital Assets (Net of Accumulated Depreciation)	254,936,853	242,350,095	12,586,758
Other Assets	758,755	1,687,529	(928,774)
Total Assets	307,212,799	298,864,554	8,348,245
Current Liabilities	12,876,467	13,676,170	(799,703)
Non-Current Liabilities	81,023,743	78,010,974	3,012,769
Total Liabilities	93,900,210	91,687,144	2,213,066
Net Assets:			
Invested in Capital Assets (Net of Related Debt)	171,973,198	161,339,177	10,634,021
Restricted	2,714,603	2,931,639	(217,036)
Unrestricted	38,624,788	42,906,594	(4,281,806)
Total Net Assets	\$ 213,312,589	\$ 207,177,410	\$ 6,135,179

The business-type activities showed a positive current ratio at June 30, 2003 - \$4.00 of current assets for every \$1.00 of current liabilities. Of the total net assets, 80.62 percent was invested in capital assets, 1.27 percent represented restricted net assets, and (18.11) percent was unrestricted which is available for future operations.

Net assets of the City's business-type activities as of June 30, 2003 and 2002 are as follows:

	2003	2002	Increase (Decrease)
Invested in Capital Assets, Net of Related Debt	\$ 171,973,198	\$ 161,339,177	\$ 10,634,021
Restricted for:			
Debt Service	2,714,603	2,931,639	(217,036)
Unrestricted	38,624,788	42,906,594	(4,281,806)
Total Net Assets	\$ 213,312,589	\$ 207,177,410	\$ 6,135,179

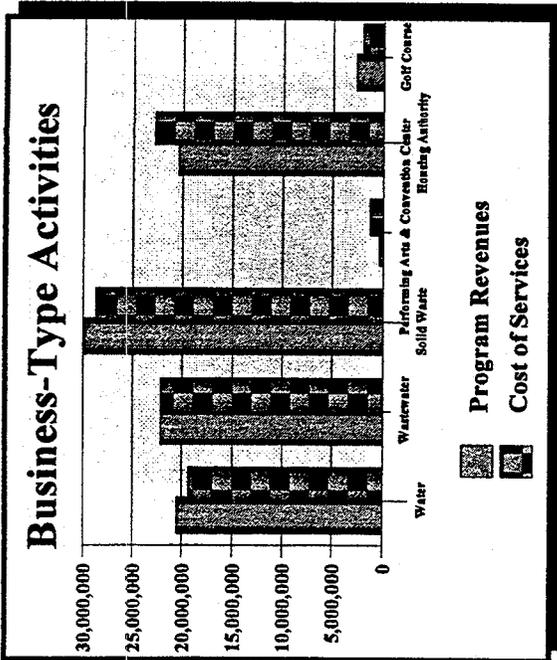
The net assets of the City's business-type activities increased 2.96 percent from \$207.18 million at June 30, 2002 to \$213.31 million at June 30, 2003. The increase of \$6,135,179 is primarily due to an increase in capital assets, net of related debt, and an increase in operating income.

Total expenses for business-type activities for the year ended June 30, 2003 was \$96,254,454. Program revenues are primarily comprised of charges for services in the amount of \$95,802,268. Other program revenues were generated from grants and contributions (\$3,422,902).

General revenues consist of earnings on investments (\$1,927,516). Transfers from governmental activities amounted to \$1,236,947.

The City's business-type activities include: Water, Wastewater, Solid Waste, Performing Arts and Convention Center, Oxnard Housing Authority, and Municipal Golf Course.

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003



The following table presents the changes in net assets for business-type activities for the year ended June 30, 2003:

	2003	2002	Increase (Decrease)
Program Revenues:			
Charges for Services	\$ 95,802,268	\$ 87,678,205	\$ 8,124,063
Fines and Forfeitures	—	3,881,547	(3,881,547)
Operating Grants and Other Contributions	3,422,902	—	3,422,902
General Revenues:			
Earnings on Investments	1,927,516	2,331,298	(403,782)
Total Revenues	101,152,686	93,891,050	7,261,636
Expenses:			
Water	19,281,560	20,660,212	(1,378,652)
Wastewater	22,141,678	18,321,799	3,819,879
Solid Waste	28,693,531	29,770,148	(1,076,617)
Performing Arts and Convention Center	1,284,733	1,250,372	34,361
Oxnard Housing Authority	22,800,927	20,103,955	2,696,972
Municipal Golf Course	2,052,025	3,901,301	(1,849,276)
Total Expenses	96,254,454	94,007,787	2,246,667
Excess (Deficiency) of Program Revenues over Expenses	4,898,232	(116,737)	5,014,969
Transfers In	1,236,947	1,672,830	(435,883)
Changes in Net Assets	\$ 6,135,179	\$ 1,556,093	\$ 4,579,086

The chart on the left illustrates the comparison of the program revenues (charges for services) against the total cost of services.

**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003**

FINANCIAL ANALYSIS OF CITY'S MAJOR FUNDS

General Fund

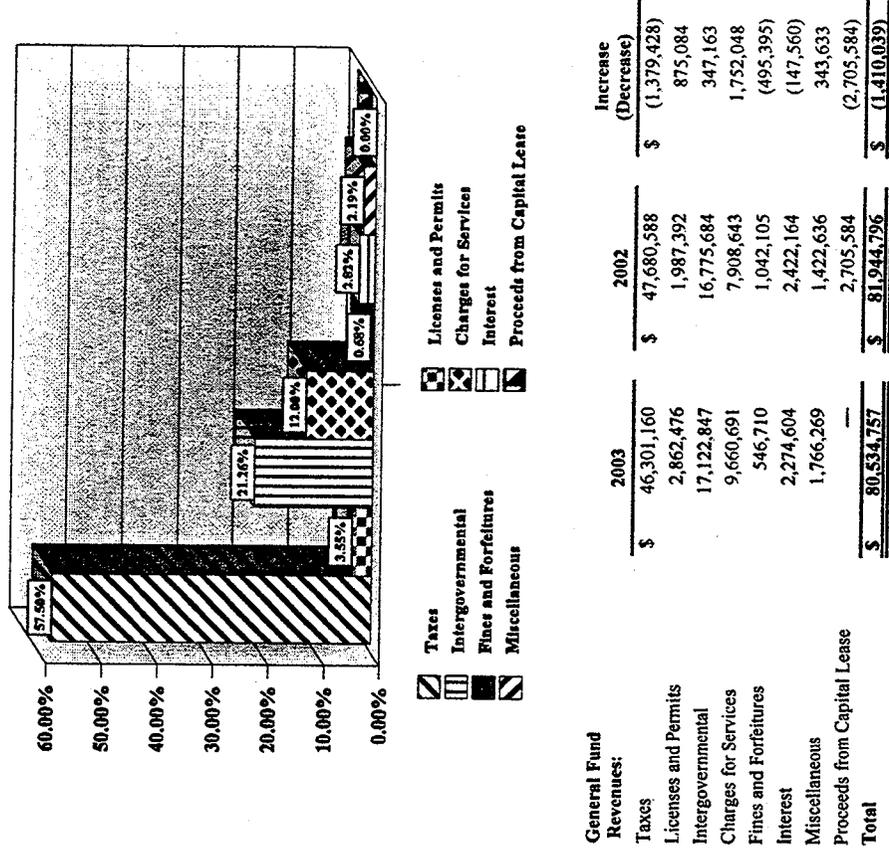
The General Fund accounts for all financial resources traditionally associated with government activities that are not required legally to be accounted for in another fund.

The General Fund ended the year with a fund balance of \$27,808,993, which is an increase of \$412,375 as compared to the prior fiscal year. The fund balance is designated into categories for legally reserved or restricted (\$3,211,597) and unreserved, undesignated fund balance available for future operations (\$24,597,396). The General Fund showed a strong fund balance, which is over the 15 percent contingency reserve required by the Council.

General Fund revenues for the year ended June 30, 2003 were \$80,534,757. The revenues decreased by \$1,410,039 (1.72%). This decrease is due primarily to an increase of miscellaneous revenues (\$343,633); a decrease in investment earnings (\$147,560) and taxes (\$1,379,428).

General Fund expenditures for the year ended June 30, 2003 reported an increase of \$2,982,531 from \$70,761,574 in fiscal year 2002 to \$73,744,105 in fiscal year 2001. Major increases were in community development expenditures (\$64,923); public safety (\$3,923,933); culture and leisure and library revenues (\$1,138,576); and, in transportation (\$60,572). The increase in public safety expenditures reflected the City's continued commitments to fighting crimes and gang violence to maintain a peaceful and crime free community.

Revenues



Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003

Major Special Revenue Funds

Development Fees Fund:

Growth and development fees revenue for the year was \$11,893,899, which is 9.08 percent of the City's total revenues, as compared to 7.59 percent for prior year. Expenditures and transfers out totaled \$5,536,474 as compared to \$7,180,101 for prior year. The decrease of 22.89 percent is due to operating transfers out.

HUD and CDBG Grants Fund:

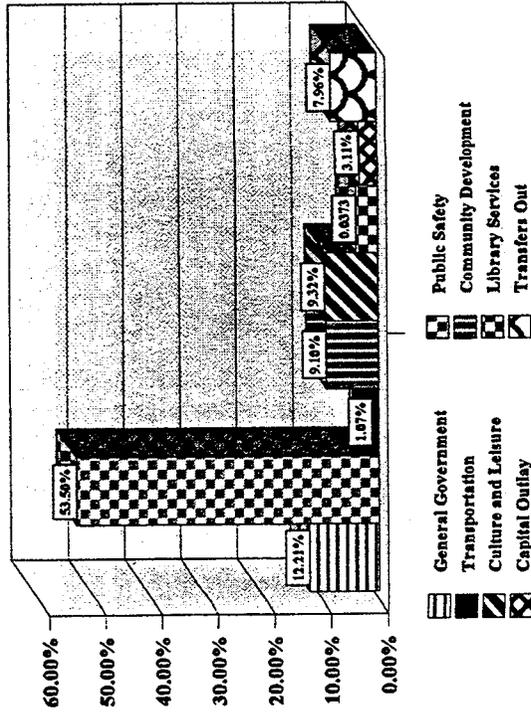
Grant revenue for this fund totaled \$4,877,787, as compared to \$4,437,939 for prior fiscal year. The increase of \$439,848 is due to an increase in grant funding in the HUD and CDBG grants program. Expenditures for the fiscal year 2002-03 totaled \$5,254,790 and \$4,389,807 for prior fiscal year. The increase of \$864,983 is due to community development expenditures.

State and Federal Grants Fund:

During fiscal year 2003, this fund generated a total revenue of \$16,577,472, consisting of 38.57 percent of voter approved property tax for public safety supplemental retirement; 60.53 percent of grant revenues (related primarily to transportation and public safety grants) and the remaining .90 percent representing miscellaneous revenues. For the fiscal year, the fund showed an excess of revenues over expenditures (\$2,868,662), increasing the fund balance to \$8,508,380.

	2003	2002	Increase (Decrease)
General Fund Expenditures:			
General Government	\$ 9,781,192	\$ 9,786,593	\$ (5,401)
Public Safety	42,865,158	38,942,125	3,923,033
Transportation	858,247	797,735	60,512
Community Development	7,293,452	7,228,529	64,923
Culture and Leisure	7,465,944	9,318,877	(1,852,933)
Library Services	2,991,509	—	2,991,509
Capital Outlay	2,488,603	4,687,715	(2,199,112)
Transfers Out	6,378,277	5,282,749	1,095,528
Total	\$ 80,122,362	\$ 76,044,323	\$ 4,078,059

Expenditures



**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003**

Capital Outlay Fund and Community Development Commission Fund:

The Capital Outlay Fund showed a net decrease in fund balance of \$392,650, the Community Development Commission Fund showed a decrease of \$2,902,063, and the Debt Service Fund showed a decrease of \$537,211. All funds ended the year with positive fund balances.

Enterprise Funds

The enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, wherein the cost of goods and services to the general public are financed or recovered primarily through user charges. The City's enterprise operations consist of water, wastewater collection and treatment, and solid waste. The cultural and recreation activities are the River Ridge Golf Course and the Performing Arts and Convention Center. The Oxnard Housing Authority is also included in the City's enterprise activities.

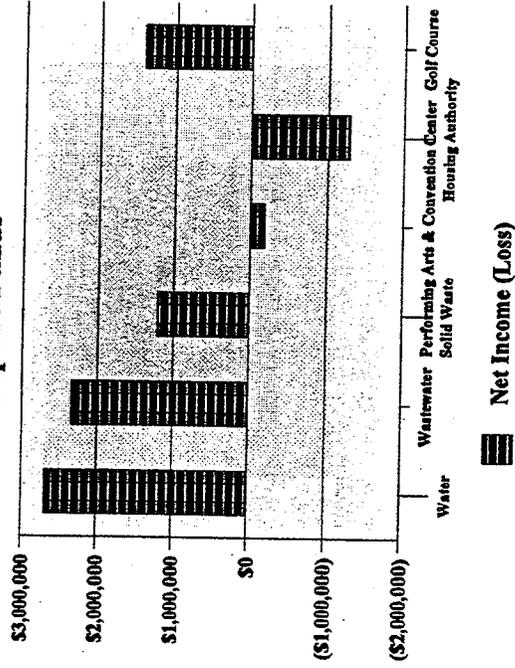
The enterprise operations showed an increase in revenues amounting to \$8,124,063 as compared to the prior fiscal year. Similarly, expenses indicated an increase totaling \$2,246,667 in fiscal year 2003. Total net income for the year ended June 30, 2003 was \$6,167,906, which increased net assets to \$213,312,589 (after allocating Internal Services Funds losses) from \$207,177,410 as of the prior year end.

The following presents the net income (loss) for the City's enterprise funds for the years ended June 30, 2003 and 2002:

	2003	2002	Change
Water	\$ 2,683,989	\$ (1,134,904)	\$ 3,818,893
Wastewater	2,336,422	4,309,303	(1,972,881)
Solid Waste	1,213,161	(862,451)	2,075,612
Performing Arts and Convention Center	(195,832)	(229,228)	33,396
Oxnard Housing Authority	(1,291,243)	(549,857)	(741,386)
Municipal Golf Course	1,421,409	392,843	1,028,566
Total	\$ 6,167,906	\$ 1,925,706	\$ 4,242,200

Overall, the enterprise funds continue to exhibit a positive financial position at June 30, 2003, maintaining a high percentage of contingency reserve in comparison to the City's established reserve requirement for each fund.

Enterprise Funds



Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$394,407,481 (net of accumulated depreciation). The City's capital assets include land, land improvements, buildings, improvements other than buildings (systems, machinery and equipment, and construction in progress). The City's investments in capital assets increased by 12.85 percent from the prior year. The majority of this increase related to governmental activities (\$32,325,790) and business-type activities (\$12,586,758).

Major capital assets additions during Fiscal Year 2003 included the following:

- Acquisitions of equipment, refuse trucks, police vehicles and computer equipment
- Construction in progress for water, wastewater and solid waste projects
- A variety of street and storm drain projects in new residential development, paving, street widening and slurry sealing for existing streets continues throughout the City
- Various improvements and additions to utilities systems still under construction.

The following table provides a breakdown of the City's capital assets at June 30, 2003:

	Governmental Activities		Business-Type Activities		Total
	2003	2002	2003	2002	
Land	\$ 24,046,598	\$ 24,046,598	\$ 22,164,746	\$ 20,344,746	\$ 46,211,344
Land Improvements	1,159,280	1,159,280	—	—	1,159,280
Buildings	34,969,056	29,176,812	67,667,260	66,166,606	102,636,316
Improvements Other Than Buildings	42,417,623	40,568,966	181,673,337	179,363,604	224,090,960
Municipal Golf Course	—	—	5,803,242	5,739,568	5,803,242
Equipment and Machinery	34,223,946	39,001,698	40,154,112	39,792,780	74,378,058
Construction in Progress	51,888,765	34,623,411	80,100,812	64,935,292	131,989,578
Total	188,705,268	168,576,765	397,563,509	376,342,601	586,268,778
Accumulated Depreciation	49,234,640	46,701,539	142,626,656	133,922,506	191,861,297
Total Capital Assets (net)	\$ 139,470,628	\$ 121,875,226	\$ 254,936,853	\$ 242,420,095	\$ 394,407,481

Additional information on the City's capital assets can be found in Note 6 to the Basic Financial Statements.

DEBT ADMINISTRATION

The City uses a variety of tax increment, revenue and lease indebtedness to finance various capital acquisitions. At June 30, 2003, the City's long-term debt outstanding was \$120,632,106. Of this total, \$37,668,451 was in governmental activities and \$82,963,655 was in business-type activities. More detailed information about the City's total long-term liabilities are presented in Note 7 to the financial statement.

**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003**

The following table provides a breakdown of the City's outstanding indebtedness as of June 30, 2003:

	Governmental Activities		Business-Type Activities		Total
	2003	2002	2003	2002	
Tax Allocation Bonds	\$ 13,850,000	\$ 14,475,000	\$ ---	\$ ---	\$ 13,850,000
Revenue Bonds	9,535,000	9,080,000	80,139,484	79,963,438	89,043,438
Capital Leases	307,187	604,201	2,824,171	1,215,752	3,131,358
Notes and Loans Payable	5,731,264	8,539,733	---	---	5,731,264
Certificate of Participation	8,245,000	8,440,000	---	---	8,245,000
Total	\$ 37,668,451	\$ 41,138,934	\$ 82,963,655	\$ 81,179,190	\$ 120,632,106
					\$ 122,318,124

The tax allocation bonds are paid from the increment revenues of property taxes levied within the City's redevelopment and renewal areas. The Central City Revitalization Project and other redevelopment areas currently are accounted for by the Oxnard Community Development Commission.

Revenue bonds include issues used to finance projects for public parking, civic auditorium, sewer and treatment expansion, and public housing. Debt service on these issues is paid from the revenues of the appropriate enterprise funds and the General Fund.

The City has, on several occasions, used single investor loans to lease-purchase equipment. The City's capital lease obligations at June 30, 2003, amounted to \$3,131,358.

The General Fund pays debt service on approximately 5 percent of the City's outstanding debt. The remainder is paid from a variety of other funding sources including property tax collections, residential growth fee

collection, property owner special taxes, water and sewer utility rates, golf course net income and property tax increments. Some of the debt which is paid by the General Fund is supported by external sources specifically intended to support the retirement of the debt.

The State of California mandates a limit on general obligation debt of 15 percent of true cash value of all taxable property within the City boundaries. At June 30, 2003, this limit was \$1,382,688,000.

BUDGETING

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 69 through 77. These statements compare the original adopted budget, the budget as amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP except that encumbrances are included in budgeted expenditures.

Appropriations lapse at year-end. The City Council generally reauthorizes appropriations for continuing projects and activities. The City Council has the legal authority to amend the budget of any fund at any time during the fiscal year. The budgetary legal level of control (the level on which expenditures may not legally exceed appropriations) is generally at the department level. For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds (special revenue funds included) are considered a single department.

*Management's Discussion and Analysis
Fiscal Year Ended June 30, 2003*

Budgeted expenditures may be reallocated within a division and between divisions within a department without City Council approval.

General Fund Budgetary Highlights

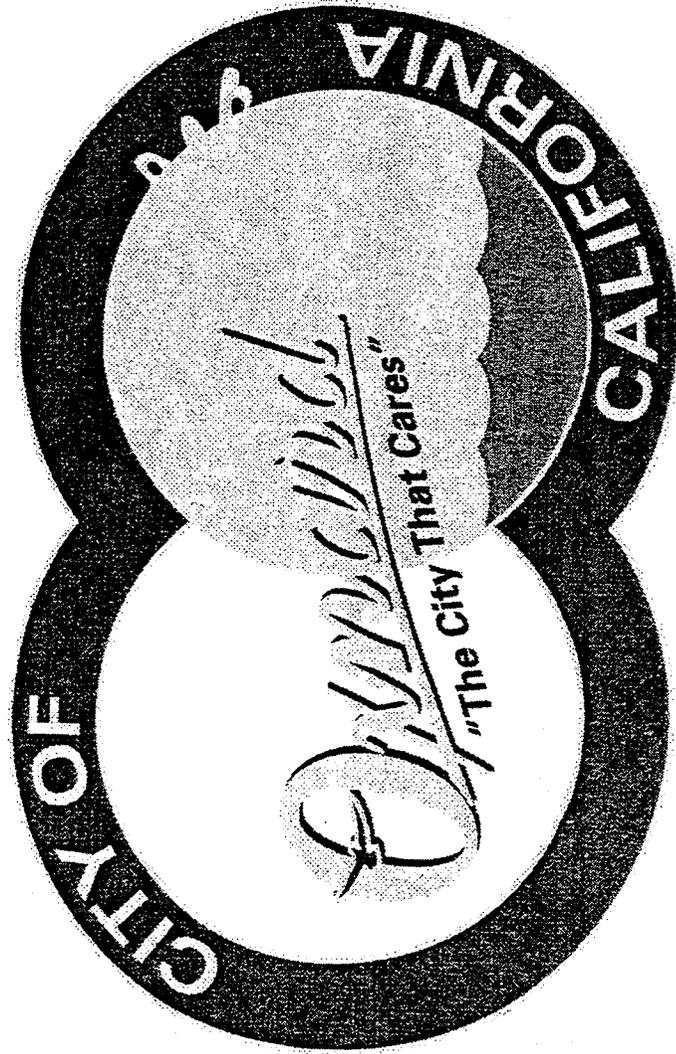
The General Fund final budget differs from the original budget by 3.91 percent. The components of this increase are briefly summarized as follows: \$44,255 increase allocated for legislative maintenance and operations; \$225,668 increase allocated for transportation and Community Development Commission \$1,722,295 increase allocated for public safety operations; \$1,185,227 increase allocated for Community Development maintenance and operations; \$396,960 increase allocated for culture and leisure maintenance and operations; and, \$134,968 increase for library services maintenance and operations.

During the year, General Fund revenues met budgetary estimates while expenditures were less than budgetary estimates. Actual revenues exceeded actual expenditures (net of transfers in and out) by \$1,316,892 for fiscal year 2002-03.

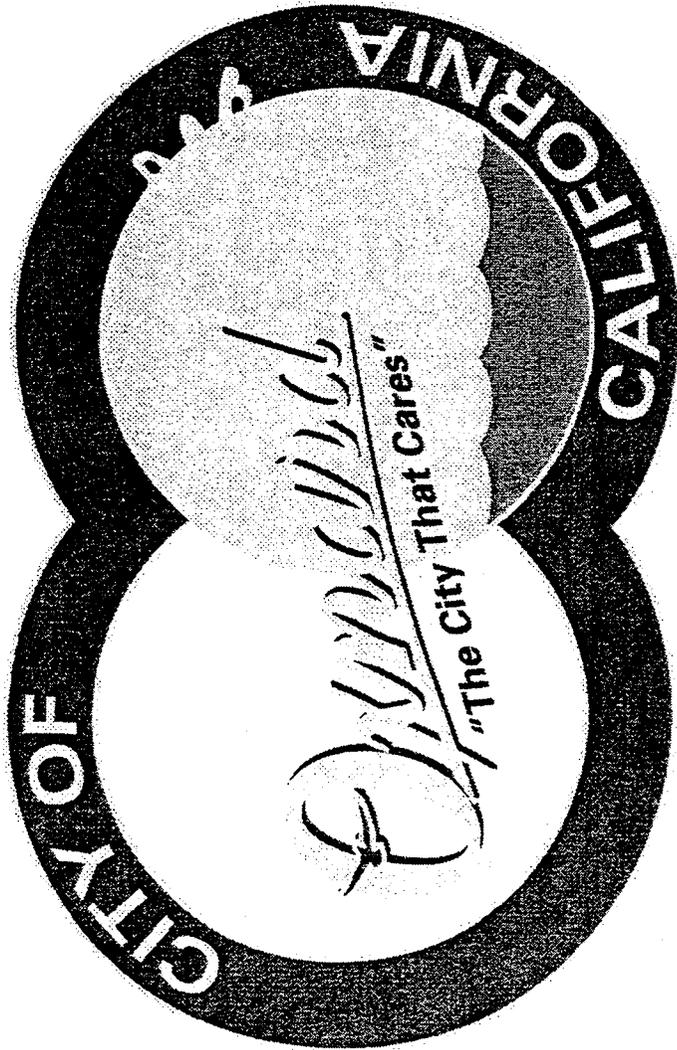
The General Fund budget to actual statements can be found on page 69 through 73 of this report.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This management's discussion and analysis is designed to provide the City's residents, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about this document, separate reports of the City's component units, or wish any additional financial information, contact the Office of the Director of Finance at 300 West Third Street, Oxnard, California, 93030 at (805) 385-7462 or e-mail at orlando.capulong@ci.oxnard.ca.us.



**BASIC FINANCIAL
STATEMENTS**



City of Oxnard, California
Statement of Net Assets
June 30, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 2)	\$ 117,111,754	\$ 36,471,853	\$ 153,583,607
Investments with fiscal agents (Note 2)	3,350,450	6,004,034	9,354,484
Accounts and other receivables (Note 4)	3,401,963	9,362,566	12,764,529
Internal balances (Note 3)	690,061	(690,061)	
Due from other governments	17,298,302	297,000	17,595,302
Notes receivable		71,799	71,799
Total Current Assets	141,852,530	51,517,191	193,369,721
Non-Current Assets:			
Property held for resale (Note 1-E)	5,040,057		5,040,057
Other assets		758,755	758,755
Capital Assets (Note 6):			
Property, plant, equipment and infrastructure	188,705,268	397,563,509	586,268,777
Less accumulated depreciation	(49,234,640)	(142,626,656)	(191,861,296)
Total Capital Assets	139,470,628	254,936,853	394,407,481
Total Non-Current Assets	144,510,685	255,695,608	400,206,293
Total Assets	286,363,215	307,212,799	593,576,014
Liabilities:			
Current Liabilities:			
Accounts payable (Note 4)	5,745,746	7,080,457	12,826,203
Other liabilities (Note 4)	21,266,431	1,625,598	22,892,029
Deferred revenue (Note 4)	17,380,096	94,260	17,474,356
Long-term debt due within one year (Note 7)	2,342,675	4,076,152	6,418,827
Total Current Liabilities	46,734,948	12,876,467	59,611,415
Non-Current Liabilities:			
Self insurance claims liabilities (Note 13)	14,008,387		14,008,387
Compensated absences (Note 1-H, 7)	9,565,351	2,136,240	11,701,591
Long-term debt due in more than one year (Note 7)	35,325,776	78,887,503	114,213,279
Total Non-Current Liabilities	58,899,514	81,023,743	139,923,257
Total Liabilities	105,634,462	93,900,210	199,534,672
Net Assets (Note 12)			
Invested in capital assets, net of related debt	105,248,878	171,973,198	277,222,076
Restricted for:			
Capital projects	36,304,430		36,304,430
Debt service	796,691	2,714,603	3,511,294
Redevelopment projects	11,122,411		11,122,411
Special revenue projects	10,900,152		10,900,152
Total Restricted Net Assets	59,123,684	2,714,603	61,838,287
Unrestricted	16,356,191	38,624,788	54,980,979
Total Net Assets	\$ 180,728,753	\$ 213,312,589	\$ 394,041,342

See accompanying notes to financial statements.

City of Oxnard, California
Statement of Activities
Year Ended June 30, 2003

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Other Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:						
Governmental Activities:						
General Government	\$ 9,790,666	\$ 3,566,003	\$ -	\$ (6,424,663)	\$ -	\$ (6,424,663)
Legislative	15,427	38,930	-	23,503	-	23,503
Administrative and Support Services	1,283,210	1,548,107	85,397	350,294	-	350,294
Public Safety	51,798,458	5,066,751	12,103,931	(34,627,776)	-	(34,627,776)
Transportation	8,576,565	2,079,319	3,993,326	(2,503,920)	-	(2,503,920)
Community Development	25,632,688	7,222,125	5,887,723	(12,522,840)	-	(12,522,840)
Culture and Leisure	8,194,868	2,343,267	340,100	(5,511,501)	-	(5,511,501)
Library Services	3,115,118	196,900	-	(2,918,218)	-	(2,918,218)
Interest on long term debt	2,076,882	-	-	(2,076,882)	-	(2,076,882)
Total Governmental Activities	110,483,882	21,861,402	22,410,477	(66,212,003)		(66,212,003)
Business-type Activities:						
Water	19,281,560	20,465,812	1,356,735	2,540,987	2,540,987	2,540,987
Wastewater	22,141,678	22,130,759	952,997	942,078	942,078	942,078
Solid Waste	28,693,531	29,811,773	-	1,118,242	1,118,242	1,118,242
Performing Arts and Convention Center	1,284,733	364,053	-	(920,680)	(920,680)	(920,680)
Oxnard Housing Authority	22,800,927	20,342,572	1,113,170	(1,345,185)	(1,345,185)	(1,345,185)
Municipal Golf Course	2,052,025	2,687,299	-	635,274	635,274	635,274
Total Business-type Activities	96,254,454	95,802,268	3,422,902	2,970,716	2,970,716	2,970,716
Total Primary Government	\$ 206,738,336	\$ 117,663,670	\$ 25,833,379	\$ (66,212,003)	\$ 2,970,716	\$ (63,241,287)

General revenues:

Taxes:		
Property taxes	30,115,989	30,115,989
Sales tax	20,775,896	20,775,896
Transient occupancy tax	2,247,831	2,247,831
Franchise tax	2,830,462	2,830,462
Penalties on delinquent taxes	190,546	190,546
Motor in Lettu	10,382,981	10,382,981
Growth & development fees	8,796,590	8,796,590
Special Assessment	1,727,674	1,727,674
State & local shared revenues	5,491,859	5,491,859
Earnings on investments	3,858,978	1,927,516
Miscellaneous	573,234	573,234
Transfers	(1,236,947)	1,236,947
Total General Revenues and Transfers	85,755,093	88,919,556
Change in Net Assets	19,543,090	25,678,269
Net Assets-July 1, 2002	146,455,274	353,632,684
Retroactive Capital Asset Addition	14,730,389	14,730,389
Net Assets-June 30, 2003	\$ 180,728,753	\$ 394,041,342

City of Oxnard, California
Governmental Funds
Balance Sheet
June 30, 2003

	General Fund	Development Fees Fund	HUD and CDBG Grants Fund	State and Federal Grants Fund	Debt Service Fund	Capital Outlay Fund	Community Development Commission Fund	Non-Major Governmental Funds	Total
Assets:									
Cash and cash equivalents (Note 2)	\$ 40,289,264	\$ 33,106,951	\$ -	\$ 7,053,370	\$ -	\$ 8,581,212	\$ 8,727,556	\$ 7,641,340	\$ 105,399,693
Investments with fiscal agents (Note 2)						2,520,282	26,977		3,343,950
Account and other receivables (Note 4)	2,379,756	511,844	322,565	28,537	796,691		3,961	9,981	3,256,644
Due from other funds (Note 3)	3,861,852								3,861,852
Due from other governments (Note 5)	4,923,219	44,981	4,495,083	7,378,088					17,298,302
Properties held for resale (Note 1-E)							456,931		456,931
Advances to other funds (Note 3)	148,035						5,040,057		5,040,057
Other assets									148,035
Total Assets	\$ 51,602,126	\$ 33,663,776	\$ 4,817,648	\$ 14,459,995	\$ 796,691	\$ 11,101,494	\$ 14,255,482	\$ 7,651,321	\$ 138,348,533
Liabilities and Fund Balance:									
Accounts payable (Note 4)	\$1,769,035	\$1,022,090	\$376,618	\$1,071,069		\$26,615	\$506,682	\$397,979	\$5,170,088
Other liabilities (Note 4)	17,384,503	150,987				2,676,833	541,702	383,671	21,137,696
Due to other funds (Note 4)			257,624	513,577			2,084,687	216,591	3,072,479
Deferred revenue (Note 4)	4,639,595	447,577	4,183,406	4,366,969					13,637,547
Advances from Other Funds (Note 3)						247,347			247,347
Total Liabilities	23,793,133	1,620,654	4,817,648	5,951,615		2,950,795	3,133,071	998,241	43,265,157
Fund Balances (Note 11):									
Reserved									
Encumbrances	291,897						802,120		1,094,017
Receivables				1,155,146			456,931		1,612,077
Repayment of debt									796,691
Advances	2,575,623				796,691				2,575,623
Restricted revenue									235,362
Carryover savings	344,077	235,362							344,077
Properties held for resale									
Total Reserved	3,211,597	235,362		1,155,146	796,691		5,040,057		5,040,057
Unreserved:									
Undesignated, Reported in:									
General Fund	24,597,396	31,807,760		7,353,234				6,653,080	24,597,396
Special Revenue Funds									45,814,074
Capital Projects Funds						8,150,699	4,823,303		12,974,002
Total Unreserved	24,597,396	31,807,760		7,353,234		8,150,699	4,823,303	6,653,080	83,385,472
Total Fund Balances	27,808,993	32,043,122		8,508,380	796,691	8,150,699	11,122,411	6,653,080	95,083,376
Total Liabilities and Fund Balances	\$ 51,602,126	\$ 33,663,776	\$ 4,817,648	\$ 14,459,995	\$ 796,691	\$ 11,101,494	\$ 14,255,482	\$ 7,651,321	\$ 138,348,533

See accompanying notes to financial statements.

CITY OF OXNARD, CALIFORNIA

Reconciliation of the Fund Balance for the Governmental Wide Statement of Net Assets for Governmental Activities

JUNE 30, 2003

Total fund balances reported on the governmental funds balance sheet \$ 95,083,376

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:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 139,470,628

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central 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	11,718,561
Account and other receivables	145,319
Accounts payable	(575,658)
Other liabilities	(128,735)
Self insurance claims payable	(14,008,387)
Compensated absences	(565,956)
Long-term debt	

ACCUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities. (3,742,549)

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Long-term debt	(37,668,451)
Non-current portion of compensated absences	(8,999,395)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 180,728,753

See accompanying notes to financial statements

City of Oxnard, California
Governmental Funds

Statement Of Revenues, Expenditures And Changes In Fund Balances
Year Ended June 30, 2003

	General Fund	Development Fees Fund	HUD and CDBG Grants Fund	State and Federal Grants Fund	Debt Service Fund	Capital Outlay Fund	Community Development Commission Fund	Non-Major Governmental Funds	Totals
Revenues									
Taxes	\$ 46,301,160	\$ -	\$ -	\$ 6,393,874	\$ 1,578,127	\$ -	\$ 5,030,324	\$ -	\$ 59,303,485
Licenses and permits	2,862,476								2,862,476
Intergovernmental	17,122,847		4,877,787	10,035,060		178,897		6,293,968	38,508,559
Growth and development fees	9,660,691	8,796,590							18,457,281
Charges for services	546,710	\$1,892,434				\$223,505			2,662,649
Fines and forfeitures	2,274,604	959,421		148,538	27	159,185			3,481,775
Interest									
Special assessments	1,766,269	245,454				119,517			2,131,240
Miscellaneous	80,534,757	11,893,899	4,877,787	16,577,472	1,578,154	681,104	654,944	269,760	1,727,674
Total Revenues									
	80,534,757	11,893,899	4,877,787	16,577,472	1,578,154	681,104	5,850,949	8,995,424	130,989,546
Expenditures									
Current:									
General government	9,781,192								9,781,192
Public safety	42,865,158		180,462	5,230,655				218,266	48,494,541
Transportation	858,247	1,078,988	73,002	286,015					2,296,252
Community development	7,293,452	1,653,544	2,652,125	1,836,504			6,002,097		20,454,657
Culture and leisure	7,465,944	(251)	411,542	(66,150)					7,811,085
Library Services	2,991,509								2,991,509
Capital Outlay	2,488,603	1,681,293	1,937,659	6,421,786		4,383,190		2,952,632	22,199,380
Debt service									
Principal					4,525,483				4,525,483
Interest and fiscal charges					2,178,355				2,178,355
Total Expenditures	73,744,105	4,413,574	5,254,790	13,708,810	6,703,838	4,383,190	8,336,314	10,301,318	126,845,939
Excess (Deficiency) of Revenues Over Expenditures	6,790,652	7,480,325	(377,003)	2,868,662	(5,125,684)	(3,702,086)	(2,485,365)	(1,305,894)	4,143,607
Other Financing Sources (Uses):									
Transfers in (Note 5)									
Transfers out (Note 5)	(6,378,277)	(1,122,900)			3,533,473	3,455,717			6,989,190
Proceeds from loan payable						(146,281)	(416,698)		(8,064,156)
Payment to escrow agent					7,435,000				7,435,000
Total Other Financing Sources (Uses)	(6,378,277)	(1,122,900)			4,588,473	3,309,436	(416,698)		(6,380,000)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	412,375	6,357,425	(377,003)	2,868,662	(537,211)	(392,650)	(2,902,063)	(1,305,894)	4,123,641
Fund Balance, July 1	27,396,618	25,685,697	377,003	5,639,718	1,333,902	8,543,349	14,024,474	7,958,974	90,959,735
Fund Balance, June 30	\$ 27,808,993	\$ 32,043,122	\$ -	\$ 8,508,380	\$ 796,691	\$ 8,150,699	\$ 11,122,411	\$ 6,653,080	\$ 95,083,376

See accompanying notes to financial statements.

City of Oxnard, California

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
to the Government-Wide Statement of Activities
Year Ended June 30, 2003**

The schedule below reconciles the Net Changes 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.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 4,123,641

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those 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 net of internal service fund depreciation of \$ 305,887 which has already been allocated to serviced funds)

Contributions of infrastructure and improvements by developers are capitalized in the Statement of Activities, but are not recorded in the Fund Statements because no cash changed hands.

LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Proceeds from the issuance of debt are deducted from fund balance

Repayment of debt principal is added back to fund balance

Payment to bond escrow agent is added back to fund balance net of refunding cost

ACCRUAL OF NON-CURRENT ITEMS

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 revenue or expenditures in governmental funds (net change):

Deferred revenue

Compensated absences

Interest Expense

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

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 revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements.

21,748,825

(3,980,137)

(7,435,000)
4,525,483
6,380,000

(3,742,549)
(271,485)
115,150

(1,920,838)

\$ 19,543,090

City of Oxnard, California
Proprietary Funds
Statement of Net Assets
June 30, 2003

	Enterprise Funds							Governmental Activities- Internal Service Funds
	Water	Wastewater	Solid Waste	Performing Arts and Convention Center	Oxnard Housing Authority	Municipal Golf Course	Totals	
Assets:								
Current Assets:								
Cash and cash equivalents (Note 2)	\$ 2,419,062	\$ 30,400,369	\$ 2,796,525	\$ -	\$ 2,775,762	\$ 901,537	\$ 36,874,193	\$ 11,309,721
Investment with fiscal agents (Note 2)	2,236,850	7,417	2,130,603	35,000	321,503	1,090,449	6,004,034	6,500
Accounts and other receivables (Note 4)		3,944,593	2,300,500	787	663,373	216,463	9,362,566	145,319
Due from other funds (Note 3)		170,677			248,875		419,552	
Due from other government (Note 5)		297,000					297,000	
Notes receivable					71,799		71,799	
Advances to other funds (Note 3)	141,386		105,961		22,355		247,347	
Other assets							22,355	
Capital Assets (Note 6):								
Property, plant and equipment	104,045,773	187,184,857	49,908,470	44,443	42,100,292	14,279,674	397,563,509	7,513,206
Less accumulated depreciation	(34,047,937)	(66,734,377)	(16,471,867)	(1,827)	(22,995,328)	(2,375,320)	(142,626,656)	(6,963,798)
Total Capital Assets - Net	69,997,836	120,450,480	33,436,603	42,616	19,104,964	11,904,354	254,936,853	549,408
Unamortized bond issuance costs - Net		237,639	498,761				736,400	
Total Assets	74,795,134	155,508,175	41,268,953	78,403	23,208,631	14,112,803	308,972,099	12,010,948
Liabilities:								
Current Liabilities:								
Accounts payable (Note 4)	2,068,568	1,639,096	2,676,364	49,455	572,724	74,250	7,080,457	575,658
Other liabilities (Note 4)	504,828	231,740	113,192	9,216	743,288	23,334	1,625,598	128,735
Due to other funds (Note 3)	599,948			360,102	248,875		1,208,925	
Deferred revenue (Note 4)	5,145	61,735			27,380		94,260	
Long term debt due within one year (Note 7)	235,000	1,750,000	1,412,652			678,500	4,076,152	
Total Current Liabilities	3,413,489	3,682,571	4,202,208	418,773	1,592,267	776,084	14,085,392	704,393
Noncurrent Liabilities:								
Advances from other funds (Note 3)						148,035	148,035	
Self-insurance claims liabilities								14,008,387
Compensated absences payable (Note 7)	376,832	598,374	491,546	51,028	618,460		2,136,240	565,956
Long term debt due in more than one year (Note 7)	7,937,309	40,230,000	20,448,694			10,271,500	78,887,503	
Total Noncurrent Liabilities	8,314,141	40,828,374	20,940,240	51,028	618,460	10,419,535	81,171,778	14,574,343
Total Liabilities	11,727,630	44,510,945	25,142,448	469,801	2,210,727	11,195,619	95,257,170	15,278,736
Net Assets (Note 12):								
Invested in capital assets, net of related debt	61,825,527	78,470,480	11,575,257	42,616	19,104,964	954,354	171,973,198	549,408
Restricted for repayment of debt	809,103		1,342,653			562,847	2,714,603	
Unrestricted	432,874	32,526,750	3,208,595	(434,014)	1,892,940	1,399,983	39,027,128	(3,817,196)
Total Net Assets (Deficit)	\$ 63,067,504	\$ 110,997,230	\$ 16,126,505	\$ (391,398)	\$ 20,997,904	\$ 2,917,184	213,714,929	\$ (3,267,788)
				Internal Service Funds Allocation of Net Loss			(402,340)	
								\$ 213,312,589
								Net Assets - June 30, 2003

See accompanying notes to financial statements

City of Oxnard, California
Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2003

	Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Water	Wastewater	Solid Waste	Performing Arts and Convention Center	Oxnard Housing Authority		
Operating Revenues:							
Charges for services	\$ 20,465,812	\$ 22,130,759	\$ 29,811,773	\$ 364,053	\$ 20,342,572	\$ 2,687,299	\$ 17,925,392
Operating Expenses:							
Salaries and wages	2,821,213	4,701,774	4,931,504	785,368	2,015,745	31,240	4,596,757
Contractual services	596,674	3,542,168	9,459,340	215,538	1,002,706	987,510	759,711
Operating supplies	11,479,889	1,674,883	749,556	10,531	11,738,173		2,464,850
Utilities	502,753	2,684,062	5,704,094	124,721	632,083	1,268	1,185,292
Depreciation and amortization	1,762,232	3,803,498	1,719,200	406	2,080,070	70,752	305,887
General and administrative	1,189,380	3,688,920	2,121,099	139,068	5,293,822	106,431	1,242,596
Repairs and maintenance	192,942	173,774	2,716,553	9,102	36,328	14,540	1,009,260
Claims expenses							8,503,512
Total Operating Expenses	18,545,083	20,249,079	27,401,346	1,284,734	22,800,927	1,211,741	20,067,865
Operating Income (Loss)	1,920,729	1,881,680	2,410,427	(920,681)	(2,458,355)	1,475,558	(2,142,473)
Nonoperating Revenues (Expenses):							
Interest income	136,667	1,385,031	219,618		53,942	132,258	364,566
Interest (expense)	(730,142)	(1,883,286)	(1,275,121)			(840,268)	(13,677)
Total Nonoperating Revenues (Expenses)	(593,475)	(498,255)	(1,055,503)		53,942	(708,010)	350,889
Income (Loss) Before Contributions and Transfers	1,327,254	1,383,425	1,354,924	(920,681)	(2,404,413)	767,548	(1,791,584)
Capital contributions	1,356,735	952,997			1,113,170		3,422,902
Transfers in (Note 5)				724,849	1,495,126	653,861	641,763
Transfers out (Note 5)			(141,763)		(1,495,126)		(803,744)
Net transfers	1,356,735	952,997	(141,763)	724,849	1,113,170	653,861	(161,981)
Change in net assets	2,683,989	2,336,422	1,213,161	(195,832)	(1,291,243)	1,421,409	(1,953,565)
Total Net Assets - July 1	60,383,515	108,660,808	14,913,344	(195,566)	22,289,147	1,495,775	(1,314,223)
Total Net Assets - June 30	\$ 63,067,504	\$ 110,997,230	\$ 16,126,505	\$ (391,398)	\$ 20,997,904	\$ 2,917,184	\$ (3,267,788)

Change in Net Assets:
Adjustment to Allocate Internal Service Funds Net Loss to Enterprise Funds

	213,714,929
	(402,340)
\$	213,312,589

See accompanying notes to financial statements

City of Oxnard, California
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2003

	Enterprise Funds						Governmental Activities- Internal Service Funds
	Water	Wastewater	Solid Waste	Arts and Convention Center	Oxnard Housing Authority	Municipal Golf Course	
Cash Flows From Operating Activities:							
Cash received from customers	\$ 21,112,881	\$ 23,592,727	\$ 30,632,005	\$ 367,527	\$ 20,620,974	\$ 2,760,303	\$ 99,086,417
Cash paid to suppliers	(13,492,836)	(11,100,262)	(20,808,686)	(682,110)	(18,478,017)	(1,119,164)	(65,681,075)
Cash paid to employees	(2,821,213)	(4,701,774)	(4,931,504)	(785,368)	(2,015,745)	(31,240)	(15,286,844)
Cash paid to claimants							
Net Cash Provided by (Used In) Operating Activities	4,798,832	7,790,691	4,891,815	(1,099,951)	127,212	1,609,899	18,118,498
Cash Flows From Noncapital Financing Activities:							
Interfund receipts	599,948			360,102	248,875	(1,820,000)	(611,075)
Interfund payments	(141,386)		(105,961)		(248,875)		(496,222)
Transfers in (Note 5)				724,849	1,495,126	653,861	2,873,836
Transfers (out) (Note 5)			(141,763)		(1,495,126)		(1,636,889)
Receipts from other governments							(297,000)
Net Cash Provided by Noncapital Financing Activities	458,562	(297,000)	(247,724)	1,084,951		(1,166,139)	(167,350)
Cash Flows From Capital and Related Financing Activities:							
Acquisition of capital assets	(8,696,865)	(4,721,343)	(4,270,330)		(178,221)	(733,255)	(18,600,014)
Retirement of capital assets							
Proceeds from long term debt	(225,000)	43,785,000	2,510,284			10,950,000	57,245,284
Principal payments on capital debt	(767,366)	(46,825,000)	(1,617,980)			(11,870,000)	(60,537,980)
Interest paid		(234,719)	(1,499,922)			(534,805)	(3,036,812)
Net Cash Used in Capital and Related Financing Activities:	(9,689,231)	(7,996,062)	(4,877,948)		(178,221)	(2,188,060)	(24,929,522)
Cash Flows From Investing Activities:							
Interest	136,667	4,385,031	219,618		53,942	714,051	5,509,309
Purchase of investment securities							
Net Cash Provided By Investing Activities	136,667	4,385,031	219,618		53,942	714,051	5,509,309
Net Increase (Decrease) in Cash Equivalents	(4,295,170)	3,882,660	(14,239)	(15,000)	2,933	(1,030,249)	(1,469,065)
Cash and Cash Equivalents, July 1	6,714,232	26,525,126	4,941,367	50,000	3,094,332	3,022,235	44,347,292
Cash and Cash Equivalents, June 30	\$ 2,419,062	\$ 30,407,786	\$ 4,927,128	\$ 35,000	\$ 3,097,265	\$ 1,991,986	\$ 42,878,227

Continued -

City of Oxnard, California

Proprietary Funds

Statement of Cash Flows (Continued)

Year Ended June 30, 2003

	Enterprise Funds						Governmental Activities- Internal Service Funds
	Water	Wastewater	Solid Waste	Performing Arts and Convention Center	Oxnard Housing Authority	Municipal Golf Course	
Cash Flows From Operating Activities:							
Reconciliation of Operating Income (loss) to Net Cash Provided by (used in) Operating Activities:							
Operating income (loss)	\$ 1,920,729	\$ 1,881,680	\$ 2,410,427	\$ (920,681)	\$ (2,458,355)	\$ 1,475,558	\$ (2,142,473)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:							
Depreciation and Amortization	1,762,232	3,803,498	1,719,200	406	2,080,070	70,752	305,887
Write-down of capital assets	641,924	1,103,233	820,232	3,474	345,176	73,004	(58,869)
Change in assets and liabilities:							
Decrease (increase) in accounts receivable		297,000			(71,799)		225,201
Decrease (increase) in notes receivable					(22,355)		(22,355)
Decrease (increase) in other assets					139,531	25,911	1,512,085
Increase (decrease) in accounts payable	97,363	669,097	774,683	(194,500)	53,308	(35,326)	25,362
Increase (decrease) in other liabilities	132,965	(393,025)	(1,111,943)	9,216	27,380		128,735
Increase (decrease) in deferred revenue	5,145	61,735					94,260
Increase (decrease) in compensated absences	238,474	367,473	279,216	2,134	34,256		64,579
Increase in self-insurance claims liabilities							1,077,335
Net Cash Provided by (used In) Operating Activities	\$ 4,798,832	\$ 7,790,691	\$ 4,891,815	\$ (1,099,951)	\$ 127,212	\$ 1,609,899	\$ 18,118,498

See accompanying notes to financial statements

City of Oxnard, California

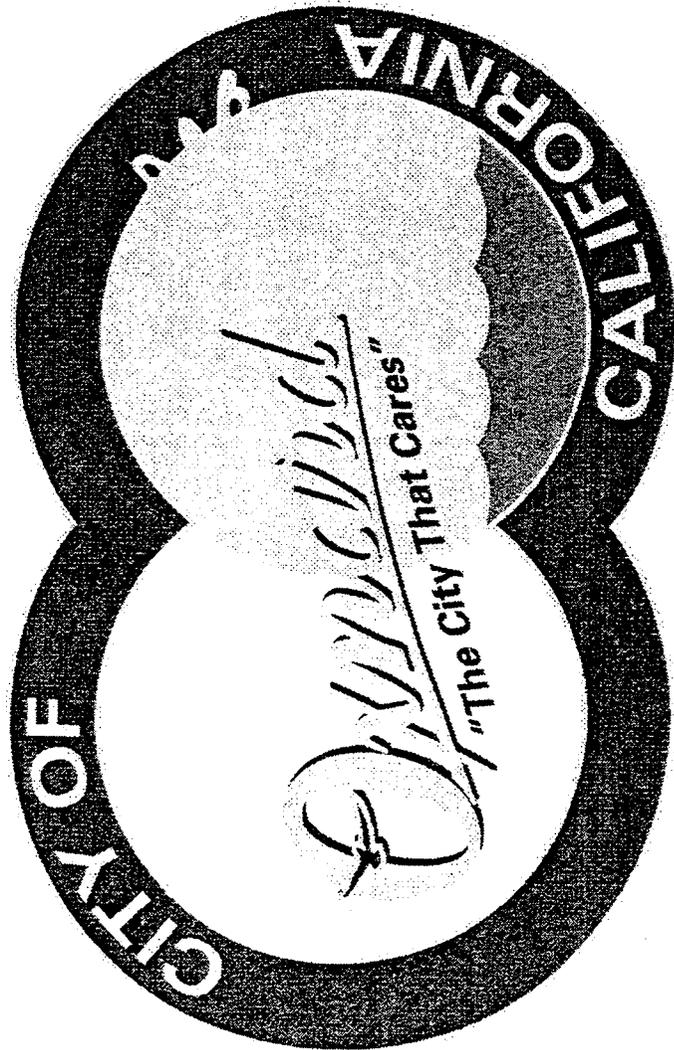
Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

June 30, 2003

Assets:	
Cash and cash equivalent (Note 2)	\$ 12,518,741
Investment with fiscal agent (Note 2)	<u>37,649,738</u>
Total Assets	<u>50,168,479</u>
Liabilities and Fund Balances:	
Liabilities - Other	
Trust and agency Payables	<u>\$50,168,479</u>
Total Liabilities	<u>50,168,479</u>
Net Assets	<u><u>\$ -</u></u>

See accompanying notes to financial statements.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Oxnard, California (City) was incorporated as a general law city on June 30, 1903, and operates under the council-manager form of government. The City is governed by a four-member council elected at large for four-year alternating terms and by a Mayor who is directly elected for a two-year term. Other elected positions include the City Clerk and City Treasurer. The accompanying basic financial statements present the financial position and results of operations of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City. Although these entities are legally separate, the City's elected officials have a continuing financial responsibility and accountability for fiscal matters of these other entities. Financial accountability includes the appointment of governing bodies, budget authority, approval of tax levies and responsibility for funding deficits.

Blended Component Units

City of Oxnard Community Development Commission

The Redevelopment Agency of the City of Oxnard (RDA) was established pursuant to the California Community Redevelopment Law, codified in Part 1 of Division 24 of the California Health and Safety Code. The RDA was activated in 1960 by Ordinance No. 2365 of the City Council. On January 24, 1995, the RDA became the Community Development Commission (CDC). The CDC has continued the RDA's principal activities such as business retention, employment creation, the acquisition of real property for the purpose of removing or preventing blight, for construction or improvements and loaning money for rehabilitation and restoration of properties. The City Council of the City of Oxnard (City Council) acts as the Board of Directors of the CDC. The City of Oxnard is financially accountable for the operations of the CDC through budgetary authority and fiscal management and the City is able to significantly influence operations of the CDC. The funds of CDC have been included in the City's governmental activities in the accompanying government-wide financial statements. The CDC prepares a separate Comprehensive Annual Financial Report (CAFR) and a copy can be obtained from the City's Financial Services Program.

The Oxnard Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital facilities within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sales and may sell such bonds to public or private purchasers at public or negotiated sales. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions of the Authority. The financial service of the Authority are included in the Golf Course Enterprise Fund, Solid Waste Enterprise Fund and Debt Service Fund.

Housing Authority of the City of Oxnard

The Housing Authority of the City of Oxnard (the Authority) was established in April 1945 when City Council adopted an ordinance which was added to the City's Municipal Code. The Authority is a public entity which was organized under the laws of the State of California's Health and Safety Code for the purpose of providing safe, decent and sanitary housing for qualified economically disadvantaged and elderly individuals in areas where a shortage of such housing exists. To accomplish this purpose, the Authority has entered into Annual Contributions Contracts with the U.S. Department of Housing and Urban Development (HUD) to operate assisted housing programs (such as Local Housing Authority Owned Housing, Section 8 and Modernization). City Council serves as the governing board and is therefore responsible for the fiscal and administrative activities of the Authority. The Authority's operations have been included in the City's business-type activities in the accompanying government-wide financial statements. The Authority prepares separate financial statements and a copy can be obtained from the Authority's Financial Services Division.

Basic Financial Statements

In accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34), the City's basic financial statements consist of the following:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to the basic financial statements.

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities. 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.

All of the City's basic services are considered to be governmental activities, including general government, public safety, transportation, community development, culture and leisure, and library services. Property tax, sales tax, transient occupancy tax, franchise tax, business license tax, and development fees financially support most of these activities.

The City's enterprise operations are classified as business-type activities. These operations consist of water, wastewater collection and treatment, solid waste, housing, the River Ridge (Municipal) Golf Course and the Performing Arts and Convention Center.

The statement of activities demonstrates the degree to which expenses (direct and indirect) of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated based on the City's cost allocation plan. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) operating grants and contributions, including special assessments, that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, development growth fees, and other items not properly included among program revenues are reported instead as general revenues.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all the City's assets and liabilities, including capital 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) grants and other contributions; and, (3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances. In the Statement of Activities, net internal service fund transactions have been allocated back to the governmental and business-type activities generating the net income or loss. In the Statement of Net Assets, internal service assets and liabilities have been combined with the governmental funds and presented as governmental activities.

In accordance with GASB 34, a reconciliation of the difference between the fund financial statements and the government-wide financial statements is provided.

The City applies all applicable Governmental Accounting Standards Board (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.

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 with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund Financial Statements

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the major governmental funds and non-major governmental funds aggregated. In accordance with GASB 34 and based on the direction of management and the sole purpose for which a fund is established, the following funds have been determined by management to be the City's major governmental funds:

- ❖ **General Fund:** This fund is always a major and is used to account for all financial resources traditionally associated with government activities which are not required legally to be accounted for in another fund.
- ❖ **Development Fees Fund:** This fund includes fees that the City collects on new development to provide resources for special projects such as parks, storm drainage facilities, traffic improvements, utility undergrounding and community developments. They are reported as general revenue in the Statement of Activities because they are not restricted to meeting the operational or capital requirements of a particular function.
- ❖ **HUD and CDBG Grants Fund:** This fund is used to account for resources to develop viable urban communities, providing decent housing and expanding economic opportunities.
- ❖ **State and Federal Grants Fund:** This fund accounts for the receipts and expenditures of monies received from State and Federal grants-in-aid.

City of Oxnard, California

*Notes to the Basic Financial Statements
June 30, 2003*

- ❖ **Debt Service Fund:** This fund accounts for the accumulation of resources and payments of principal and interest of the City's general long-term debt.
- ❖ **Capital Outlay Fund:** This fund accounts for financing and construction of general government capital projects.
- ❖ **Community Development Commission Fund:** This fund accounts for expenditures incurred on the redevelopment projects, financed primarily from tax increments.

Governmental funds are accounted for using a "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. 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. The City considers revenues available if they are collected within 60 days after year-end. The primary revenue sources, which have been treated as susceptible to accrual by the City are property tax, sales tax, intergovernmental revenues and other taxes. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded in the accounting period in which the related fund liability is incurred and if paid within 60 days of year end, except for unmatured principal and interest on long-term debt, which is recognized when due.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major fund and in the aggregate for the enterprise funds. A column representing Internal Service Funds in total is also presented in these statements.

The proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises wherein the cost of goods and services to the general public are financed or recovered primarily through user charges. In accordance with GASB 34 and based on the direction of management and the sole purpose for which a fund is established, the following enterprise funds have been determined by management to be the City's major funds:

City of Oxnard, California

*Notes to the Basic Financial Statements
June 30, 2003*

- ❖ **Water Fund:** This fund is used to account for all activities of the City's water distribution and treatment system. Revenues are derived mainly from metered water services, connection fees, and installation charges.
- ❖ **Wastewater Fund:** This fund is used to account for all sewer activities related to conveyance and treatment services. Revenues are derived mainly from sewer service charges, connection fees, and treatment plant charges.
- ❖ **Solid Waste Fund:** This fund is used to account for the activities related to collection and disposal of refuse throughout the City.
- ❖ **Performing Arts and Convention Center Fund:** This fund is used to account for the operations and maintenance of the City's Performing Arts and Convention Center.
- ❖ **Oxnard Housing Authority:** This fund is used to account for the receipts and disbursements of funds received from the U.S. Department of Housing and Urban Development (HUD) to provide rental assistance programs for low income residents and senior citizens under Section 8 of the Federal Housing Act of 1937, as amended.
- ❖ **Municipal Golf Course Fund:** This fund is used to account for the operation and maintenance of the City's River Ridge Golf Course.

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 within 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.

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.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. The City's fiduciary funds consist of agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are as follows:

- ❖ **Artworks Fund:** This fund is used to report resources held by the City in a custodial capacity (assets equal liabilities). This fund involves the receipt and remittance of fiduciary resources to private organizations or other agencies.
- ❖ **Improvement Districts Fund:** This fund is used to account for various limited obligation improvement bonds issued by the City, wherein bond proceeds are used to finance land acquisition and public improvements of the various assessment districts within the City. Neither the faith and credit nor the taxing power of the City or any of its political subdivisions is pledged to the payment of the bonds. Property owners within the assessment district are assessed through the County tax bills and the money collected is used to pay off the annual debt service requirements.

B. Budget

The City's annual budget is the legally adopted expenditure control document of the City. Budgets are prepared on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP), except that encumbrances are included in budgeted expenditures.

Appropriations lapse at year-end. The City Council generally reauthorizes appropriations for continuing projects and activities. The City Council has the legal authority to amend the budget of any fund at any time during the fiscal year. The budgetary legal level of control (the level on which expenditures may not legally exceed appropriations) is generally at the department level. For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds (special revenue funds included) are considered a single department. Budgeted expenditures may be reallocated within a division and between divisions within a department without City Council approval. During fiscal year 2003, supplementary budget appropriations of approximately \$20,007,015 were made.

Budgetary comparison statements are required to be presented for the General Fund and all major special revenue funds and are presented as required supplementary information found on pages 69 through 76. These statements compare the original adopted budget, the budget as amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

C. Cash and Investments

Investment Policy

The City's investment policy is intended to provide guidelines for the prudent investment of surplus funds of the City, and to outline the policies for maximizing the efficiency of the City's cash management system. It is the policy of the City to invest public funds in a manner which will provide high investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

The investment policy applies to the City's pooled investment fund which encompasses all monies under the direct oversight of the City Treasurer. These include the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds. Investments shall be made with judgement and care—under circumstances then prevailing—which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," the City's investments are stated at fair value.

The City Treasurer's investment pool is comprised of pooled deposits and investments and the State of California Local Agency Investment Fund (LAIF) investments. The Treasurer's pooled investments are carried at fair value. The fair value is determined utilizing SunGard Securities Systems, the vendor providing investment reporting capability for the City Treasurer's Office, which provides pricing data from multiple industry sources. The fair value of LAIF is determined by allocating the City's share of LAIF's fair value as reported by LAIF.

The LAIF is part of the Pooled Money Investment Account (PMIA). The PMIA began in 1953 and has oversight provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller.

City of Oxnard, California

*Notes to the Basic Financial Statements
June 30, 2003*

The LAIF has oversight by the Local Agency Investment Advisory Board. The board consists of five members as designated by statute. The Chairman is the State Treasurer or his designated representative. Two members qualified by training and experience in the field of investment or finance, and two members who are Treasurers, finance or fiscal officers, or business managers employed by any County, City or local district, or municipal corporation of this state, are appointed by the State Treasurer. LAIF is required to invest in accordance with state statute.

Interest Income

Interest income earned on pooled cash and investments is allocated monthly to the General Fund and those other funds for which such allocation is a legal contractual requirement based on the month-end cash balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund. Changes in the fair value of investments are recognized in interest income at the end of each year.

Income from nonpooled investments is recorded based on the specific investments held by the trustee of the fund. The interest income is recorded in the fund that earned the interest.

Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents include cash in bank and investments held by the City Treasurer in a cash management pool as the amounts are readily available for use by the respective funds.

D. Utility Revenue

Utility revenue is recorded when earned. Customers are billed bimonthly. The estimated value of services provided but unbilled at year-end has been included in the accompanying basic financial statements.

E. Properties Held for Resale

In the Capital Outlay Fund, properties acquired for the Heritage Square office complex are included as properties held for resale, which are carried at the lower of cost or estimated fair value. At June 30, 2003, properties held for resale amounted to \$5,040,057.

F. Capital Assets

The City's assets for governmental and business-type activities are capitalized at historical cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. City policy has set the capitalization threshold at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	45 years
Improvements:	
Paving, curbs, lighting	40 years
Parks Improvements	25 years
Sports Courts	40 years
Landscaping	50 years
Equipment and Machinery	5-20 years

In accordance with GASB 34, the recording of infrastructure assets acquired or constructed prior to July 1, 2001, may be deferred to fiscal year 2006. As a result, the governmental activities column in the accompanying government-wide financial statements as of June 30, 2003, only reflects infrastructure assets acquired or constructed since July 1, 2001.

G. Risk Management

The City provides workers' compensation benefits under a self-insurance program up to \$20 million per year. The City is self-insured for general and property damage liabilities to the extent of the first \$1,000,000 per occurrence and has excess insurance in the layer of \$1 million to \$27 million in FY 2002-2003. The City contracts with outside service agencies to supervise and administer the self-insurance programs. Estimated liabilities related to outstanding workers' compensation and public liability claims (including estimates for incurred but not reported claims) are based upon actuarial studies and are recorded in an internal service fund.

In August 1988, the City adopted a resolution to execute a Joint Powers Agreement (JPA) between five cities, (Huntington Beach, Oxnard, Pomona, San Bernardino and Santa Ana), creating the Big Independent Cities Excess Pool Joint Powers Authority (BICEP), a risk management pool. Through the BICEP insurance pool, the five cities share the cost of catastrophic general liability losses incurred by the members for claims between \$1 million and \$27 million, thereby eliminating the need for individual excess commercial insurance protection. The purpose of this

agreement is to jointly develop and fund excess insurance for comprehensive liability, the purchase of reinsurance, and the provision of necessary administrative services. Such administrative services may include, but shall not be limited to, risk management consulting, loss prevention and control, centralized loss reporting, actuarial consulting, claims adjusting and legal defense service. BICEP is governed by a five-member Board of Directors representing each member city, appointed by the member's City Council and serving at the pleasure of such City Council.

The agreement with BICEP may be terminated at any time provided that no bonds or other obligations of BICEP are outstanding. Upon termination of this agreement, all assets of BICEP shall (after payment of all unpaid costs, expenses and charges incurred under the agreement) be distributed among the parties in accordance with the respective contributions of each participating city.

H. Compensated Absences

Vacation and compensation time pay is recorded as a liability when incurred within the government-wide and proprietary funds financial statements. Sick pay, which does not vest, is recorded in all funds when leave is taken. In accordance with GASB Interpretation No. 6, a liability for these amounts is reported in the governmental funds financial statements only if they have matured and are paid by the City subsequent to year-end.

The accrual for compensated absences comprised the following at June 30, 2003:

	Governmental Activities	Business Type	Total
Beginning Balance	\$ 9,229,287	\$ 1,969,179	\$ 11,198,466
Additions	5,482,537	1,561,705	7,044,242
Payments	(5,146,473)	(1,394,644)	(6,541,117)
Ending Balance	9,565,351	2,136,240	11,701,591
Current Portions	\$ 565,956	\$ 1,390,000	\$ 1,955,956

City of Oxnard, California

*Notes to the Basic Financial Statements
June 30, 2003*

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.

I. Property Taxes

Calendar

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Valuation Date	March 1
Lien/Levy Date	July 1 to June 30
Due Dates	November 1 (first installment) and February 1 (second installment)
Delinquent Dates	December 10 (first installment) and April 10 (second installment), August 3 (unsecured)

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuation

Valuations are established by the Assessor of the County of Ventura (County) for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100 percent of full value. The value of real taxable property is based on fiscal year 1976 levels. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies

The County-wide tax levy for general revenue purposes is limited to 1 percent of full value, for a tax rate of \$1.00 per \$100 of assessed valuation. Tax rates for voter-approved indebtedness prior to passage of Proposition 13 are excluded from this limitation. Taxes are levied in September for both real and unsecured personal property based upon the assessed valuation as of the previous January 1 (lien date).

Under GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*, property taxes are recognized as revenue in the period for which the taxes are levied. Therefore, the City recognizes revenue and a receivable, less any allowance for doubtful accounts deemed appropriate, for the entire tax levy in the period for which the taxes are levied. Accordingly, at June 30, 2003, the City has recorded property taxes receivable of \$563,730, which is included in due from other governments in the accompanying balance sheet.

Tax Lien Dates

All lien dates attach annually on March 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Liens against real estate, and taxes on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections

The County Treasurer-Tax Collector is responsible for all property tax collections. Taxes and assessments on the secured and utility rolls, which constitute a lien against the property, may be paid in two installments: the first installment is due on November 1 of the fiscal year and is delinquent if not paid by December 10; the second installment is due on February 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be paid in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed for late payments.

Tax Apportionments and Special District Augmentation Fund (SDAF)

Due to the nature of the County-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Apportionments to local agencies are made by the County Auditor-Controller based primarily on the ratio that each agency represented of the total County-wide levy for the three years prior to fiscal year 1979. The SDAF was established in order to provide greater flexibility in the allocation of the total levy to special districts under this basic apportionment method. Each special district makes a contribution from its base tax levy apportionment

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

to the SDAF. Oversight governments of the special districts (cities or the County) can then reallocate this pool among special districts based on financing needs.

J. Use of Estimates

The preparation of the City's basic financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and revenues and expenses during the reported period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The City's cash, cash equivalents and investments at June 30, 2003, are reflected in the accompanying basic financial statements as follows:

	Governmental Activities	Business-Type Activities	Statement of Net Assets Total	Fiduciary Funds	Grand Total
Cash and cash equivalents	\$ 117,111,754	\$ 36,471,853	\$ 153,583,607	\$ 12,518,741	\$ 166,102,348
Investments with fiscal agents:					
Restricted	—	6,004,034	6,004,034	32,610,334	38,614,368
Unrestricted	3,350,450	—	3,350,450	5,039,404	8,389,854
Subtotal	3,350,450	6,004,034	9,354,484	37,649,738	47,004,222
Total	\$ 120,462,204	\$ 42,475,887	\$ 162,938,091	\$ 50,168,479	\$ 213,106,570

The following is a summary of the City's cash and cash equivalents and investments at June 30, 2003:

Deposits and cash on hand	\$ 1,721,524
Investments held in trust by Fiscal Agents	47,004,222
Investments managed by the City Treasurer	164,380,824
Total	\$ 213,106,570

City of Oxnard, California

Notes to the Basic Financial Statements

June 30, 2003

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures (see Note 7).

Deposits

At June 30, 2003, the carrying amount of the City's deposits was \$1,721,524, which approximated the bank balance. Of that amount, \$100,000 was covered by federal depository insurance. The remainder of the deposits are collateralized in accordance with State law. The California Government Code requires California banks and savings and loan associations to secure a local governmental agency's (agency) deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits. Such collateral is held by the pledging financial institutions agent of depository and considered to be held in the City's name and has the effect of perfecting a security interest for the City. A perfected security interest is an interest in property, including securities, that is superior to the interest of general creditors. The portion of deposits not covered by federal deposit insurance is classified in category 2.

Authorized Investments

Under provisions of the City's Investment Policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- ❖ Obligations of the United States Treasury, or its Agencies
- ❖ Obligations of the State of California
- ❖ Local Government Bonds
- ❖ Bankers' Acceptances
- ❖ Certificates and Negotiable Certificates of Deposit
- ❖ Commercial Paper
- ❖ Medium Term Corporate Notes
- ❖ Repurchase Agreements
- ❖ Mutual Funds
- ❖ Local Agency Investment Fund (State Pool) Deposits

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

The City's investments are categorized to provide an indication of the level of risk assumed by the City. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured or unregistered investments for which securities are acquired by the broker or dealer, or by its trust department or agent but are not held in the City's name. Investments of the City are summarized as follows:

	Category of Custodial Risk			Carrying Amount at Fair Value
	1	2	3	
<u>Pooled Deposits:</u>				
Cash	\$ 261,623	\$ 1,459,901	\$ —	\$ 1,721,524
<u>Pooled Investments (noncategorized):</u>				
U.S. Treasury/Agency Obligations	77,977,813	—	—	77,977,813
Medium Term Corporate Notes	6,295,625	—	—	\$ 6,295,625
	<u>\$ 84,535,061</u>	<u>\$ 1,459,901</u>	<u>\$ —</u>	<u>\$ 85,994,962</u>
<u>Held in Trust Fiscal Agent:</u>				
U.S. Treasury	\$ —	\$ —	\$ 741,722	\$ 741,722
Guarantee Investment Contract Money Market	—	—	10,459,682	10,459,682
State of California LAJF* (pooled)				5,984,684
Total Cash and Investments				<u>109,925,520</u>
				<u>\$ 213,106,570</u>

* Not subject to categorization

The City did not utilize repurchase agreements during the year ended June 30, 2003, for temporary investment of City funds. The City did not utilize bankers acceptances or mutual funds in the pooled investment fund, even though such investments are authorized in the City's Investment Policy.

3. INTERFUND RECEIVABLES AND PAYABLES

Net interfund receivables and payables between governmental activities and business-type activities of \$690,061 are included in the accompanying Statement of Net Assets as of June 30, 2003, as internal balances.

Total interfund receivables and payables at June 30, 2003, which are included in the Fund Financial Statements as due from/to other funds and advances to/from other funds, before eliminations consist of the following:

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

Fund	Interfund Receivables	Interfund Payables
Governmental Funds:		
Advances to Golf Course Fund	\$ 148,035	\$ —
Due From Other Funds	3,861,852	—
Total General Fund	4,009,887	—
State and Federal Grants Fund	—	513,577
HUD & CDBG Grants	—	257,624
Community Development Commission Fund	—	2,084,687
Capital Outlay	—	247,347
Non-Major Governmental Funds	—	216,591
Total Governmental Funds	4,009,887	3,319,826
Proprietary Funds:		
Water	141,386	—
Solid Waste	105,961	—
Wastewater Fund	170,677	—
Oxnard Housing Authority	248,875	—
Golf Course Fund:		
Advances from General Fund	—	148,035
Water	—	599,948
Performing Arts Center	—	360,102
Oxnard Housing Authority	—	248,875
Total Proprietary Funds	666,899	1,356,960
Total	\$ 4,676,786	\$ 4,676,786

The interfund balances at June 30, 2003, are loans to cover temporary cash deficits in various funds. All interfund balances outstanding at June 30, 2003, are expected to be repaid within one year, except for the advance from the General Fund to the Golf Course Fund in the amount of \$148,035, which will be paid in future annual installments of \$25,000.

City of Oxnard, California

*Notes to the Basic Financial Statements
June 30, 2003*

4. RECEIVABLES AND PAYABLES

Accounts and other receivables as of June 30, 2003, included in the accompanying Statement of Net Assets primarily consist of the following:

	Governmental Activities	Business-Type Activities
Accounts Receivables		
Accrued Interest Receivable	\$ 995,418	\$ —
Utilities Receivables	—	7,358,178
Grants Receivable	44,981	282,853
Loans Receivable	453,896	247,347
Accounts Receivable Billed and Accrued	1,794,067	1,163,071
Other Receivables	420,085	879,815
Sub-total	3,708,447	9,931,264
Allowance for Uncollectible Receivables	(306,484)	(568,698)
Total	\$ 3,401,963	\$ 9,362,566

Accounts payable and other liabilities as of June 30, 2003, primarily consist of the following:

	Governmental Activities	Business-Type Activities
Accounts Payable and Other Liabilities		
Accounts Payable (due to vendors)	\$ 5,745,746	\$ 7,080,457
Other Liabilities:		
Accrued Payroll	9,689,015	—
Other Accrued Expenses	1,000,654	1,477,563
Advances Payable	—	148,035
Other Payables	10,576,762	—
Total Other Liabilities	21,266,431	1,625,598
Total	\$ 27,012,177	\$ 8,706,055

City of Oxnard, California

*Notes to the Basic Financial Statements
June 30, 2003*

Governmental activities record deferred revenue for revenues that are not yet earned as of year end. At June 30, 2003, deferred revenues are comprised of the following:

Governmental Funds:	
Community Development Charges for Services	\$ 4,639,595
Development and Traffic Impact Fees	447,577
Federal Grant Drawdowns Prior to Meeting All Eligibility Requirements	4,183,406
State Grants	4,366,969
Civic Center Development Fees	3,742,549
Total	\$ 17,380,096

5. INTERFUND TRANSFERS

The net transfers of \$1,236,947 from governmental activities to business-type activities in the Statement of Activities primarily relates to operational subsidies from the General Fund to the Golf Course and Performing Arts and Convention Center Enterprise Funds.

The following Transfers In and Out are reflected in the Fund Financial Statements for the year ended June 30, 2003:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ --	\$ (6,378,277)
Development Fees Fund	—	(1,122,900)
Debt Service Fund	3,533,473	—
Capital Outlay Fund	3,455,717	(146,281)
Community Development	—	(416,698)
Total Governmental Funds	6,989,190	(8,064,156)
Proprietary Funds:		
Solid Waste	—	(141,763)
Performing Arts and Convention Center	724,849	—
Oxnard Housing Authority	1,495,126	(1,495,126)
Municipal Golf Course	653,861	—
Internal Service Fund	641,763	(803,744)
Total Proprietary Funds	3,515,599	(2,440,633)
Total	\$ 10,504,789	\$ (10,504,789)

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

The interfund transfers generally fall within one of the following categories: 1) debt service payments made from a debt service fund but funded from an operating fund; 2) subsidy transfers; or, 3) transfers to fund internal service equipment replacement funds. There were no transfers during Fiscal Year 2003 that were either non-routine in nature or inconsistent with the activities of the fund making the transfer.

6. CAPITAL ASSETS

GASB Statement 34 allows the City up to four years to record the historical value of all its prior infrastructure assets. With the implementation of GASB Statement 34, the City recorded current infrastructure additions only at June 30, 2002. Historical values for its prior infrastructure assets will be recorded in fiscal years 2003 through 2006. During fiscal year 2003, the City identified historical infrastructure assets valued at \$14,730,389, which have been added to the beginning Capital Assets Balances.

Changes in the City's capital assets for the year ended June 30, 2003, consisted of the following:

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 24,046,598	\$ —	\$ —	\$ 24,046,598
Construction in Progress	34,623,411	17,265,354	—	51,888,765
	58,670,009	17,265,354	—	75,935,363
Capital Assets, Being Depreciated:				
Land Improvements	1,159,280	—	—	1,159,280
Buildings	29,176,812	5,792,244	—	34,969,056
Improvements Other Than Building	40,568,966	1,848,657	—	42,417,623
Equipment and Machinery	39,001,698	2,817,533	(7,595,285)	34,223,946
Total Capital Assets, Being Depreciated	109,906,756	10,458,434	(7,595,285)	112,769,905
Less Accumulated Depreciation for:				
Land Improvements	(995,680)	(19,180)	—	(1,014,860)
Buildings	(14,505,130)	(769,121)	—	(15,274,251)
Improvements Other Than Building	(4,212,872)	(525,116)	—	(4,737,988)
Equipment and Machinery	(26,987,857)	(2,972,607)	1,752,923	(28,207,541)
Total Accumulated Depreciation	(46,701,539)	(4,286,024)	1,752,923	(49,234,640)
Total Capital Assets, Being Depreciated, Net	63,205,217	6,172,410	(5,842,362)	63,535,265
Sub-total Governmental Activities	121,875,226	23,437,764	(5,842,362)	139,470,628

City of Oxnard, California

**Notes to the Basic Financial Statements
June 30, 2003**

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	20,344,745	1,820,000	--	22,164,745
Construction in Progress	64,935,297	15,165,515	--	80,100,812
Total Capital Assets, Not Being Depreciated	85,280,042	16,985,515	--	102,265,557
Capital Assets, Being Depreciated:				
Buildings	66,166,606	1,501,339	(685)	67,667,260
Improvements Other Than Building	179,363,606	2,309,732	--	181,673,338
Municipal Golf Course Improvements	5,739,567	63,675	--	5,803,242
Equipment and Machinery	39,792,780	1,165,518	(804,186)	40,154,112
Total Capital Assets, Being Depreciated	291,062,559	5,040,264	(804,871)	295,297,952
Less Accumulated Depreciation for:				
Buildings	(35,149,086)	(2,754,878)	--	(37,903,964)
Improvements Other Than Building	(70,693,757)	(3,992,183)	--	(74,685,940)
Municipal Golf Course Improvements	(983,400)	(9,965)	--	(993,365)
Equipment and Machinery	(27,166,263)	(2,679,131)	802,007	(29,043,387)
Total Accumulated Depreciation	(133,992,506)	(9,436,157)	802,007	(142,626,656)
Total Capital Assets, Being Depreciated, Net	157,070,053	0	(2,864)	152,671,296
Sub-total Business-Type Activities	242,350,095	12,589,622	(2,864)	254,936,853
Total	\$ 364,225,321	\$ 36,027,386	\$ (5,845,226)	\$ 394,407,481

For the year ended June 30, 2003, depreciation expense on capital assets was charged to the governmental functions as follows:

Governmental Activities:	\$
Legislative	12,088
Administration and Support Services	1,166,168
Public Safety	1,857,804
Transportation	78,242
Community Development	131,304
Culture and Leisure	265,686
Libraries	103,894
Capital Improvement Projects	364,951
Capital assets held by the City's Internal Service Fund	305,887
	\$ 4,286,024

Internal Service funds predominantly serve the governmental funds. Accordingly, their capital assets are included within governmental activities in the above table.

City of Oxnard, California

**Notes to the Basic Financial Statements
June 30, 2003**

The following is a summary of changes in capital assets for each major enterprise fund for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Water Fund				
Land	\$ 157,144	\$ 720,000	\$ —	\$ 877,144
Buildings	4,227,025	480,000	—	4,707,025
Improvements Other Than Buildings	65,968,406	1,356,735	—	67,325,141
Equipment and Machinery	2,051,736	161,098	63,572	2,149,262
Construction in Progress	21,651,434	7,335,767	—	28,987,201
Total	94,055,745	10,053,600	63,572	104,045,773
Accumulated Depreciation	(32,349,277)	(1,762,232)	(63,572)	(34,047,937)
Total	\$ 61,706,468	\$ 8,291,368	\$ —	\$ 69,997,836
Wastewater Fund				
Land	\$ 4,273,655	\$ —	\$ —	\$ 4,273,655
Buildings	6,380,938	—	—	6,380,938
Improvements Other Than Buildings	113,395,200	952,997	—	114,348,197
Equipment and Machinery	17,146,891	285,193	56,980	17,375,104
Construction in Progress	40,370,813	4,436,150	—	44,806,963
Total	181,567,497	5,674,340	56,980	187,184,857
Accumulated Depreciation	(62,987,859)	(3,803,498)	(56,980)	(66,734,377)
Total	\$ 118,579,638	\$ 1,870,842	\$ —	\$ 120,450,480

Continued -

City of Oxnard, California

**Notes to the Basic Financial Statements
June 30, 2003**

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Solid Waste				
Land	\$ 2,711,166	\$ 1,100,000	\$ —	\$ 3,811,166
Buildings	22,782,735	—	—	22,782,735
Equipment and Machinery	18,991,270	581,963	610,195	18,963,038
Construction in Progress	1,821,236	2,530,295	—	4,351,531
Total	46,306,407	4,212,258	610,195	49,908,470
Accumulated Depreciation	(15,420,934)	(1,719,200)	(668,267)	(16,471,867)
Total	\$ 30,885,473	\$ 2,493,058	\$ (58,072)	\$ 33,436,603
Performing Arts and Convention Center Fund				
Equipment and Machinery	\$ 1,828	\$ —	\$ —	\$ 1,828
Construction in Progress	42,615	—	—	42,615
Total	44,443	—	—	44,443
Accumulated Depreciation	(1,421)	(406)	—	(1,827)
Total	\$ 43,022	\$ (406)	\$ —	\$ 42,616
Oxnard Housing Authority Fund				
Land	\$ 8,920,208	\$ —	\$ —	\$ 8,920,208
Buildings	30,040,499	1,021,339	685	31,061,153
Equipment and Machinery	1,601,055	137,264	73,439	1,664,880
Construction in Progress	260,327	193,724	—	454,051
Total	40,822,089	1,352,327	74,124	42,100,292
Accumulated Depreciation	(20,928,446)	(2,080,070)	(13,188)	(22,995,328)
Total	\$ 19,893,643	\$ (727,743)	\$ 60,936	\$ 19,104,964
Municipal Golf Course Fund				
Land	\$ 4,282,572	\$ —	\$ —	\$ 4,282,572
Buildings	2,735,409	—	—	2,735,409
Golf Course Improvements	5,739,567	63,675	—	5,803,242
Construction in Progress	788,872	669,579	—	1,458,451
Total	13,546,420	733,254	—	14,279,674
Accumulated Depreciation	(2,304,569)	(70,751)	—	(2,375,320)
Total	\$ 11,241,851	\$ 662,503	\$ —	\$ 11,904,354

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

7. LONG-TERM OBLIGATIONS

The following is a summary of changes in the City's long-term obligations for the year ended June 30, 2003:

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003	Amounts Due Within One Year
Governmental Activities:					
Revenue Bonds:					
Lease Revenue Refunding Bonds Series 1993	\$ 6,380,000	\$ —	\$ 6,380,000	\$ —	\$ —
Lease Revenue Refunding Bonds Series 2003	—	7,435,000	—	7,435,000	460,699
Adjustable Rate Taxable Refunding Bonds Series 1993	2,700,000	—	600,000	2,100,000	600,000
1999 Certificates of Participation	8,440,000	—	195,000	8,245,000	200,000
Tax Allocation Refunding Bonds Series 1994A	14,475,000	—	625,000	13,850,000	665,000
Capital Lease:					
HTE Financial System Lease Purchase	328,623	—	161,981	166,642	166,642
Fire Engines Lease Purchase	275,578	—	135,033	140,545	140,545
Compensated Absences	9,229,287	5,482,537	5,146,473	9,565,351	565,956
Notes Payable	343,756	—	13,627	330,129	15,054
Loan Payable	2,705,584	—	2,705,584	—	—
Metropolitan Water District Loan	5,490,393	—	89,258	5,401,135	94,735
Total Governmental Activities	\$ 50,368,221	\$ 12,917,537	\$ 16,051,956	\$ 47,233,802	\$ 2,908,631
Business-Type Activities:					
Revenue Bonds:					
Lease Revenue Refunding Bonds Series 1993	\$ 11,870,000	\$ —	\$ 11,870,000	\$ —	\$ —
Lease Revenue Refunding Bonds Series 2003 - Golf	—	10,950,000	—	10,950,000	678,500
Water Revenue Refunding Bonds Series 2001	12,120,000	—	225,000	11,895,000	235,000
Wastewater Revenue Refunding Bonds Series 1993	45,020,000	—	45,020,000	—	—
Wastewater Revenue Refunding Bonds Series 2003	—	43,785,000	1,805,000	41,980,000	1,750,000
Lease Revenue Refunding Bonds Series 2003 - Solid Waste	—	255,000	—	255,000	15,801
Solid Waste Revenue Bonds Series 1995	19,935,000	—	985,000	18,950,000	1,030,000
Unamortized Discounts	(1,253,961)	—	(900,200)	(353,761)	—
Unamortized Gain or Loss on Refunding	(7,727,601)	—	(4,190,846)	(3,536,755)	—
Sub-total	79,963,438	54,990,000	54,813,954	80,139,484	3,709,301
Capital Lease:					
Residential Trash Collection Vehicles	1,215,752	—	195,395	1,020,357	206,089
Del Norte Blvd. Improvement	—	715,775	30,291	685,484	63,179
Fifth and Del Norte Improvement	—	1,118,330	—	1,118,330	97,583
Compensated Absences	1,969,179	1,561,705	1,394,644	2,136,240	1,390,000
Total Business-Type Activities	83,148,369	58,385,810	56,434,284	85,099,895	5,466,152
Total	\$ 133,516,590	\$ 71,303,347	\$ 72,486,240	\$ 132,333,697	\$ 8,374,783

City of Oxnard, California

**Notes to the Basic Financial Statements
June 30, 2003**

The following is a summary of changes in long-term obligations for each major enterprise fund for the year ended June 30, 2003:

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003	Amounts Due Within One Year
Water Fund					
Revenue Refunding Bonds Series 2001	\$ 12,120,000	\$ —	\$ 225,000	\$ 11,895,000	\$ 235,000
Less: Unamortized Loss on Refunding	(3,672,112)	—	(135,357)	(3,536,755)	—
Unamortized Discounts	(193,054)	—	(7,118)	(185,936)	—
Sub-total	8,254,834	—	82,525	8,172,309	235,000
Compensated Absences	318,057	227,273	168,498	376,832	168,000
Total	\$ 8,572,891	\$ 227,273	\$ 251,023	\$ 8,549,141	\$ 403,000
Wastewater Fund					
Revenue Refunding Bonds Series 1993	\$ 45,020,000	\$ —	\$ 45,020,000	\$ —	\$ —
Lease Revenue Refunding Bonds Series 2003	—	43,785,000	1,805,000	41,980,000	1,750,000
Less: Unamortized Gain or Loss on Refunding	(3,627,331)	—	(3,627,331)	—	—
Unamortized Discounts	(725,747)	—	(725,747)	—	—
Sub-total	40,666,922	43,785,000	42,471,922	41,980,000	1,750,000
Compensated Absences	530,363	485,010	416,999	598,374	400,000
Total	\$ 41,197,285	\$ 44,270,010	\$ 42,888,921	\$ 42,578,374	\$ 2,150,000

Continued -

City of Oxnard, California

**Notes to the Basic Financial Statements
June 30, 2003**

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003	Amounts Due Within One Year
Solid Waste Fund					
Revenue Refunding Bonds Series 1995	\$ 19,935,000	\$ —	\$ 985,000	\$ 18,950,000	\$ 1,030,000
Lease Revenue Refunding Bonds 2003	—	255,000	—	255,000	15,801
Less: Unamortized Discounts	(181,525)	—	(13,700)	(167,825)	—
Sub-total	19,753,475	255,000	971,300	19,037,175	1,045,801
Capital Lease	1,215,752	—	195,395	1,020,357	206,089
Del Norte Blvd. Improvement	—	715,775	30,291	685,484	63,179
Fifth and Del Norte	—	1,118,330	—	1,118,330	97,583
Compensated Absences	487,661	421,179	417,294	491,546	430,000
Total	\$ 21,456,888	\$ 2,510,284	\$ 1,614,280	\$ 22,352,892	\$ 1,842,652
Performing Arts and Convention Center Fund					
Compensated Absences	\$ 48,894	\$ 43,801	\$ 41,667	\$ 51,028	\$ 42,000
Total	\$ 48,894	\$ 43,801	\$ 41,667	\$ 51,028	\$ 42,000
Oxnard Housing Authority Fund					
Compensated Absences	\$ 584,204	\$ 384,442	\$ 350,186	\$ 618,460	\$ 350,000
Total	\$ 584,204	\$ 384,442	\$ 350,186	\$ 618,460	\$ 350,000
Municipal Golf Course					
Lease Revenue Refunding Bonds Series 1993	\$ 11,870,000	\$ —	\$ 11,870,000	\$ —	\$ —
Lease Revenue Refunding Bonds Series 2003	—	10,950,000	—	10,950,000	678,500
Less: Unamortized Loss on Refunding	(428,158)	—	(428,158)	—	—
Unamortized Discounts	(153,635)	—	(153,635)	—	—
Total	\$ 11,288,207	\$ 10,950,000	\$ 11,288,207	\$ 10,950,000	\$ 678,500

Lease Revenue Refunding Bonds 2003 Series A

The Lease Revenue Refunding Bonds 2003 Series A are a thirteen year bond issue with a net interest cost of 3.5904 percent. The bonds were issued to refinance the outstanding Lease Revenue Refunding Bonds Series 1993 for the 1988 Civic Center Library bonds, the 1986 River Ridge Golf Course bonds, the land acquisition bonds, the 1966 auditorium authority bonds and the 1972 parking authority, and to prepay the Zion Bank leases for the Old Oxnard High School and 300 West Third Street. The refunding resulted in an economic gain of \$921,361 and an overall cash savings of \$4,922,193. The bonds were issued on May 22, 2003, with an original amount of \$18,640,000, maturing in various amounts through June 1, 2016. The total balance outstanding as of June 30, 2003 is \$18,640,000, of which \$7,435,000 is recorded within governmental activities and \$11,205,000 is recorded within business-type activities in the accompanying statement of net assets.

Adjustable Rate Taxable Refunding Bonds Series 1993

The Adjustable Rate Taxable Refunding Series 1993 were issued on November 10, 1993 with an original amount of \$7,700,000. These bonds had a variable interest rate ranging from 1.35 to 6.80 percent over the life of the bond. For FY 2002-2003, the variable interest rate ranged from 1.35 to 2.25 percent, maturing in various amounts through June 1, 2006. The bonds were issued to refinance outstanding bonds for the 1985 public parking bonds. The balance outstanding and recorded as governmental activities as of June 30, 2003 is \$2,100,000.

1999 Certificates of Participation

The 1999 Certificates of Participation are thirty-year bonds that were issued on January 26, 1999 with an original amount of \$8,980,000 and a net interest cost of 5.04 percent. The balance outstanding and recorded as governmental activities as of June 30, 2003 is \$8,245,000.

Tax Allocation Refunding Bonds Series 1994A

On May 5, 1994, the City issued tax allocation refunding bonds in the amount of \$18,580,000. These bonds bear interest of 6.85 percent and mature on September 1, 2016. The balance outstanding and recorded as governmental activities as of June 30, 2003 is \$13,850,000.

Water Revenue Refunding and Project Bonds, Series 2001

On July 17, 2001, the City of Oxnard Financing Authority issued \$12,410,000 of Water Revenue Refunding and Project Bonds, Series 2001 with interest rate of 5.1057 percent, maturing on June 1, 2030. The proceeds from the sale of the bonds were used to refund the total outstanding principal amount of \$5,391,884 of the Water Revenue Bonds Series 1993 and the Water Capital Appreciation Bonds and to finance the cost of construction of the 2001 project. The advance refunding resulted in an economic gain of \$1,373,201 (difference between the present value of the old bonds and the present value of the new bonds), which is being amortized over the life of the original bonds, and cash flow savings of \$5,796,073. The outstanding balance on the new bonds as of June 30, 2003 is \$11,895,000.

The 2001 Project includes improvements to the City's Blending Station No. 1 Disinfection System; replacement of cast iron pipe in the City's downtown area; an upgrade of the City's Blending Station No. 1 to improve its energy efficiency; improvements to the City's Automated Meter Reading Program; replacement and upgrade of existing pipeline corrosion protection systems; and, the rehabilitation of certain water wells.

City of Oxnard, California

*Notes to the Basic Financial Statements
June 30, 2003*

Wastewater Revenue Refunding Bonds Series 2003

The Wastewater Revenue Refunding Bonds Series 2003 are a seventeen year bond issue with a net interest cost of 4.183 percent. The bonds were issued to refinance the Wastewater Revenue Refunding Bonds Series 1993 outstanding balances related to the 1986 Wastewater Treatment Plant Expansion Bonds, 1985 Wastewater Treatment Plant Expansion Land Bonds and the 1977 Oxnard Port Hueneme Regional Wastewater Treatment Authority bonds. The bonds were issued on April 1, 2003 with an original amount of \$43,785,000, maturing in various amounts through June 1, 2020. The outstanding balance as of June 30, 2003 is \$41,980,000. The current refunding resulted in an economic gain of \$3,923,503 (difference between the present value of the old bonds and the present value of the new bonds) and a cash flow savings of \$4,922,193.

Solid Waste Revenue Bonds Series 1995

The Solid Waste Revenue Bonds Series 1995 are a twenty-year bond issue with a net interest cost of 5.844 percent. The bonds were issued to finance the construction of the Del Norte Regional Recycling and Transfer Station. The bonds were issued on September 21, 1995 with an original amount of \$25,000,000, maturing in various amounts through May 1, 2016. The outstanding balance as of June 30, 2003 is \$18,950,000.

The annual debt service requirements are shown below for all long-term debt except installment purchase obligations:

For the Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 1,925,730	\$ 1,677,027	\$ 3,709,270	\$ 4,002,720
2005	2,090,702	1,578,748	3,854,298	3,862,959
2006	2,259,664	1,465,582	4,010,336	3,707,901
2007	1,528,625	1,342,244	4,166,375	3,548,009
2008	1,620,565	1,259,832	4,116,935	3,352,410
2009-2013	15,250,144	4,863,375	21,228,102	13,711,667
2014-2018	8,510,834	2,040,997	25,114,168	6,986,740
2019-2023	1,870,000	817,475	9,290,000	2,078,813
2024-2028	2,305,000	338,437	3,155,000	879,488
2029-2030	—	—	1,495,000	115,825
Totals	\$ 37,361,264	\$ 15,383,717	\$ 80,139,484	\$ 42,246,532

City of Oxnard, California

**Notes to the Basic Financial Statements
June 30, 2003**

Fiscal Year	Water Revenue Refunding Bonds - Series 2003		Wastewater Revenue Refunding Bonds - Series 2003	
	Principal	Interest	Principal	Interest
2004	\$ 235,000	\$ 571,196	\$ 1,750,000	\$ 1,917,613
2005	245,000	561,796	1,815,000	1,852,612
2006	255,000	551,997	1,885,000	1,785,013
2007	265,000	541,796	1,950,000	1,717,612
2008	275,000	531,196	2,035,000	1,631,613
2009-2013	1,560,000	2,477,913	11,340,000	6,996,312
2014-2018	1,940,000	2,092,337	14,385,000	3,954,638
2019-2023	2,470,000	1,563,063	6,820,000	515,750
2024-2028	3,155,000	879,488	—	—
2029-2030	1,495,000	115,825	—	—
Totals	\$ 11,895,000	\$ 9,886,607	\$ 41,980,000	\$ 20,371,163

Fiscal Year	Solid Waste Revenue Bonds - Series 1995		Lease Revenue Refunding Bonds Series 2003		Adjustable Rate Taxable Refunding Bonds - Series 1993	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,030,000	\$ 1,096,965	\$ 1,155,000	\$ 694,910	\$ 600,000	\$ 131,250
2005	1,085,000	1,045,465	1,180,000	671,810	700,000	93,750
2006	1,140,000	989,045	1,215,000	636,410	800,000	50,000
2007	1,200,000	928,625	1,250,000	599,960	—	—
2008	1,290,000	859,625	1,305,000	549,960	—	—
2009-2013	7,515,000	3,104,450	7,380,000	1,888,320	—	—
2014-2016	5,690,000	696,300	5,155,000	405,775	—	—
Totals	\$ 18,950,000	\$ 8,720,475	\$ 18,640,000	\$ 5,447,145	\$ 2,100,000	\$ 275,000

City of Oxnard, California

**Notes to the Basic Financial Statements
June 30, 2003**

Fiscal Year	1999 Certificates of Participation		Tax Allocation Refunding Bonds Series 1994A	
	Principal	Interest	Principal	Interest
2004	\$ 200,000	\$ 377,963	\$ 665,000	\$ 889,850
2005	210,000	370,462	710,000	845,812
2006	215,000	362,168	760,000	798,850
2007	225,000	353,460	805,000	748,800
2008	235,000	344,348	865,000	695,500
2009-2013	1,330,000	1,564,597	5,245,000	2,543,450
2014-2018	1,655,000	1,234,700	4,800,000	643,987
2019-2023	1,870,000	817,475	—	—
2024-2028	2,305,000	338,437	—	—
Totals	\$ 8,245,000	\$ 5,763,610	\$ 13,850,000	\$ 7,166,249

Capital Lease Obligations

On May 5, 1998, the City entered into a Lease Purchase agreement with Santa Barbara Bank and Trust in the amount of \$909,442, for the purpose of purchasing the HTE Financial System hardware and software; with interest rate of 4.69 percent; final maturity on November 1, 2003. The outstanding balance as of June 30, 2003 is \$166,642.

In December 1996, the City entered into a Lease Purchase agreement with Midwest Bankers Group in the amount of \$850,000, for the purpose of purchasing four Triple Combination Pumper Fire Trucks; with interest rate of 4.03 percent; final maturity on August 1, 2003. The outstanding balance as of June 30, 2003 is \$140,545.

On September 12, 2000, the City entered into a Lease Purchase agreement with Municipal Finance Corporation for the acquisition of twelve residential trash collection vehicles. The lease bears an interest rate of 5.4 percent with final maturity on September 12, 2007. The outstanding balance as of June 30, 2003 is \$1,020,357.

On February 7, 2003, the City entered into a Lease Purchase agreement with Zions Bank in the amount of \$1,118,330 for the purpose of purchasing Fifth /Del Norte Land Purchase, with an interest rate of 5.00 percent; final maturity on June 1, 2013. The Outstanding balance as of June 30, 2003, is \$1,118,330.

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

On October 28, 2002, the City entered into a lease purchase agreement, line of credit with Zions Bank in the amount of \$715,575, for the purpose of Del Norte Boulevard improvements, with variable interest rate, based upon a projected interest rate of 5.0 percent, final maturity on December 1, 2012. The Outstanding balance as of June 30, 2003, is \$685,484.

The annual debt service requirements by year for the Capital Leases are as follows:

Fiscal Year	HTE Financial System		Fire Trucks		Residential Trash Collection Vehicles	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 166,642	\$ 5,991	\$ 140,545	\$ 5,736	\$ 206,089	\$ 52,354
2005	—	—	—	—	217,368	41,075
2006	—	—	—	—	229,264	29,179
2007	—	—	—	—	241,812	16,631
2008	—	—	—	—	125,824	3,397
Totals	\$ 166,642	\$ 5,991	\$ 140,545	\$ 5,736	\$ 1,020,357	\$ 142,636

Notes and Loans Payable

In May 1988, the Commission purchased a building in exchange for a note. The note payable is secured by deeds of trust on real property and bears interest from 5.35 percent to 11.5 percent. The note matures at various times through March 14, 2006. At June 30, 2003, the outstanding balance was \$330,129.

On August 3, 1998, the Commission purchased property from the Metropolitan Water District of Southern California in exchange for a promissory note. The note is secured by deeds of trust on real property and bears interest at 6 percent per annum. The note matures at various times through December 2028. At June 30, 2003, the outstanding balance was \$5,401,135.

City of Oxnard, California

**Notes to the Basic Financial Statements
June 30, 2003**

The annual debt service requirement for notes and loans payable are as follows:

Fiscal Year	Notes Payable - Brown Building		Metropolitan Water District Loan	
	Principal	Interest	Principal	Interest
2004	\$ 15,054	\$ 32,335	\$ 94,735	\$ 321,963
2005	16,630	30,759	100,548	316,150
2006	298,445	21,936	106,718	309,980
2007	—	—	113,267	303,431
2008	—	—	120,217	296,481
2009-13	—	—	721,222	1,362,268
2014-18	—	—	971,381	1,112,109
2019-23	—	—	1,308,309	775,181
2024-2028	—	—	1,864,738	322,927
Totals	\$ 330,129	\$ 85,030	\$ 5,401,135	\$ 5,120,490

The City's management believes it is in compliance with all significant covenants related to its debt issues as of June 30, 2003.

Compensated Absences

The long-term portion of the liability was \$8,999,395 for governmental activities and \$746,240 for business-type activities at June 30, 2003, which is expected to be paid in future years from future resources.

Special Assessment Bonds

There are various 1915 Act Improvement Districts and Mello-Roos Community Facilities Act of 1982, within the City, which have issued special assessment or special tax debt. The debt is secured by liens or special taxes on the properties in the districts and is paid by the property owners. The City is not liable under any circumstance for the repayment of the debt, but is only acting as agent for the property owners in collecting the assessments and special taxes, forwarding the collections to fiscal agents to pay the bondholders, and initiating foreclosure proceedings, if appropriate.

Accordingly, such special assessment debt is not reflected in the accompanying basic financial statements. Special assessment debt outstanding at June 30, 2003, is as follows:

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

Hueneme Road Assessment District:	
1915 Act Improvement Bonds issued May 29, 1985; original amount \$5,657,485.84; interest rate that varies with maximum rate of 9.8%; maturity 2005	\$ 1,570,000
Mandalay Bay Reassessment District:	
1915 Act Improvement Bonds issued April 24, 1987; original amount \$6,250,000; maximum rate 7.4%; due 2007	2,680,000
Rose/Santa Clara Assessment District:	
1915 Act Improvement Bonds issued August 14, 1986 with original amount \$13,170,000; maximum rate 8.25%; due 2006	3,235,000
Rice Avenue/Highway 101 Assessment District:	
1915 Act Limited Obligation Bonds issued August 27, 2002 with original amount \$15,125,000; maximum rate of 5.70%; maturing in varying amounts through 2032	14,640,000
Rose Avenue/Highway 101 Assessment District:	
1915 Act Improvement Bonds issued November 1, 1996; original amount \$8,560,000; average rate of 5.50%; maturing in 2016	6,910,000
Pacific Commerce Center Assessment District:	
1915 Act Improvement Bonds issued November 1, 1996; original amount \$31,120,000; average rate of 5.17%; maturing in 2006	14,145,000
City of Oxnard Community Facilities District I:	9,740,000
City of Oxnard Community Facilities District 88-1:	1,935,000
Oxnard Boulevard Interchange Community District:	10,490,000
	<u>\$ 65,345,000</u>

Total

8. DEFINED BENEFIT PENSION PLAN

A. Retirement Plan Description - PERS

The City contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer, public employee defined benefit plan, that acts as a common investment and administrative agent for participating public entities within the State of California. The City's membership is reported within three plans classified into two categories: safety members (police and fire) and miscellaneous members (all other regular employees). The City's payroll for employees covered by PERS for the year ended June 30, 2003, was \$59,674,646; the City's total payroll was \$64,199,047. PERS issues a separate comprehensive annual financial report. Copies of PERS' annual financial report may be obtained from the PERS Executive Office, 400 "P" Street, Sacramento, CA 95814.

All personnel are eligible to participate in PERS. Benefits vest after five years of service. Employees who retire at or after age 50 with five years of credited service are entitled to retirement benefits. Monthly retirement benefits are payable for life in an amount equal to a specified percentage (ranging from 1.426 percent for employees who retire at age 50 to 2.418 percent for employees who retire at age 63 or over) for miscellaneous employees and 3 percent for police employees at age 50 and fire employees at age 55. The benefits are calculated at the highest consecutive 12 months for miscellaneous employees and safety employees.

Required employee contributions to PERS are 7 percent of compensation for miscellaneous employees and 9 percent of compensation for safety employees, which the City currently pays for regular employees. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration.

PERS uses a modification of the entry age normal actuarial cost method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

Annual Pension Cost

For fiscal year 2003, the City's annual pension cost (APC) of \$7,132,411 for PERS was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2001, revised actuarial assumptions and retain the entry age actuarial cost method.

Significant actuarial assumptions across all three plans included (a) 8.25 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.75 percent to 14.2 percent (for miscellaneous employees) and from 4.27 percent to 11.59 percent (for safety employees) and that vary based on the duration of service and type of employment, and (c) 3.75 percent per year across-the-board real salary increases. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003, was five years for prior service unfunded and sixteen years for remaining unfunded.

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

Contributions to PERS for the Fiscal Year ended June 30, 2003, are shown below:

	<u>City Contributions</u>	<u>Employee Contributions</u>	<u>Total</u>
Safety employees:			
Police	\$ 2,367,389	\$ 1,299,018	\$ 3,666,407
Fire	175,085	558,187	733,272
Total safety employees	2,542,474	1,857,205	4,399,679
Miscellaneous employees	—	2,732,732	2,732,732
Total	<u>\$ 2,542,474</u>	<u>\$ 4,589,937</u>	<u>\$ 7,132,411</u>

B. Retirement Plan Description - PARS

The City of Oxnard has entered into an agreement with the Public Agency Retirement System (PARS), not affiliated with PERS, to extend enhanced retirement benefits to selected groups of miscellaneous employees (non-safety). PARS offers a flexible retirement enhancement package in addition to PERS. Participating in PARS are SEIU, IUOE, unrepresented management, and one of the two groups of confidential employees. The City began participating in the program as of the second payroll in 2003. The City's payroll for employees covered by PARS for the year ended June 30, 2003, was \$14,217,158. PARS issues a separate comprehensive annual financial report. Copies of PARS' annual financial report may be obtained from the PARS Executive Office, 3961 MacArthur Boulevard, Suite 200, Newport Beach, CA 92660.

The PARS enhanced retirement is a defined plan to supplement PERS. The supplement is to obtain a combined retirement benefit equal to the PERS 3 percent age 60 retirement benefit. Employees who retire at or after age 50 with five years of credited service are entitled to retirement benefits supplemented by PARS. Monthly benefits are payable for life in an amount equal to a specified percentage. This benefit increase the PERS benefit plan from 1.426 percent for employees who retire at age 50 to 2.000 percent; and increases the PERS benefit plan from 2.262 percent for employees who retire at age 60 to 3.000 percent.

Required contributions to PARS are 8 percent for eligible employees. The City pays a portion of this cost (0 to 3 percent) based upon the employee group. The City contributes the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by Milliman USA Actuarial Consultants to PARS.

PARS uses an entry age normal actuarial cost method, which is a projected benefit cost method. The chief characteristics of project benefits methods is that the actuarial present value of all plan benefits is determined as of the valuation date and then allocated between the period before and after the valuation date. The present value of plan benefits earned prior to the valuation date is called the actuarial liability. The present value of plan benefits to be earned after the valuation date is called the present value of future normal costs.

Annual Pension Costs

PARS will issue an actuarial study after the City has participated in the plan for a two-year period.

Contributions to PARS for the fiscal year ended June 30, 2003 are shown below:

	<u>City</u>	<u>Employee</u>	<u>Total</u>
	<u>Contributions</u>	<u>Contributions</u>	<u></u>
Miscellaneous employees	<u>\$ 373,911</u>	<u>\$ 1,137,373</u>	<u>\$ 1,511,284</u>

9. POSTEMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides postemployment health care benefits to all retired employees in accordance with the California Public Employees' retirement law (Section No. 22825). The City pays a maximum of \$16.00 per month per retiree, as long as the retiree remains in a City-sponsored health plan. The benefits are funded on a pay-as-you-go basis. Postemployment health care benefits for the year ended June 30, 2003, totaled \$37,056. Currently, 197 retirees are enrolled and eligible to receive this benefit.

10. COMMITMENT AND CONTINGENCIES

There are various lawsuits and claims pending against the City. In the opinion of the City Attorney and management, none of these cases, nor the aggregate thereof, represents any substantial exposure to the City. At June 30, 2003, the City has recorded a general litigation reserve of \$1,000,000 to cover any potential exposure, which has been recorded within self-insurance claims liabilities in the accompanying basic financial statements.

City of Oxnard, California

*Notes to the Basic Financial Statements
June 30, 2003*

The City has received several Federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to request for reimbursements to grantor agencies for expenditures disallowed under terms of the grant. Based upon prior experience, the City believes such disallowance, if any, would be immaterial.

11. FUND BALANCE-GOVERNMENTAL FUNDS

The restricted revenues of \$235,362 are restricted for capital improvements related to development. The following is a summary of reserved and unreserved fund balances at June 30, 2003:

	General	Development Fees Fund	State and Federal Grants Fund	Debt Services Fund	Capital Outlay Fund	Community Development Commission Fund	Non-Major Governmental Funds	Total
Reserved Fund Balance:								
Encumbrances	\$ 291,897	\$ —	\$ —	\$ —	\$ —	\$ 802,120	\$ —	\$ 1,094,017
Receivables	—	—	1,155,146	—	—	456,931	—	1,612,077
Repayment of Debt	—	—	—	796,691	—	—	—	796,691
Advances	2,575,623	—	—	—	—	—	—	2,575,623
Restricted Revenue	—	235,362	—	—	—	—	—	235,362
Carryover Savings	344,077	—	—	—	—	—	—	344,077
Properties Held for Resale	—	—	—	—	—	5,040,057	—	5,040,057
Total Reserved	3,211,597	235,362	1,155,146	796,691	—	6,299,108	—	11,697,904
Unreserved Fund Balance:								
Authorized Projects	—	—	—	—	8,150,699	4,823,303	—	12,974,002
Undesignated	24,597,396	31,807,760	7,353,234	—	—	—	6,653,080	70,411,470
Total Unreserved	24,597,396	31,807,760	7,353,234	—	8,150,699	4,823,303	6,653,080	83,385,472
Total Fund Balances	\$ 27,808,993	\$ 32,043,122	\$ 8,508,380	\$ 796,691	\$ 8,150,699	\$ 11,122,411	\$ 6,653,080	\$ 95,083,376

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

12. NET ASSETS - PROPRIETARY FUNDS AND GOVERNMENTAL ACTIVITIES

The following is a summary of net assets (restricted and unrestricted) which are included in the Fund Financial Statements for proprietary funds at June 30, 2003:

	Enterprise Funds							Total	Governmental Activities - Internal Service Funds
	Water	Wastewater	Solid Waste	Performing Arts and Convention Center	Housing Authority	Municipal Golf Course			
Invested in Capital Assets (Net of Related Debt)	\$ 61,825,527	\$ 78,470,480	\$ 11,575,257	\$ 42,616	\$ 19,104,964	\$ 954,354	\$ 171,973,198	\$ 549,408	
Restricted:									
Repayment of Debt	809,103	—	1,342,653	—	—	562,847	2,714,603	—	
Total Restricted	809,103	—	1,342,653	—	—	562,847	2,714,603	—	
Unrestricted:									
Capital Assets Replacements	—	—	—	—	—	—	—	—	
Authorized Projects	—	—	—	—	—	—	—	—	
Undesignated	432,874	32,526,750	3,208,595	(434,014)	1,892,940	1,399,983	39,027,128	(3,817,196)	
Total Unrestricted	432,874	32,526,750	3,208,595	(434,014)	1,892,940	1,399,983	39,027,128	(3,817,196)	
Total Net Assets	\$ 63,067,504	\$ 110,997,230	\$ 16,126,505	\$ (391,398)	\$ 20,997,904	\$ 2,917,184	\$ 213,714,929	\$ (3,267,788)	

13. RISK MANAGEMENT

General Liability

The City is self-insured for general liability claims up to \$1 million. The City is covered through BICEP for claims between \$1 million and \$27 million. Self-insured general liability claims are administered through a claims adjuster, with the City Attorney's approval for larger settlements. Litigated claims are settled directly through the City Attorney's office.

The City's contribution to BICEP for general liability coverage in Fiscal Year 2003 was \$507,775 including \$98,377 of debt service and a pure premium adjustment of \$30,829.

Workers' Compensation

The City is also self-insured for workers' compensation claims up to \$500,000. For claims over \$500,000, the City has purchased excess workers' compensation insurance from BICEP. The claims are processed by a third party administrator similar to the general liability claims.

Within the City's self-insured program for workers' compensation, there has been an average of 304 claims per year filed for the past four years, with an average of approximately \$4,008,923 per year in total reported losses as of June 30, 2003, (at an average of \$13,176 per claim). During the same four-year period, the average claims filed each year for general liability amounted to 223 claims totaling \$1,572,116 per year (at an average of \$7,049 per claim). In addition, there have been no insurance settlements that have exceeded the City's insurance coverage for each of the past three years.

All funds of the City participate in the program and make payments to an internal service fund on the basis of loss experience and exposure. The total unpaid claims and claims adjustment expense liability (long-term obligations) of \$14,008,387 (Workers' Compensation-\$8,623,941 and Public Liability and Property Damage-\$5,384,446) recorded at June 30, 2003, is based on results of actuarial studies and includes an estimate for claims incurred but not reported at the balance sheet date. Claims liabilities are calculated considering the effects of inflation, recent claims settlement trends including frequency and amount of payouts and other economic and societal factors. General liability and workers' compensation liabilities are carried at present value using a discount rate of 3.0 percent. In addition, the City is in compliance with the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

City of Oxnard, California

Notes to the Basic Financial Statements
June 30, 2003

The following schedule presents the changes in self-insurance claims liabilities for the past two years for the Workers' Compensation Fund and Public Liability and Property Damage Fund:

	Workers' Compensation		Public Liability and Property Damage		Total
	FY 02-03	FY 01-02	FY 02-03	FY 01-02	
Unpaid claims and claims adjustment expenses - July 1	\$ 8,881,936	\$ 6,830,842	\$ 4,049,116	\$ 4,160,056	\$ 10,990,898
Inurred claims and claims adjustment expenses: Provision for insured events of the current fiscal year	2,848,862	2,157,451	1,996,923	1,768,124	4,845,785
Increase/Decrease in provision for insured events of prior fiscal years	1,106,511	3,456,384	1,559,672	797,825	4,254,209
Total incurred claims and claims adjustment expenses	3,955,373	5,613,835	3,556,595	2,565,949	8,179,784
Payments:					
Attributable to insured events of the current fiscal year	599,495	540,430	334,080	980,889	933,575
Attributable to insured events of prior fiscal years	3,613,873	3,022,311	1,887,185	1,696,000	5,501,058
Total payments	4,213,368	3,562,741	2,221,265	2,676,889	6,434,633
Unpaid claims and claims adjustment expenses - June 30	\$ 8,623,941	\$ 8,881,936	\$ 5,384,446	\$ 4,049,116	\$ 14,008,387

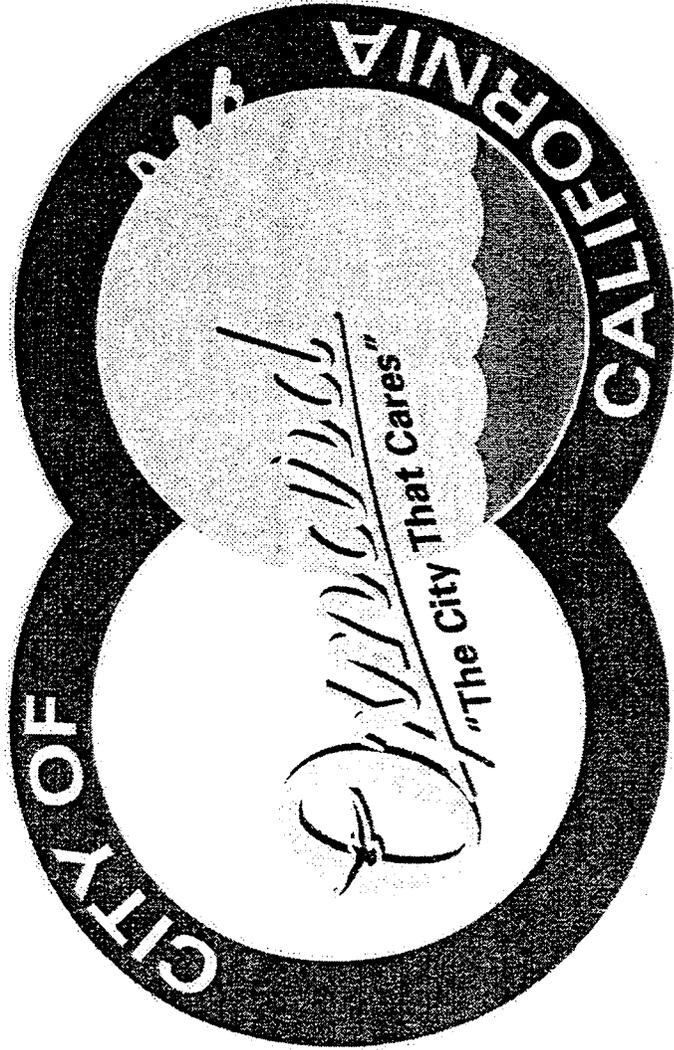
14. ACCUMULATED FUND DEFICITS

As of June 30, 2003, the City has fund deficits in the Performing Arts and Convention Center of \$391,398, in the Workers' Compensation Fund of \$6,157,251, in the Traffic Safety Fund of \$233,133, and in the Equipment Maintenance Fund of \$208,886. The City intends to eliminate these deficits through increased user charges in future years.

15. SUBSEQUENT EVENTS

On August 14, 2003, the City of Oxnard issued the Assessment District No. 2000-1 (Oxnard Boulevard /Highway 101 Interchange) Limited Obligation Improvement Bonds in the amount \$2,335,000. The bonds are to finance a portion of the costs of (i) certain freeway interchange and other road improvements of special benefit to property within the City's Assessment District No. 2000-1; (ii) to pay costs related to the issuance of the bonds; and (iii) to make a deposit to a reserve fund for the bonds.

**REQUIRED SUPPLEMENTAL
INFORMATION
(Unaudited)**



City of Oxnard, California

**General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis
For Fiscal Year Ended June 30, 2003
(Unaudited)**

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues					
Taxes:					
Property Tax	\$ 14,597,100	—	\$ 14,597,100	\$ 16,041,009	\$ 1,443,909
Sales Tax	18,900,000	—	18,900,000	20,775,896	1,875,896
Transient Occupancy Tax	2,800,000	—	2,800,000	2,247,831	(552,169)
Other Taxes:					
Franchise Tax	5,405,500	100,000	5,505,500	2,830,461	(2,675,039)
Business License (Net of Refund)	2,700,000	2,300	2,702,300	3,366,003	663,703
Deed Transfer Tax	500,000	—	500,000	849,413	349,413
Total Other Taxes	8,605,500	102,300	8,707,800	7,045,877	(1,661,923)
Penalties/Interest on Delinquencies	140,000	—	140,000	190,546	50,546
Total Taxes	45,042,600	102,300	45,144,900	46,301,159	1,156,259
Licenses and Permits	2,299,160	457,480	2,756,640	2,862,475	105,835
Intergovernmental					
State Shared Revenue:					
Homeowners Property Tax Relief	350,000	—	350,000	223,242	(126,758)
State Mandated Reimbursement - SB 90	260,000	—	260,000	—	(260,000)
Motor Vehicle In Lieu of Tax	9,000,000	—	9,000,000	10,383,004	1,383,004
Off Highway Vehicle In Lieu of Tax	4,000	—	4,000	4,808	808
Public Safety Augmentation	885,000	—	885,000	939,367	54,367
AB 1191	125,000	—	125,000	80,589	(44,411)
Total State Share Revenues	10,624,000	—	10,624,000	11,631,010	1,007,010
Local Shared Revenue					
Infrastructure Use Revenues	1,809,146	—	1,809,146	1,809,146	—
Indirect Cost Reimbursements	3,491,026	—	3,491,026	3,682,694	191,668
Total Local Shared Revenues	5,300,172	—	5,300,172	5,491,840	191,668
Total Intergovernmental	15,924,172	—	15,924,172	17,122,850	1,198,678

Continued -

City of Oxnard, California

**General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis (Continued)
For Fiscal Year Ended June 30, 2003
(Unaudited)**

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Charges for Services:					
General Government	157,930	—	157,930	206,264	48,334
Public Safety	1,067,832	—	1,067,832	1,640,086	572,254
Parks and Recreation	1,001,013	—	1,001,013	788,041	(212,972)
Community Development	1,729,180	51,664	1,780,844	2,710,700	929,856
Other Current Service Charges	711,300	—	711,300	903,341	192,041
Tipping Fees	110,000	—	110,000	110,000	—
Miscellaneous Service Charges	204,650	—	204,650	271,862	67,212
Services to Other Programs	2,800,330	65,500	2,865,830	2,941,924	76,094
Total Charges for Services	7,782,235	117,164	7,899,399	9,572,218	1,672,819
Fines and Forfeitures:					
Parking Fines	167,500	—	167,500	546,710	379,210
Total Fines and Forfeitures	167,500	—	167,500	546,710	379,210
Interest	2,787,482	75,000	2,862,482	2,274,604	(587,878)
Miscellaneous:					
Rent and Royalties	51,102	—	51,102	45,850	(5,252)
Reimbursements	201,280	—	201,280	704,185	502,905
Bond Deposits	6,000	—	6,000	26,346	20,346
Payments on Loans	825,627	(825,627)	—	223,476	223,476
Other	761,142	—	761,142	999,855	238,713
Special Assessments - Other	69,300	—	69,300	73,879	4,579
Sale of Fixed Assets	—	—	—	—	—
Sale of Vehicle/Equipment	50,000	—	50,000	97,818	47,818
Sale of Unclaimed Property	7,000	—	7,000	9,254	2,254
Total Sale of Fixed Assets	57,000	—	57,000	107,072	50,072
Contingency Reserve	2,240,362	—	2,240,362	—	(2,240,362)
Total Miscellaneous	4,211,813	(825,627)	3,386,186	2,180,663	(1,205,523)
Total Operating Revenues	78,214,962	(73,683)	78,141,279	80,861,985	2,720,706
Other Financing Source:					
Operating Transfers-In	88,470	—	88,470	88,470	—
Total Revenues	78,303,432	(73,683)	78,229,749	80,949,149	2,719,400

Continued -

City of Oxnard, California

General Fund

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis (Continued)**

**For Fiscal Year Ended June 30, 2003
(Unaudited)**

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Expenditures					
General Government:					
Legislative					
City Council	214,133	9,888	224,021	218,425	5,596
City Treasurer	441,922	13,104	455,026	456,684	(1,658)
City Clerk	345,220	21,263	366,483	345,790	20,693
Total Legislative	1,001,275	44,255	1,045,530	1,020,899	24,631
Administrative and Support Services					
City Manager	1,011,025	6,680	1,017,705	943,304	74,401
City Attorney	1,134,812	211,578	1,346,390	1,040,530	305,860
Financial Services	3,169,558	118,135	3,287,693	3,259,283	28,410
Human Resources	729,169	48,922	778,091	807,878	(29,787)
Non-Departmental	13,232,937	(910,307)	12,322,630	11,458,057	864,573
Amount Reclassified as Transfers Out	(5,929,021)	—	(5,929,021)	(5,772,435)	(156,586)
Amount Reclassified as Transfer to COYA	(1,901,585)	—	(1,901,585)	(1,543,849)	(357,736)
Amount Estimated for CDC Loans	(2,135,722)	(135,435)	(2,271,157)	(2,050,000)	(221,157)
Sub-Total	3,266,609	(1,045,742)	2,220,867	2,091,773	129,094
Total Administrative and Support Services	9,311,173	(660,427)	8,650,746	8,142,768	507,978
Other	129,181	20,000	149,181	137,790	11,391
Total General Government	10,441,629	(896,172)	9,845,457	9,301,457	544,000
Public Safety:					
Police	29,306,310	1,231,556	30,537,866	30,344,030	193,836
Fire	9,205,951	555,663	9,761,614	10,494,879	(733,265)
Street Lighting - SCE	1,181,856	(64,924)	1,116,932	1,052,307	64,625
Total Public Safety	39,694,117	1,722,295	41,416,412	41,891,216	(474,804)

Continued -

City of Oxnard, California

**General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis (Continued)
For Fiscal Year Ended June 30, 2003
(Unaudited)**

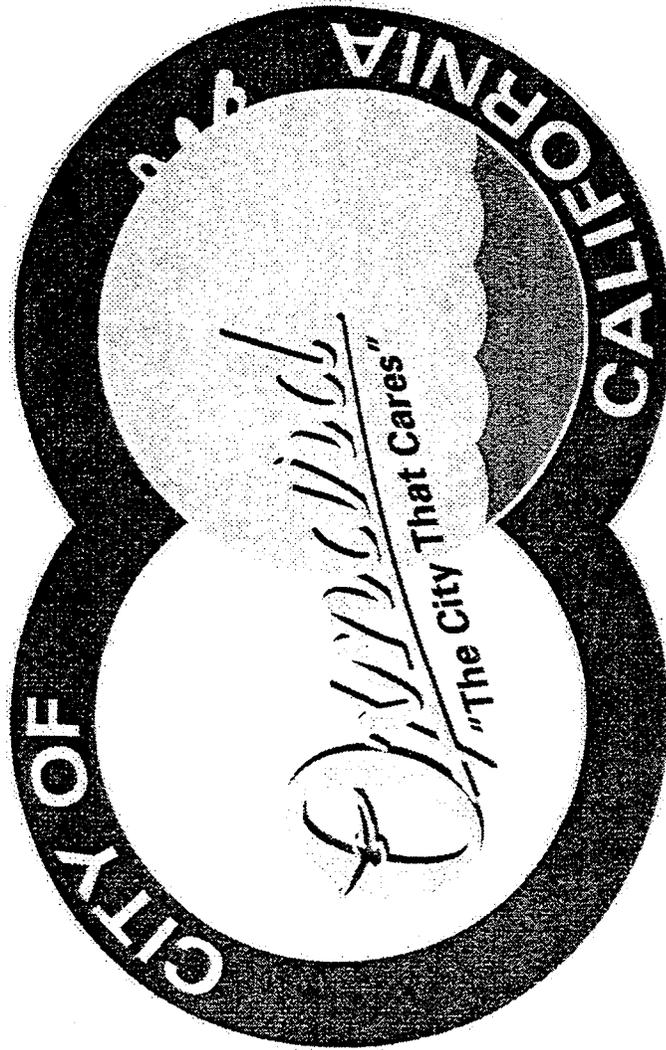
	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Transportation:					
Transportation Planning and Engineering	927,725	225,668	1,153,393	1,152,080	1,313
Total Transportation	927,725	225,668	1,153,393	1,152,080	1,313
Community Development:					
Engineering Services - Design	894,493	32,522	927,015	838,909	88,106
Public Service Administration	267,765	18,126	285,891	327,890	(41,999)
Planning and Environmental Services	1,072,118	296,628	1,368,746	1,024,006	344,740
Economic Development and Tourism Service	505,993	—	505,993	505,993	—
Development and Construction Services	2,183,155	129,830	2,312,985	2,363,208	(50,223)
Development Support/Public Projects	439,057	16,477	455,534	441,105	14,429
Housing Services	144,883	3,516	148,399	145,280	3,119
Neighborhood Services	175,904	72,886	248,790	251,814	(3,024)
Human Services	1,343,563	615,242	1,958,805	1,581,978	376,827
Total Community Development	7,026,931	1,185,227	8,212,158	7,480,183	731,975
Culture and Leisure:					
Recreation Services	1,527,747	76,641	1,604,388	1,842,008	(237,620)
Carnegie Art Museum	263,045	8,505	271,550	281,090	(9,540)
Parks and Public Grounds	4,491,603	311,814	4,803,417	5,333,547	(530,130)
Total Culture and Leisure	6,282,395	396,960	6,679,355	7,456,645	(777,290)
Library Services:					
Library Services	2,868,696	134,968	3,003,664	2,977,911	25,753
Total Library Services	2,868,696	134,968	3,003,664	2,977,911	25,753

Continued -

City of Oxnard, California

**General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis (Continued)
For Fiscal Year Ended June 30, 2003
(Unaudited)**

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Capital Outlay:					
General Government					
Legislative	5,500	—	5,500	9,271	(3,771)
Administration and Support Services	150,562	—	150,562	150,075	487
Public Safety					
Police	1,185,468	—	1,185,468	816,961	368,507
Fire	143,509	—	143,509	118,779	24,730
Transportation	41,657	—	41,657	16,156	25,501
Community Development					
Engineering Services - Design	4,261	—	4,261	4,589	(328)
Planning and Environmental Services	—	—	—	17,481	(17,481)
Development and Construction Services	90,000	—	90,000	76,582	13,418
Development Support/Public Projects	457	—	4,557	4,384	173
Neighborhood Services	30,000	—	30,000	—	30,000
Culture and Leisure					
Recreation Services	50,000	—	50,000	44,127	5,873
Parks and Public Grounds	284,865	—	284,865	263,519	21,346
Library Services	146,641	—	146,641	95,612	51,029
Savings Carryover	1,180,675	—	1,180,675	373,014	807,661
Total Capital Outlay	3,317,695	—	3,317,695	1,990,550	1,327,145
Total Operating Expenditures	70,559,188	3,068,946	73,628,134	72,250,042	1,378,092
Other Financing Uses - Transfers Out:					
Capital Outlay Fund	3,466,803	—	3,466,803	3,466,803	—
City of Oxnard Financing Authority	1,901,585	—	1,901,585	1,543,849	357,736
Assessment Districts	234,150	—	234,150	220,262	13,888
Public Safety Trust Fund	853,289	—	853,289	710,591	142,698
Golf Course Fund	653,861	—	653,861	653,861	—
PACC Operating Fund	724,849	—	724,849	724,849	—
Internal Service Fund	62,000	—	62,000	62,000	—
Total Transfers out	7,896,537	—	7,896,537	7,382,215	514,322
Total Expenditures	78,455,725	3,068,946	81,524,671	79,632,257	1,892,414
Excess (deficiency) of Revenues Over Expenditures and Other Uses	(152,293)	(3,142,629)	(3,294,922)	1,316,892	4,611,814
Fund Balance, July 1	26,783,998	—	26,783,998	26,783,998	—
Fund Balance, June 30	\$ 26,631,705	\$ (3,142,629)	\$ 23,489,076	28,100,890	\$ 4,611,814
Adjustments to GAAP Basis: Encumbrances				(291,897)	
Fund Balance, GAAP Basis - June 30				\$ 27,808,993	



City of Oxnard, California

**Major Special Revenue Funds
Major Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual On Budgetary Basis
Year Ended June 30, 2003
(Unaudited)**

DEVELOPMENT FEES FUND

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:					
Growth and Development Fees	\$ 7,815,069	\$ (700,000)	\$ 7,115,069	\$ 8,796,590	\$ 1,681,521
Charges for Services	—	—	—	1,892,434	1,892,434
Interest	750,666	—	750,666	959,421	208,755
Other Financing Sources	—	—	0	—	0
Miscellaneous	—	—	0	245,454	245,454
Total Revenues	8,565,735	(700,000)	7,865,735	11,893,899	4,028,164
Expenditures					
Community Development	1,544,074	2,035,065	3,579,139	1,653,293	1,925,846
Transportation	—	—	—	1,078,988	(1,078,988)
Capital Outlay	1,961,069	15,373,258	17,334,327	1,681,293	15,653,034
Total Expenditures	3,505,143	17,408,323	20,913,466	4,413,574	16,499,892
Excess (Deficiency) of Revenues over (under) Expenditures	5,060,592	(18,108,323)	(13,047,731)	7,480,325	20,528,056
Other Financing Sources (Uses):					
Transfers In	—	—	—	—	—
Transfers Out	(1,121,863)	—	(1,121,863)	(1,122,900)	(1,037)
Total Other Financing Sources (Uses):	(1,121,863)	—	(1,121,863)	(1,122,900)	(1,037)
Excess (Deficiency) of Revenues over Expenditures and Other Financing Sources (Uses)	2,461,300	(18,108,323)	(14,169,594)	6,357,425	20,527,019
Fund Balance, July 1	25,904,969	(16,333,765)	9,571,204	25,685,697	16,114,493
Fund Balance, June 30	\$ 28,366,269	\$ (34,442,088)	\$ (4,598,390)	\$ 32,043,122	\$ 36,641,512

City of Oxnard, California

**Major Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balances (continued)
Budget and Actual on a Budgetary Basis
Fiscal Year Ended June 30, 2003**

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
HUD & CDBG GRANTS FUND					
Revenues:					
Intergovernmental	\$ 4,077,000	\$ (2,000)	\$ 4,075,000	\$ 4,877,787	\$ 802,787
Miscellaneous	—	—	—	—	—
Total Revenues	4,077,000	(2,000)	4,075,000	4,877,787	802,787
Expenditures:					
Community Development	1,614,169	1,404,789	3,018,958	2,656,125	366,833
Culture and Leisure	182,524	163,560	346,084	411,542	(65,458)
Public Safety	201,000	(201,000)	—	180,462	(180,462)
Transportation	—	—	—	73,002	(73,002)
Capital Outlay	2,242,307	2,468,439	4,710,746	1,937,659	2,773,087
Total Expenditures	4,240,000	3,835,788	8,075,788	5,254,790	3,623,785
Excess (Deficiency) of Revenues over Expenditures	(163,000)	(3,837,788)	(4,000,788)	(377,003)	3,623,785
Fund Balance, July 1	881,628	(7,475,248)	(6,593,620)	377,003	6,970,623
Fund Balance (Deficit), June 30	\$ 718,628	\$ (11,313,036)	\$ (10,594,408)	\$ —	\$ 10,594,408

City of Oxnard, California

**Major Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balances (continued)
Budget and Actual on a Budgetary Basis
Fiscal Year Ended June 30, 2003**

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
STATE AND FEDERAL GRANTS FUND					
Revenues:					
Taxes	\$ 3,618,996	\$ 196,843	\$ 3,815,839	\$ 6,393,874	\$ 2,578,035
Intergovernmental	—	26,648,830	26,648,830	10,035,060	(16,613,770)
Interest	—	30,692	30,692	148,538	117,846
Miscellaneous	—	—	—	—	—
Total Revenues	3,618,996	26,876,365	30,495,361	16,577,472	(13,917,889)
Expenditures:					
Community Development	3,618,996	565,816	4,184,812	1,836,504	2,348,308
Culture and Leisure	—	6,500	6,500	(66,150)	72,650
Public Safety	—	5,007,666	5,007,666	5,230,655	(222,989)
Transportation	—	504,457	504,457	286,015	218,442
Capital Outlay	125,000	20,176,029	20,301,029	6,421,786	13,879,243
Total Expenditures	3,743,996	26,260,468	30,004,464	13,708,810	16,295,654
Excess (Deficiency) of Revenues Over Expenditures	(125,000)	615,897	490,897	2,868,662	2,377,765
Other Financing Uses:					
Transfers Out	—	—	—	—	—
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Uses	(125,000)	615,897	490,897	2,868,662	2,377,765
Fund Balance, July 1	108,470	(3,778,159)	(3,669,689)	5,639,718	9,309,407
Fund Balance, June 30	(16,530)	(3,162,262)	(3,178,792)	8,508,380	11,687,172

Continued -

City of Oxnard, California

Trend Information - Pension Plan

June 30, 2003

(Unaudited)

TREND INFORMATION

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The City presents the most recent available three-year APC trend information for each plan, along with required supplementary information, as follows:

Trend Information by Plan (dollar amount in thousands)

	Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Police	06/30/01	\$ 1,923,975	100%	—
	06/30/02	3,004,017	100%	—
	06/30/03	3,666,407	100%	—
Fire	06/30/01	507,719	100%	—
	06/30/02	526,308	100%	—
	06/30/03	733,272	100%	—
Miscellaneous	06/30/01	2,132,982	100%	—
	06/30/02	2,482,732	100%	—
	06/30/03	2,732,732	100%	—

Required Supplementary Information (dollar amount in thousands)

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Liability	Unfunded/(Overfunded) Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
Police						
06/30/00	\$ 105,776	\$ 98,871	\$ (6,905)	107.0%	12,917	(53.57)%
06/30/01	108,946	106,034	(2,912)	102.7%	13,635	(21.40)%
06/30/02	102,851	115,644	12,793	88.9%	13,757	93.00%
Fire						
06/30/00	66,909	59,642	(7,267)	112.2%	5,413	(134.25)%
06/30/01	68,373	64,109	(4,265)	106.7%	5,574	(76.50)%
06/30/02	63,571	67,338	3,767	94.4%	5,856	64.30%
Miscellaneous						
06/30/00	175,584	131,545	(44,039)	131.5%	28,814	(152.84)%
06/30/01	179,046	141,750	(37,296)	126.3%	34,200	(109.10)%
06/30/02	166,837	158,442	(8,395)	105.3%	38,080	(22.00)%

INTERNAL SERVICE FUNDS

Internal Service Funds are established to account for goods and services provided by one City department to other City departments or related entities, generally on a cost recovery basis.

Workers' Compensation Fund—This fund is used to account for the City's self-insurance program for workers' compensation claims.

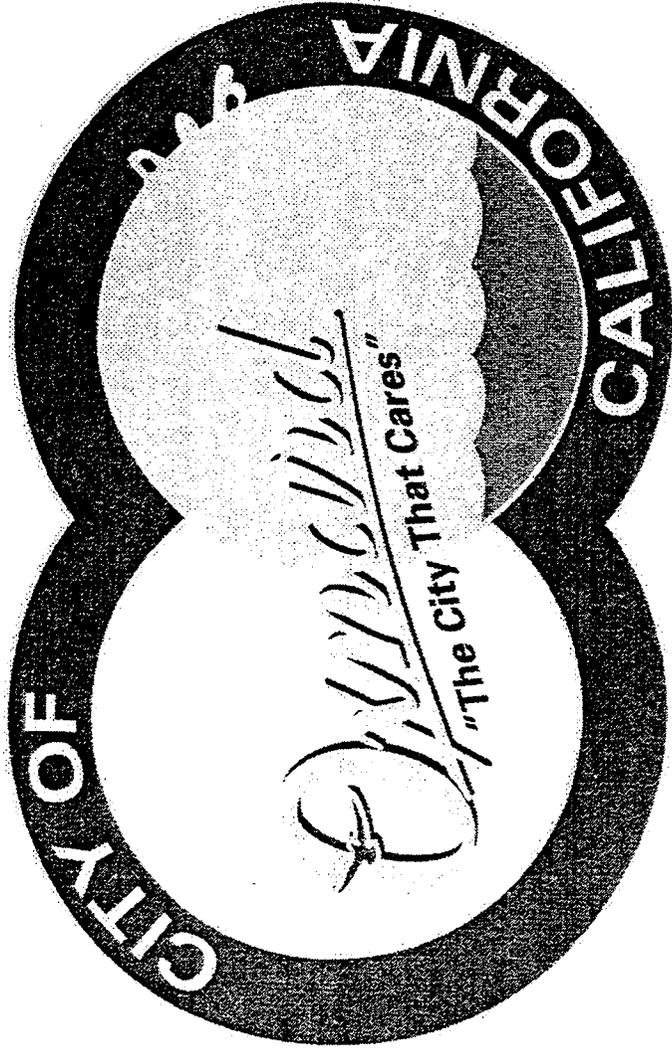
Public Liability and Property Damage—This fund is used to account for the City's self-insurance program of providing public liability and property image insurance coverage and claims adjustment services to the City's operating funds.

Utility Customer Services Fund—This fund is used to account for the costs associated with administering the operation of the Customer Services Division and to distribute these costs to the various City utilities such as water, sewer and refuse.

Information Services Fund—This fund is used to account for the costs associated with the City's data/word processing and financial systems and to distribute these costs to the departments using the systems on a pro-rata basis. Included are costs for hardware and software maintenance, computer operation costs and some centralized supplies.

Facilities Maintenance Fund—This fund is used to account for the operation and maintenance of City facilities, properties and capital projects.

Equipment Maintenance Fund—This fund is used to account for automotive fleet maintenance and services provided to City departments.



City of Oxnard, California
Internal Service Funds
Combining Statement of Net Assets
June 30, 2003

	Workers' Compensation	Public Liability/Property Damage	Utility Customer Services	Information Services	Facilities Management	Equipment Maintenance	Total
Assets:							
Current Assets:							
Cash and cash equivalents	\$ 2,412,915	\$ 6,168,806	\$ 636,386	\$ 1,376,886	\$ 521,330	\$ 193,398	\$ 11,309,721
Investment with Fiscal Agents	6,500						6,500
Accounts and other receivables	145,623	786	-	(1,440)	350	-	145,319
Capital Assets:							
Property, plant and equipment	47,580	3,793	40,568	5,927,991	736,039	757,235	7,513,206
Less: Accumulated depreciation	(11,976)	(3,793)	(26,546)	(5,704,360)	(533,597)	(683,526)	(6,963,798)
Net Capital Assets	35,604	-	14,022	223,631	202,442	73,709	549,408
Total Assets	2,594,142	6,176,092	650,408	1,599,077	724,122	267,107	12,010,948
Liabilities							
Current Liabilities:							
Accounts payable	97,761	25,021	32,242	142,969	9,650	268,015	575,658
Other liabilities	3,996	1,046	9,446	25,539	53,505	35,203	128,735
Non-current Liabilities:							
Self-insurance claims liabilities	8,623,941	5,384,446	-	-	-	-	14,008,387
Compensated absences	25,695	-	82,551	103,457	181,478	172,775	565,956
Total Liabilities	8,751,393	5,410,513	124,239	271,965	244,633	475,993	15,278,736
Net Assets							
Invested in capital assets, net of related debt	35,604	-	14,022	223,631	202,442	73,709	549,408
Restricted							
Unrestricted	(6,192,855)	765,579	512,147	1,103,481	277,047	(282,595)	(3,817,196)
Total Net Assets (Liabilities)	\$ (6,157,251)	\$ 765,579	\$ 526,169	\$ 1,327,112	\$ 479,489	\$ (208,886)	\$ (3,267,788)

City of Oxnard, California

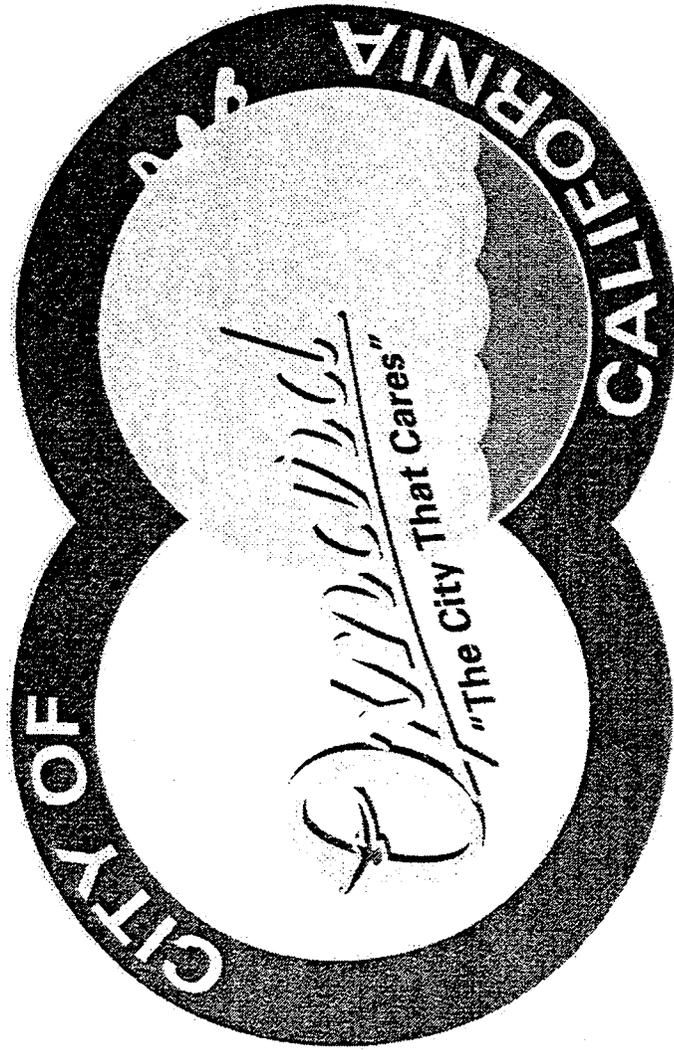
Internal Service Funds

**Combining Statement of Revenues, Expenditures, and Changes in Net Assets
June 30, 2003**

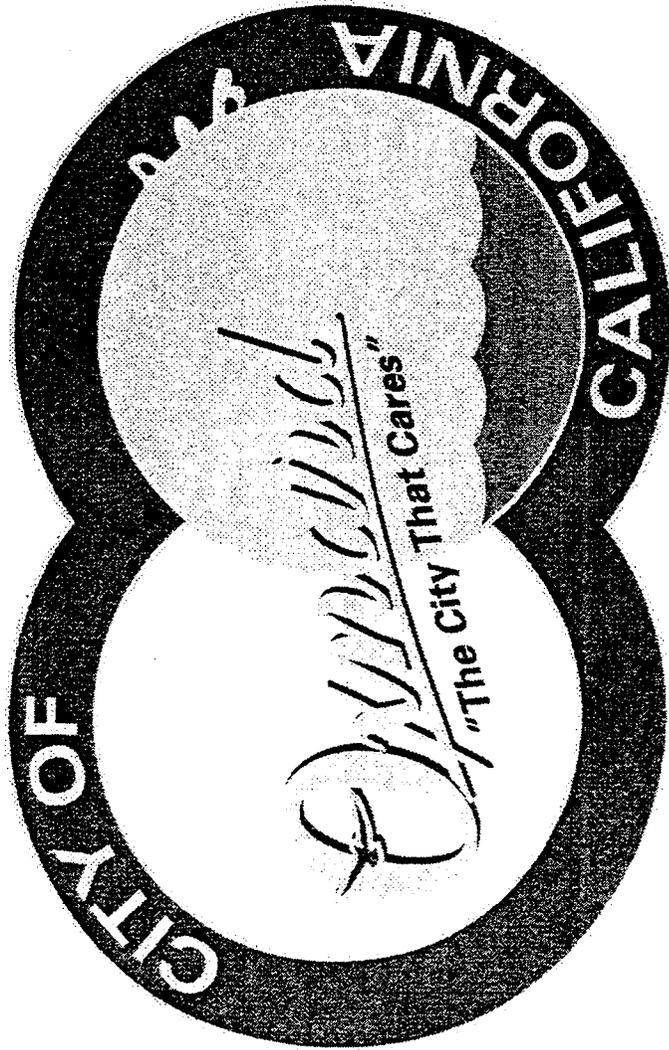
	Workers' Compensation	Public Liability/Property Damage	Utility Customer Services	Information Services	Facilities Management	Equipment Maintenance	Total
Operating Revenues:							
Charges for services	\$4,836,626	\$3,054,026	\$993,490	\$ 2,563,175	\$ 2,104,098	\$ 4,373,977	\$ 17,925,392
Operating Expenses:							
Salaries and wages	182,077	46,045	417,528	1,084,550	1,265,779	1,600,778	4,596,757
Contractual services	441,958	142,458	17,196	124,482	31,378	2,239	759,711
Operating supplies	14,440	315	158,453	62,536	253,214	1,975,892	2,464,850
Utilities	4,311	4,068	5,535	714,364	444,417	12,597	1,185,292
Depreciation and amortization	10,549	1,054	8,409	190,660	52,817	42,398	305,887
General and administration	313,687	214,746	349,224	182,389	110,299	72,251	1,242,596
Repairs and maintenance	6,017		16,809	187,829		736,074	1,009,260
Claims expense	4,139,481	4,364,031					8,503,512
Total Operating Expenses	5,112,520	4,772,717	973,154	2,546,810	2,220,435	4,442,729	20,067,865
Net Operating Income (Loss)	(275,894)	(1,718,691)	20,336	16,365	(116,337)	(68,252)	(2,142,473)
Nonoperating Revenues (Expenses):							
Interest income	60,907	221,293	18,459	41,241	20,432	2,234	364,566
Interest (expense)				(13,677)			(13,677)
Total Nonoperating Revenues (Expenses)	60,907	221,293	18,459	27,564	20,432	2,234	350,889
Income (Loss) Before Transfers	(214,987)	(1,497,398)	38,795	43,929	(95,905)	(66,018)	(1,791,584)
Transfer							
Transfer in	500,000						641,763
Transfer (out)		(500,000)		(161,981)			(803,744)
Net Transfers	500,000	(500,000)		(161,981)			(161,981)
Change in net assets	285,013	(1,997,398)	38,795	(118,052)	(95,905)	(66,018)	(1,953,565)
Net Assets (Deficits) - July 1	(6,442,264)	2,762,977	487,374	1,445,164	575,394	(142,868)	(1,314,223)
Net Assets (Deficits) - June 30	\$ (6,157,251)	\$ 765,579	\$ 526,169	\$ 1,327,112	\$ 479,489	\$ (208,886)	\$ (3,267,788)

City of Oxnard, California
Internal Service Funds
Combining Statement of Cash Flows
June 30, 2003

	Workers' Compensation	Public Liability/Property Damage	Utility Customer Services	Information Services	Facilities Management	Equipment Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers	\$ 4,776,625	\$ 3,054,068	\$ 993,490	\$ 2,564,615	\$ 2,103,748	\$ 4,373,977	\$ 17,866,523
Payments to suppliers	(377,128)	(162,062)	(176,283)	(1,049,889)	(805,169)	(2,694,485)	(5,263,016)
Payments to employees	(491,082)	(260,791)	(758,479)	(1,247,632)	(1,365,857)	(1,650,933)	(5,774,774)
Claims paid	(4,397,476)	(3,028,701)					(7,426,177)
Cash Flows from Operating Activities	(489,061)	(397,486)	58,728	267,094	(67,278)	28,559	(599,444)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES							
Interfund payments							
Transfers in	500,000				141,763		641,763
Transfers out		(500,000)		(161,981)	(141,763)		(803,744)
Cash Flows from Noncapital Financing Activities	500,000	(500,000)		(161,981)	(141,763)		(161,981)
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES							
Acquisition of capital assets	(31,382)		(1,500)	(103,278)	(2,119)	(39,129)	(177,408)
Retirement of capital assets			44,808				44,808
Proceeds from long term debt							
Principal payments on capital debt							
Interest paid on capital debt	(31,382)		43,308	(13,677)		(39,129)	(13,677)
Cash Flows from Capital and Related Financing Activities				(116,955)	(2,119)		(146,277)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest	60,907	221,293	18,459	41,241	20,432	2,234	364,566
Cash Flows from Investing Activities	60,907	221,293	18,459	41,241	20,432	2,234	364,566
Net Cash Flows	40,464	(676,193)	120,495	29,399	(48,965)	(8,336)	(543,136)
Cash and investments at beginning of period	2,372,451	6,851,499	515,891	1,347,487	570,295	201,734	11,859,357
Cash and investments at end of period	\$ 2,412,915	\$ 6,175,306	\$ 636,386	\$ 1,376,886	\$ 521,330	\$ 193,398	\$ 11,316,221
Reconciliation of operating income (loss) to net cash flows from operating activities:							
Operating income (loss)	\$ (275,894)	\$ (1,718,691)	\$ 20,336	\$ 16,365	\$ (116,337)	\$ (68,252)	\$ (2,142,473)
Adjustments to reconcile operating income to net cash flows from operating activities:							
Depreciation	10,549	1,054	8,409	190,660	52,817	42,398	305,887
Change in assets and liabilities:							
Decrease (increase) in account receivable	(60,001)	42		1,440	(350)		(58,869)
Increase (decrease) in account payable	85,602	(16,267)	12,264	13,783	(67,134)	(2,886)	25,362
Increase (decrease) in other liabilities	3,996	1,046	9,446	25,539	53,505	35,203	128,735
Increase (decrease) in self-insured claims liabilities	(257,995)	1,335,330					1,077,335
Increase (decrease) in compensated absences	4,682		8,273	19,307	10,221	22,096	64,579
Cash Flows from Operating Activities	\$ (489,061)	\$ (397,486)	\$ 58,728	\$ 267,094	\$ (67,278)	\$ 28,559	\$ (599,444)



FIDUCIARY FUNDS



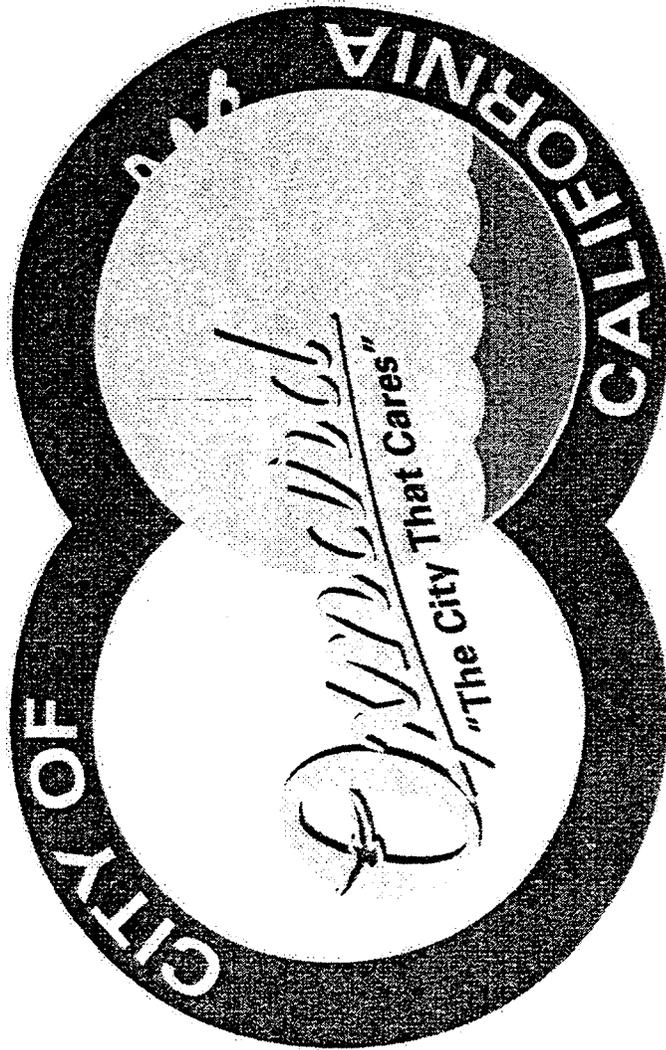
City of Oxnard, California

Fiduciary Funds

Statement of Changes in Assets and Liabilities

Year Ended June 30, 2003

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Artworks				
Assets:				
Cash and cash equivalents	\$ 46,443	\$ 1,491	\$ -	\$ 47,934
Total Assets	\$ 46,443	\$ 1,491	\$ -	\$ 47,934
Liabilities:				
Trust and agency payables	\$ 46,443	\$ 1,491	\$ -	\$ 47,934
Improvement Districts				
Assets:				
Cash and cash equivalents	\$ 9,778,576	\$ 12,111,448	\$ 9,419,217	\$ 12,470,807
Investment with fiscal agent	5,039,404	34,217,037	1,606,703	37,649,738
Total Assets	\$ 14,817,980	\$ 46,328,485	\$ 11,025,920	\$ 50,120,545
Liabilities:				
Trust and agency payables	\$ 14,817,980	\$ 46,328,485	\$ 11,025,920	\$ 50,120,545
Totals- All Fiduciary Funds				
Assets:				
Cash and cash equivalents	\$ 9,825,019	\$ 12,112,939	\$ 9,419,217	\$ 12,518,741
Investment with fiscal agent	\$ 5,039,404	\$ 34,217,037	\$ 1,606,703	\$ 37,649,738
Total Assets	\$ 14,864,423	\$ 46,329,976	\$ 11,025,920	\$ 50,168,479
Liabilities:				
Trust and agency payables	14,864,423	46,329,976	11,025,920	50,168,479
Total Liabilities	\$ 14,864,423	\$ 46,329,976	\$ 11,025,920	\$ 50,168,479



City of Oxnard, California
Governmental Non-Major Funds
Combining Balance Sheets
Year Ended June 30, 2003

SPECIAL REVENUE FUNDS

	State Gas Tax	Traffic Safety	Transportation Development	Maintenance Assessment	Total
Assets:					
Cash and cash equivalents	\$ 2,708,210	\$ -	\$ 2,563,643	\$ 2,369,487	\$ 7,641,340
Accounts and other receivables			7,764	2,217	9,981
Total Assets	\$ 2,708,210	\$ -	\$ 2,571,407	\$ 2,371,704	\$ 7,651,321
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 47,242	\$ -	\$ 297,158	\$ 53,579	\$ 397,979
Other liabilities	36,063	16,542	260,427	70,639	383,671
Due to other funds		216,591			216,591
Total Liabilities	83,305	233,133	557,585	124,218	\$998,241
Fund Balances:					
Reserved:	2,111,383		963,623		3,075,006
Designated for authorized projects					
Undesignated	513,522	(233,133)	1,050,199	2,247,486	3,578,074
Total Fund Balances	2,624,905	(233,133)	2,013,822	2,247,486	6,653,080
Total Liabilities and Fund Balances	\$ 2,708,210	\$ -	\$ 2,571,407	\$ 2,371,704	\$ 7,651,321

City of Oxnard, California

Non-Major Governmental Funds

**Combining Statements of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2003**

	SPECIAL REVENUE FUNDS					
	State Gas Tax	Traffic Safety	Transportation Development	Maintenance Assessment	Total	
Revenues:						
Intergovernmental	\$ 3,392,007	\$ -	\$ 2,901,961	\$ -	\$	6,293,968
Charges for services			245,865	157		246,022
Fines and forfeitures		306,478				306,478
Interest	78,448			73,074		151,522
Special assessments				1,727,674		1,727,674
Miscellaneous	266,935		2,825			269,760
Total Revenues	3,737,390	306,478	3,150,651	1,800,905		8,995,424
Expenditures:						
Current						
Public Safety		218,266				218,266
Transportation	3,298,671	492,690	1,343,653	978,471		6,113,485
Community development				1,016,935		1,016,935
Capital outlay	155,468	19,431	2,777,733			2,952,632
Total Expenditures	3,454,139	730,387	4,121,386	1,995,406		10,301,318
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	283,251	(423,909)	(970,735)	(194,501)		(1,305,894)
Fund Balances, July 1	2,341,654	190,776	2,984,557	2,441,987		7,958,974
Fund Balance (Deficit), June 30	\$ 2,624,905	\$ (233,133)	\$ 2,013,822	\$ 2,247,486		\$ 6,653,080

City of Oxnard, California

**Non-Major Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balances (continued)
Budget and Actual on a Budgetary Basis
Fiscal Year Ended June 30, 2003**

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
NON-MAJOR FUNDS					
Revenues:					
Intergovernmental	\$ 5,440,500	\$ 274,949	\$ 5,715,449	\$ 6,293,968	\$ 578,519
Interest	196,500	—	196,500	151,523	(44,977)
Fines and Forfeitures	750,000	—	750,000	302,372	(447,628)
Special Assessments	1,720,440	—	1,720,440	1,727,831	7,391
Miscellaneous	417,394	—	417,394	519,730	102,336
Total Revenues	8,524,834	274,949	8,799,783	8,995,424	195,641
Expenditures:					
Current:					
Transportation	3,897,967	4,558,879	8,456,846	7,249,504	1,207,342
Community Development	1,926,310	1,264,479	3,190,789	1,995,406	1,195,383
Capital Outlay	152,520	3,409,517	3,562,037	1,056,408	2,505,629
Other Financing Sources (Uses):					
Operating Transfers Out	(2,300,000)	2,193,400	(106,600)	—	—
Total Other Financing Sources (Uses)					
Total Expenditures	5,976,797	9,232,875	15,209,672	10,301,318	4,908,354
Excess (Deficiency) of Revenues Over Expenditures	2,548,037	(8,957,926)	(6,409,889)	(1,305,894)	5,103,995
Fund Balance, July 1	12,100,816	(7,188,808)	4,912,008	7,958,974	3,046,966
Fund Balance, June 30	\$ 14,648,853	\$ (16,146,734)	\$ (1,497,881)	\$ 6,653,080	\$ 8,150,961

Continued -

City of Oxnard, California

**Non-Major Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balances (continued)
Budget and Actual on a Budgetary Basis
Fiscal Year Ended June 30, 2003**

	Original Budget	Changes Increases (Decreases)	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
DEBT SERVICE FUND					
Revenues:					
Taxes Increments	\$ 1,600,000	\$ —	\$ 1,600,000	\$ 1,578,127	\$ (21,873)
Interest	—	—	—	27	27
Total Revenues	1,600,000	—	1,600,000	1,578,154	(21,846)
Expenditures:					
Debt Service:					
Principal	2,850,000	—	2,850,000	4,525,483	(1,675,483)
Interest	1,650,000	—	1,650,000	2,178,355	(528,355)
Total Expenditures	4,500,000	—	4,500,000	6,703,838	(2,203,838)
Excess (Deficiency) of Revenues Over Expenditures	(2,900,000)	—	(2,900,000)	(5,125,684)	(2,225,684)
Other Financing Sources (Uses):					
Transfers In	—	—	—	3,533,473	3,533,473
Proceeds from Loan Payable	—	—	—	7,435,000	7,435,000
Payment to Escrow Agent	—	—	—	(6,380,000)	(6,380,000)
Total Other Financing Sources (Uses)	—	—	—	4,588,473	4,588,473
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	(2,900,000)	—	(2,900,000)	(537,211)	2,362,789
Fund Balance, July 1	1,182,714	—	1,182,714	1,333,902	151,188
Fund Balance, June 30	\$ (1,717,286)	\$ —	\$ (1,717,286)	\$ 796,691	\$ 2,513,977

APPENDIX D

FORM OF BOND COUNSEL OPINION

February 18, 2004

Board of Directors
City of Oxnard Financing Authority
300 West Third Street
Oxnard, California 93030

\$47,895,000
City of Oxnard Financing Authority
Water Revenue Project Bonds
Series 2004
(Final Opinion)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Oxnard Financing Authority (the "Authority") of \$47,895,000 aggregate principal amount of the City of Oxnard Financing Authority Water Revenue Project Bonds, Series 2004 (the "Bonds"), pursuant to the Marks-Roos Local Bond Pooling Act of 1985, Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, and the provisions of a Trust Indenture, dated as of February 1, 2004 (the "Indenture"), by and among the Authority, the City of Oxnard (the "City"), and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture and in the Installment Purchase Agreement, dated as of February 1, 2004 (the "Installment Purchase Agreement"), by and between the City and the Authority, as applicable.

In such connection, we have reviewed the Indenture, the Installment Purchase Agreement, the Assignment Agreement, dated as of February 1, 2004, by and between the Authority and the Trustee (the "Assignment Agreement"), the Tax Certificate of the City and the Authority, dated the date hereof (the "Tax Certificate"), opinions of the City Attorney, certifications of the City, the Authority and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements, and procedures contained or referred to in the Indenture, the Installment Purchase Agreement, the Assignment Agreement, 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 expressed only on and as of the date hereof and are based on an analysis of existing laws, regulations, rulings, and judicial 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. Changes to existing law may occur hereafter and could have retroactive effect. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have not undertaken to verify independently, and have assumed, 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 Agreement, the Assignment Agreement, 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. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Installment Purchase Agreement, the Assignment Agreement, and the Tax Certificate may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, and other similar 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 and joint powers authorities in the State of California.

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. We express no opinion regarding the perfection or priority of the lien on the 2004 Installment Payments or the Net Water System Revenues.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The obligation of the City to pay the 2004 Installment Payments under the Installment Purchase Agreement constitutes a valid and binding limited obligation of the City. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the 2004 Installment Payments. The Installment Purchase Agreement creates a valid pledge, to secure the payment of the 2004 Installment Payments, of the Net Water System Revenues.
3. Interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Except as stated in paragraph (3), we express no opinion as to federal or State of California tax consequences of the ownership of the Bonds, including whether interest on the Bonds is (a) included in the calculation of the amount subject to the "branch-level" tax imposed by Section 884 of the Code upon the earnings of certain foreign corporations engaged in a trade or business within the United States or (b) included in the income of certain Subchapter S corporations for purposes of the tax imposed thereon by Section 1375 of the Code. We also express no opinion as to any other federal, state or local or any foreign tax consequences with respect to acquisition, ownership or disposition of the Bonds.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement"), dated as of February 1, 2004, is executed and delivered by the City of Oxnard Financing Authority (the "Authority") and Wells Fargo Bank, National Association, as trustee and as dissemination agent (the "Dissemination Agent"), in connection with the issuance by the Authority of the \$47,895,000 aggregate principal amount of City of Oxnard Financing Authority Water Revenue Project Bonds, Series 2004 (the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of February 1, 2004, by and among the City of Oxnard, the Authority and the Dissemination Agent, as trustee (the "Indenture").

The Authority and the Dissemination Agent covenant and agree as follows:

(1) Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority and the Dissemination Agent for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

(2) Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Disclosure Representative" shall mean the Controller of the Authority or his or her designee, or any other officer or employee as the Authority shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, Wells Fargo Bank, National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent which is so designated in writing by the Authority and which has filed with the then current Dissemination Agent a written acceptance of such designation.

"Insurer" shall mean XL Capital Assurance Inc., or any successor thereto.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository then listed by the Securities and Exchange Commission as a repository for purposes of the Rule.

"Official Statement" shall mean the Official Statement for the Bonds dated February 4, 2004.

"Participating Underwriter" shall mean Stone & Youngberg LLC, the original underwriter of the Bonds required to comply with the Rule in connection with offering the Bonds.

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

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean 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 Agreement, there is no State Repository.

(3) Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent upon written direction to, not later than January 1, commencing January 1, 2005, provide to each Repository, the Insurer and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 Agreement; provided that the audited financial statements of the Authority, if any, may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Authority’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Authority will promptly notify each Repository or the Municipal Securities Rulemaking Board and, in either case, the Trustee, the Dissemination Agent, the Insurer and the Participating Underwriter of a change in the fiscal year. The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Authority and shall have no duty or obligation to review such Annual Report.

(b) Not later than five (5) Business Days prior to the date specified in subsection (a) for providing the Annual Report to each Repository, the Authority shall provide the Annual Report to the Dissemination Agent. If by five (5) Business Days prior to the date so specified in subsection (a) the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Authority to determine if the Authority is, or will be, in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been, or will be, provided to each Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Participating Underwriter in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

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

(ii) promptly after receipt of the Annual Report, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing each Repository, the Insurer and the Participating Underwriter to which it was provided. The Dissemination Agent’s duties under this clause (ii) shall exist only if the Authority provides the Annual Report to the Dissemination Agent for filing.

(4) Content of Annual Reports. The Authority's Annual Report shall contain or include by reference the following:

(a) (i) The audited financial statements of the City (which include information regarding the funds and accounts of the Authority, if any) for the most recent fiscal year of the City then ended, if any, and (ii) an update of the information contained in the following tables under the heading "THE WATER SYSTEM" in the Official Statement for the Bonds, if the information is not included in the Annual Report: (1) Table 3, Historic Water Usage, (2) Table 4, Projected Water Usage, (3) Table 6, Water Service Charges, (4) Table 7, Commodity Rates, (5) Table 8, Connection Fee Equivalency Factor, Charges and Fees; and (6) Table 12, Projected Revenues, Expenses and Debt Service Coverage contained. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the City in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the City shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the City may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the City shall modify the basis upon which its financial statements are prepared, the Authority shall provide a notice of such modification to each Repository, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority, 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 Authority shall clearly identify each such other document so included by reference.

(5) Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Authority 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 any reserve fund for the Bonds reflecting financial difficulties;
- (iv) unscheduled draws on any credit enhancements securing the Bonds reflecting financial difficulties;
- (v) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Bonds, or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy;
- (vi) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;

(vii) amendment to the Indenture or this Disclosure Agreement modifying the rights of Bond Owners;

(viii) unscheduled prepayment of any Bond;

(ix) defeasances;

(x) any release, substitution, or sale of property securing repayment of the Bonds; and

(xi) rating changes.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Authority determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) the National Repository, and in either case, to the Participating Underwriter, the Insurer and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (a)(ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (d) prior to the occurrence of such Listed Event.

(e) The Authority hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Authority and that the Trustee or the Dissemination Agent shall not be responsible for determining whether the Authority's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(6) Termination of Reporting Obligation. The obligation of the Authority, the Trustee and the Dissemination Agent under this Disclosure Agreement 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 Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5.

(7) Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the Authority and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Authority. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Authority in a timely manner and in a form suitable for filing.

(8) Amendment.

(a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Authority or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Authority an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Authority, to the same effect as set forth in clause (2) above, (4) the Authority shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Authority, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Authority shall have delivered copies of such opinion and amendment to each Repository.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners at least 25% of the outstanding Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that neither the Trustee or the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report 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. Such comparison shall include a quantitative and, to the extent reasonably feasible, 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.

(9) Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice if occurrence of a Listed Event.

The Authority acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Authority, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Authority under such laws.

(10) Default. In the event of a failure of the Authority or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any 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 Authority to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority to comply with this Disclosure Agreement shall be an action to compel performance.

(11) Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The provisions of the Indenture applicable to the Trustee are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture; and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement; and the Authority agrees to indemnify and save the Dissemination Agent and Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Authority 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 Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Owners, or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and Trustee and payment of the Bonds. No person shall have any right to commence any action against the Trustee or as Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent and Trustee shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

(12) Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the City, the Trustee, the Dissemination Agent, the Participating Underwriter, the Insurer and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

(13) Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative: City of Oxnard Financing Authority
300 West Third Street
Oxnard, CA 93030
Attention: Controller

Dissemination Agent and Trustee: Wells Fargo Bank, National Association
707 Wilshire Blvd., 17th Floor
Los Angeles, CA 90017
Attention: Corporate Trust Services
Ref: City of Oxnard

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

CITY OF OXNARD FINANCING AUTHORITY

Stan Kleinman, Controller

APPROVED AS TO FORM:

Gary L. Gillig, Esq. General Counsel

WELLS FARGO BANK,
NATIONAL ASSOCIATION,
as Dissemination Agent and Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Oxnard Financing Authority
Name of Bond Issue: City of Oxnard Financing Authority Water Revenue Project Bonds,
Series 2004
Date of Issuance: February 18, 2004

NOTICE IS HEREBY GIVEN that the City of Oxnard Financing Authority (the "Authority") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of February 1, 2004, by and among the Authority, the City of Oxnard and Wells Fargo Bank, National Association, as trustee and dissemination agent. [The Authority anticipates that the Annual Report will be filed by _____.]

Dated: _____

WELLS FARGO BANK,
NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Authorized Signatory

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: []

Policy No: []

BONDS: []

Effective Date: []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. Pacific time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of California, the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCAP-005 (Muni Spec - California 12-2001)

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

IN THE EVENT THAT XLCA WERE TO BECOME INSOLVENT, ANY CLAIMS ARISING UNDER THIS POLICY ARE NOT COVERED BY THE CALIFORNIA GUARANTY INSURANCE FUND SPECIFIED IN ARTICLE 12119(b) OF THE CALIFORNIA INSURANCE CODE.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN

Name:
Title:

SPECIMEN

Name:
Title:



