

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Series 2002 Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS-Tax Matters " herein.

\$228,325
CITY OF CLAYTON
(COUNTY OF CONTRA COSTA, CALIFORNIA)
LYDIA LANE SEWER ASSESSMENT DISTRICT
LIMITED OBLIGATION IMPROVEMENT BONDS, SERIES 2002
(BANK QUALIFIED)

DATED: Date of Delivery

DUE: September 2, as shown below

The City of Clayton Lydia Lane Sewer Assessment District Limited Obligation Improvement Bonds, Series 2002 (the "Bonds") are being executed and delivered in the aggregate principal amount of \$228,325. The Bonds are being issued for the purpose of constructing public sewer facilities within the Lydia Lane Sewer Assessment District (the "Project") as described herein.

Under the provisions of the Improvement Bond Act of 1915, installments of principal and interest sufficient to meet annual debt service on the Bonds are included on the regular tax bills of the County of Contra Costa sent to owners of property against which there are unpaid assessments. These annual assessment installments are to be paid into the Redemption Fund, to be held by the City of Clayton (the "City"), and used to pay debt service on the Bonds as such becomes due. Unpaid assessments constitute fixed liens on the parcels assessed and do not constitute a personal indebtedness of the respective owners of such parcels. Accordingly, the City has covenanted in certain circumstances to initiate judicial foreclosure proceedings against the real property securing the delinquent assessment. See "SECURITY FOR THE BONDS".

Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision to the payment of the Bonds.

The Bonds are being issued 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 for the Bonds. Individual purchases of the Bonds will be made in book-entry only form and only in authorized denominations, as described in the Official Statement. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, which is obligated to remit such amounts to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. See "THE BONDS-DTC Book-Entry Only" herein.

Interest on the Bonds are first payable on March 2, 2003, and semiannually thereafter on each March 2 and September 2. The Bonds are subject to optional and mandatory redemption prior to their respective payment dates as described herein. See "THE BONDS-Redemption Provisions" herein.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELEVANT TO AN INVESTMENT IN THE BONDS. THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT, INCLUDING INFORMATION UNDER THE HEADING "SPECIAL RISK FACTORS" SHOULD BE READ IN ITS ENTIRETY

\$228,325 6.0% Term Bond Due September 2, 2032; Price: 100%

The Bonds will be offered when, as and if executed and delivered and received by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also serving as Disclosure Counsel for the City. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York on or about August 7, 2002.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Agency in any press release and in any oral statement made with the approval of an authorized officer of the Agency or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City or any other entity described or referenced herein since the date hereof.

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

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

Stabilization of Prices. In connection with this offering, the Underwriter may over allot 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. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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

SECURITIES PRODUCTS AND SERVICES ARE OFFERED THROUGH U.S. BANCORP PIPER JAFFRAY INC., MEMBER SIPC AND NYSE, INC. AND A SUBSIDIARY OF U.S. BANCORP.

NOT FDIC INSURED

NO BANK GUARANTEE

MAY LOSE VALUE

CITY OF CLAYTON

CITY COUNCIL

Gregg Manning, Mayor
Pete Laurence, Vice Mayor
Richard Littorno, Councilmember
Julie Pierce, Councilmember
Bill Walcutt, Councilmember

CITY OFFICIALS

Gary Napper, City Manager
Rick Angrisani, City Engineer
Maury Hueguet, City Attorney

BOND COUNSEL/DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

ASSESSMENT ENGINEER

City Engineer
City of Clayton

PAYING AGENT

Wells Fargo Bank, National Association
San Francisco, California

UNDERWRITER

U.S. Bancorp Piper Jaffray
San Francisco, California

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OFFICIAL STATEMENT
\$228,325
CITY OF CLAYTON
LYDIA LANE SEWER ASSESSMENT DISTRICT
LIMITED OBLIGATION IMPROVEMENT BONDS, SERIES 2002

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the Cover Page, Table of Contents and attached Appendices (the "Official Statement"), is to provide certain information concerning the sale and delivery of the City of Clayton Lydia Lane Sewer Assessment District Limited Obligation Improvement Bonds, Series 2002 (the "Bonds"). The Bonds are being issued for the purpose of constructing public wastewater facilities within the Lydia Lane Sewer Assessment District (the "Project") as described herein.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to this Official Statement. This Introduction is qualified by more complete and detailed information contained in the entire Official Statement, including the Cover Page and attached Appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement by prospective investors of the Bonds. The offering of the Bonds to potential investors is made only by means of the entire Official Statement

Authority for Issuance

The formation proceedings for the City of Clayton Lydia Lane Sewer Assessment District (the "District") have been conducted pursuant to the Municipal Improvement Act of 1913 ("the 1913 Act") and a Resolution of Intention adopted by the City Council (the "City Council") of the City of Clayton (the "City") on April 30, 2002 (the "Resolution of Intention").

The Bonds are being issued pursuant to a Resolution Authorizing Issuance of Bonds adopted by the City Council on July 16, 2002 (the "Resolution Authorizing Issuance of Bonds"), and a Paying Agent Agreement dated August 1, 2002 (the "Paying Agent Agreement") by and between the City and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), and provisions of the Improvement Bond Act of 1915 (the "1915 Act"). Together, the 1913 Act and the 1915 Act are collectively referred to herein as the "Bond Law".

General Information Concerning the District

The District is located in a residential neighborhood in the City of Clayton. The District is within 1 mile from the City of Concord, and 35 miles east of San Francisco. The District is in a developed community created approximately 53 years ago. The District initially consisted of 27 residential parcels. The City received prepayment of the assessment on 11 parcels, leaving 16 parcels subject to the assessment lien. Of the 16 parcels, all of them have been improved with single family structures. The lots range in size from 11,400 square feet to 30,000 square feet. The maps depicting the residential parcels within the District are on file with the City Engineer.

Professionals Involved

The City Engineer of the City of Clayton served as assessment engineer for the District. Jones Hall, A Professional Law Corporation, San Francisco, California is serving as Bond Counsel in connection with the formation of the District and the issuance of the Bonds. Jones Hall, A Professional Law Corporation is also serving as Disclosure Counsel to the City in connection with the issuance of the Bonds. The compensation of Jones Hall, A Professional Law Corporation is contingent upon the execution and delivery of the Bonds.

Other Information

This Official Statement may be considered current only as of its dated date affixed to the Cover Page hereof, and the information contained herein is subject to change. Brief descriptions of the Bonds, the security for the Bonds and the City are included in this Official Statement, together with summaries of certain provisions relating to the Resolution of Intention and the Resolution Authorizing Issuance of Bonds (collectively, the Resolution of Intention and the Resolution Authorizing Issuance of Bonds are referred to herein as the "Resolutions") and the Paying Agent Agreement. Such descriptions do not purport to be comprehensive or definitive, and all references made herein to the Resolutions and the Paying Agent Agreement approved by the City are qualified in their entirety by reference to such document, and all references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Resolutions.

Information concerning this Official Statement, the Bonds, the City, the Resolutions or any other information relating to the sale and delivery of the Bonds is available for public inspection and may be obtained by contacting the City.

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of \$228,325. The Bonds will be delivered in fully registered form, without coupons, in denominations of \$5,000 principal amount or any integral multiple thereof, except one Bond may be in an amount which is not a multiple of \$5,000. Interest payable with respect to the Bonds will be calculated based on a 360-day year consisting of twelve (12) 30-day months. The Bonds will be dated and interest with respect thereto will be payable from their date of delivery, at the rates per annum as shown on the Cover Page hereto, payable on March 2, 2003, and semiannually thereafter on March 2 and September 2 (individually, an "Interest Payment Date"), and will mature on September 2 in each of the designated years (a "Principal Payment Date"), and in the principal amounts as shown on the Cover Page hereto.

The Bonds will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry only form, and no physical certificates will be made available to the Beneficial Owners to represent their ownership interests in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, principal and interest and premiums, if any, with respect to the Bonds will be payable to Cede & Co., as nominee for DTC, which is obligated to remit such principal, interest and premiums, if any, to the DTC Participants, as defined by DTC, for subsequent disbursement to the Beneficial Owners of the Bonds. See "THE BONDS-DTC Book-Entry Only" herein.

Redemption Provisions

Mandatory Prepayment Account Redemption. Each Outstanding Bond, or any portion of the principal thereof, in the principal amount of \$5,000 or any integral multiple thereof, may be redeemed and paid in advance of maturity, using any funds available therefor in the Prepayment Account, on any Interest Payment Date by paying the principal amount thereof together with the Redemption Premium (defined below) thereon plus interest to the date of redemption, unless sooner surrendered, in which event said interest will be paid to the date of payment, all in the manner and as provided in the Bond Law.

Optional Non-Prepayment Account Redemption. Each Outstanding Bond or any portion of the principal thereof, in the principal amount of \$5,000 or any integral multiple thereof, may be redeemed and paid in advance of maturity using any funds available therefor from sources other than the Prepayment Account (including distribution of surplus funds from the Improvement Fund), on any Interest Payment Date in any year, subject to the restrictions contained in the Paying Agent Agreement and by paying the principal amount thereof, and any applicable Redemption Premium (defined below) set forth below plus interest to the date of redemption, unless sooner surrendered, in which event said interest will be paid to the date of payment, all in the manner provided in the Bond Law.

For purposes of the redemption provisions described above, the Redemption Premium shall be:

<u>Redemption Dates</u>	<u>Premium</u>
On or before September 2, 2011	3%
March 2, 2012 and September 2, 2012	2%
March 2, 2013 and September 2, 2013	1%
March 2, 2014 and thereafter	0%

Mandatory Sinking Fund Redemption. The Bonds Maturing on September 2, 2032 (the "Term Bonds") shall also be subject to mandatory redemption in part by lot, from Sinking Fund Payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts, all as set forth in the table set forth below; provided, however, if some but not all of the Term Bonds of a given maturity have been redeemed pursuant to Mandatory Prepayment Account Redemption or Optional Non-Prepayment Account Redemption described above, the total amount of all future Sinking Fund Payments relating to such maturity shall be reduced by the aggregate principal amount of Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis as determined by the Paying Agent, notice of which determination shall be given by the Paying Agent to the City.

<u>Sinking Fund Redemption Date (September 2)</u>	<u>Principal Amount To Be Redeemed</u>	<u>Sinking Fund Redemption Date (September 2)</u>	<u>Principal Amount To Be Redeemed</u>
2004	\$5,000.00	2018	\$5,000.00
2005	5,000.00	2019	5,000.00
2006	5,000.00	2020	5,000.00
2007	5,000.00	2021	10,000.00
2008	5,000.00	2022	10,000.00
2009	5,000.00	2023	10,000.00
2010	5,000.00	2024	10,000.00
2011	5,000.00	2025	10,000.00
2012	5,000.00	2026	10,000.00
2013	5,000.00	2027	10,000.00
2014	5,000.00	2028	15,000.00
2015	5,000.00	2029	15,000.00
2016	5,000.00	2030	15,000.00
2017	5,000.00	2031	15,000.00
		2032	13,325.00

No interest shall accrue on a Bond beyond the March 2 or September 2 for which such Bond is called for redemption if funds available for such redemption are on deposit with the Paying Agent. Notice of redemption must be given by registered or certified mail, or by personal service, at least 30 days prior to the redemption date. Any determination as to which Bond or Bonds are to be called for redemption shall be made by the City in accordance with the Bond Law. Transfers of property ownership within the District could result in prepayment of assessments and resulting Mandatory Prepayment Account Redemption. It is not possible to estimate the rate at which such redemptions, if any, may occur.

The Paying Agent shall cause notice of any redemption to be mailed by registered or certified mail or by personal service, at least 30 days prior to the redemption date, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Bond Register in the Principal Office of the Paying Agent. The Paying Agent shall also cause notice of redemption to be mailed to the Securities Depositories and to one or more of the Information Services at least one day earlier than the giving of notice to the Owners as aforesaid; provided, however, such mailing to the Securities Depositories and Information Services shall not be a condition precedent to such redemption and failure to so mail or of any person or entity to receive any such notice, or any defect in any notice of redemption, shall not affect the validity of the proceeding for the redemption of such Bonds.

Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the CUSIP numbers and Bond numbers of the Bonds to be redeemed by giving the individual CUSIP number and Bond number of each Bond to be redeemed or shall state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, shall state as to any Bond called in part the principal amount thereof to be redeemed, and shall require that such Bonds be then surrendered at the Principal Office of the Paying Agent for redemption at the said redemption price, and shall state that further interest on such Bonds, or the portion thereof to be redeemed, will not accrue from and after the redemption date.

Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Upon surrender of Bonds redeemed in part only, the City shall execute and the Paying Agent shall authenticate and deliver to the registered Owner, at the expense of the City, a new Bond or Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

DTC Book-Entry Only

The following information concerning DTC and DTC's book-entry-only system has been obtained from DTC. The City takes no responsibility for the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The following description includes the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, other payments with respect to the Bonds to Direct Participants or Beneficial Owners confirmation and transfer of beneficial ownership interests in such Bonds, and notices to beneficial owners. However, DTC, the participants, and the Beneficial Owners should not rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds (in this section referred to as the "Securities"). The Securities will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual Underwriter of each Security (the "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 Participants through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive Securities representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates will be required to be printed and delivered.

The City may decide to, discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

Sources and Uses of Funds

The estimated sources and uses of funds in connection with the sale and delivery of the Bonds are set forth in the exhibit below.

**Estimated Sources And Uses Of Funds Schedule
Lydia Lane Sewer Assessment District**

SOURCES OF FUNDS	
Par Amount of 2002 Bonds	<u>\$228,325.00</u>
TOTAL SOURCES OF BONDS	\$228,325.00
USES OF FUNDS	
Improvement Fund	\$183,003.72
Reserve Fund ⁽¹⁾	12,713.61
Costs of Issuance ⁽²⁾	<u>32,607.67</u>
TOTAL USES OF FUNDS	\$228,325.00

⁽¹⁾ This amount represents the Reserve Requirement.

⁽²⁾ Includes underwriter's discount.

Amounts on deposit in the Improvement Fund will be held by the City and applied to the costs of the Project. Amounts on deposit in the Costs of Issuance will be applied by the Paying Agent to pay the costs of issuing the Bonds, includes the fees and expenses of Bond and Disclosure Counsel, Engineering fees relating to the formation of the District, and Paying Agent fees and printing fees. Amounts on deposit in the Reserve Fund will be held by the Paying Agent and applied as described below under the caption "SOURCES OF PAYMENT FOR THE BONDS - Reserve Fund."

Debt Service Schedule

The debt service requirements of the Bonds are set forth below.

**Lydia Lane Sewer Assessment District
Debt Service Schedule**

Bond Year Ending September 2	Bonds Principal	Interest	Debt Service
2002			
2003			\$14,650.85
2004	\$5,000.00	6.000%	18,699.50
2005	5,000.00	6.000	18,399.50
2006	5,000.00	6.000	18,099.50
2007	5,000.00	6.000	17,799.50
2008	5,000.00	6.000	17,499.50
2009	5,000.00	6.000	17,199.50
2010	5,000.00	6.000	16,899.50
2011	5,000.00	6.000	16,599.50
2012	5,000.00	6.000	16,299.50
2013	5,000.00	6.000	15,999.50
2014	5,000.00	6.000	15,699.50
2015	5,000.00	6.000	15,399.50
2016	5,000.00	6.000	15,099.50
2017	5,000.00	6.000	14,799.50
2018	5,000.00	6.000	14,499.50
2019	5,000.00	6.000	14,199.50
2020	5,000.00	6.000	13,899.50
2021	10,000.00	6.000	18,599.50
2022	10,000.00	6.000	17,999.50
2023	10,000.00	6.000	17,399.50
2024	10,000.00	6.000	16,799.50
2025	10,000.00	6.000	16,199.50
2026	10,000.00	6.000	15,599.50
2027	10,000.00	6.000	14,999.50
2028	15,000.00	6.000	19,399.50
2029	15,000.00	6.000	18,499.50
2030	15,000.00	6.000	17,599.50
2031	15,000.00	6.000	16,699.50
2032	13,325.00	6.000	14,124.50

SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are issued upon and are secured by the unpaid assessments together with interest thereon and such unpaid assessments together with interest thereon, and such unpaid assessments constitute a trust fund for the redemption and payment of the principal of the Bonds and the interest thereon. All the Bonds are secured by the moneys in the Redemption Fund created pursuant to the Resolution and by the unpaid assessments levied. Principal of and interest on the Bonds are payable exclusively out of the Redemption Fund.

Although the unpaid assessments constitute fixed liens on the parcels assessed, they do not constitute a personal indebtedness of the respective owners of such parcels. There is no assurance that the owners will be financially able to pay the assessment installments or that they will pay such installments even though financially able to do so. See "SPECIAL RISK FACTORS".

The unpaid assessments will be collected in approximately equal annual installments by the City, and are payable and become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do general property taxes. The properties upon which the assessments were levied are subject to the same provisions for sale and redemption as are properties for nonpayment of general taxes.

Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Limited Obligation Upon Delinquency

The Bonds are limited obligation improvement bonds issued under Section 8769(b) of the Bond Law and are payable solely from and are secured solely by the assessments and the amounts in the Redemption Fund and the Reserve Fund. The City's obligation to advance moneys to pay debt service on the bonds in the event of delinquent assessment installments shall not exceed the balance in the Reserve Fund. The City has not obligated itself to, and will not, advance any other funds to pay debt service on the Bonds.

Reserve Fund

Upon receipt of the proceeds from the sale of the Bonds, the Paying Agent shall deposit an amount equal to \$12,713.81 in the Reserve Fund, which amount is equal to approximately 65% of maximum annual debt service on the Bonds (the "Reserve Requirement"). The moneys in the Reserve Fund shall constitute a trust fund for the benefit of the owners of the Bonds, and shall be administered by the Paying Agent in accordance with and pursuant to the provisions of Part 16 of the Bond Law; provided, that proceeds from redemption or sale of the properties with respect to which payment of delinquent assessment installments and interest thereon was made from the Reserve Fund, shall be credited to the Reserve Fund; and provided, further, that for the purposes of complying with federal tax law with respect to the Bonds and providing for reduction of the amount on deposit in the Reserve Fund during the term of the Bonds pursuant to Section 8887 of the Bond Law, all proceeds from investment of monies in the Reserve Fund in excess of the Reserve Requirement.

Covenant to Commence Superior Court Foreclosure

The Bond Law provides that in the event any assessment or installment thereof or any interest thereon is not paid when due, the City will order the institution of a court action to foreclose the lien of the unpaid assessment. In such an action, the real property subject to the unpaid assessment may be sold at judicial foreclosure sale. This foreclosure sale procedure is mandatory. However, the City covenants with and for the benefit of the owners of the Bonds that, no later than October 1 of each year it will file an action in the Superior Court to foreclose the lien on each delinquent assessment if the total amount of unsecured assessment delinquencies for the entire District exceeds five percent of the assessment installments posted to the tax roll for that fiscal year.

Prior to July 1, 1983, the statutory right of redemption from such a judicial foreclosure sale was limited to a period of one year from the date of sale. Legislation effective July 1, 1983 amended this statutory right of redemption to provide that before notice of sale of the foreclosed parcel can be given following court judgment of foreclosure, a redemption period of 120 days must elapse.

Furthermore, if the Underwriter at the sale is the judgment creditor (i.e. the City), an action may be commenced by the delinquent property owner within six months after the date of sale to set aside such sale. The constitutionality of the aforementioned legislation which repeals the one-year redemption period has not been tested and there can be no assurance that, if tested, such legislation will be upheld.

In the event such Superior Court foreclosure or foreclosures are necessary, there may be a delay in payments to Beneficial Owners pending prosecution of the foreclosure proceedings and receipt by the City of the proceeds of the foreclosure sale; it is also possible that no bid for the purchase of the applicable property would be received at the foreclosure sale. See also "SPECIAL RISK FACTORS-Bankruptcy and Foreclosure" herein.

Teeter Plan

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Sections 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While the county bears the risk of loss on delinquent taxes which go unpaid, it also benefits from the penalties associated with these delinquent taxes when they are paid. In turn, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll. The Board of Supervisors of the County of Contra Costa has heretofore adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), and the City is a participant under the Teeter Plan.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless, prior to the commencement of a fiscal year, a petition for discontinuance is received and joined in by resolutions of the governing bodies of

not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then-accumulated tax delinquencies (excluding penalties) for that agency. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, and to the extent the County does not discontinue the Teeter Plan with respect to the City or the District, the County's Teeter Plan may help protect owners of the Bonds from the risk of delinquencies in the payment of Special Tax. The County has never discontinued the Teeter Plan with respect to the City or any of the special districts in the City.

Priority of Lien

The assessment (and any reassessment) and each installment thereof and any interest and penalties thereon constitute a lien against the parcels on which they were imposed until the same are paid. Such lien is subordinate to all fixed special assessment liens previously imposed upon the same property, but has priority over all private liens and over all fixed special assessment liens which may thereafter be created against the property. The lien is co-equal to and independent of the lien for general taxes and any community facilities district (Mello-Roos district) special taxes, including general taxes and community facilities district special taxes levied or imposed subsequent to the dates the assessment backing the Bonds were levied.

Investment of Moneys

Amounts on deposit in the Improvement Fund and the Reserve Fund will be invested in Authorized Investments. "Authorized Investments" is defined in the Paying Agent Agreement as (i) any security (other than those identified in paragraphs (a) and (d) of Section 53601 of the Government Code of the State) in which the City may legally invest funds subject to its control, pursuant to Article 1, commencing with Section 53600, of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government Code of the State, as now or hereafter amended, provided that such securities are acquired at Fair Market Value, (ii) investments in a money market fund registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm" or "AAm", which fund may include a fund for which the Fiscal Agent, its affiliates or subsidiaries provide investment, advisory or other services, or (iii) the Local Agency Investment Fund of the State of California, created pursuant to 11429.1 of the California Government Code, but only, in the case of funds held by the Paying Agent, to the extent any monies invested by the Paying Agent are subject to deposit and withdrawal solely by the Paying Agent.

THE LYDIA LANE SEWER ASSESSMENT DISTRICT

General Information Concerning the District

The District is located in a residential neighborhood in the City of Clayton in Contra Costa County. The District is in a mature community originally settled approximately 53 years ago. The District initially consisted of 27 residential parcels. The City received prepayment of the assessment on 11 parcels, leaving 16 parcels subject to the assessment lien. All of the parcels are improved with single-family homes. The lots range in size from 11,400 square feet to 30,000 square feet. The maps depicting the residential parcels within the District are on file with the City Engineer.

Project Description

The proposed improvements include engineering, environmental, administrative, and legal services associated with design, construction, and administration to provide complete and operating sewer facilities to the properties within the District.

The District is divided into two zones. Zone 1 includes all of the lots fronting on Lydia Lane. Zone 2 includes all of the lots fronting on Verna Way. All of the lots in each zone are similar in size to the other lots in the zone. All of the lots in both zones are developed with single family dwellings.

Each lot will receive one sewer lateral and property line cleanout. Each lot will be eligible for connection and payment of the connection fee with assessment district funds. The sewer main in each zone will provide equal special benefit to all properties within that zone.

Summary of Estimated Project Costs

The estimated costs associated for each zone within the District pursuant to the Engineer's Report are set forth below.

Summary of Estimated Project Costs

Zone 1

Sewer System Improvements	\$182,620
Connection and Inspection Fees	60,750
Design/Administration	37,000
Bond Costs	67,680
Total	<u>348,050</u>
Zone 1 Assessment per parcel	<u>15.115</u>

Zone 2

Sewer System Improvements	\$20,723
Connection and Inspection Fees	10,000
Design/Administration	6,000
Bond Costs	10,227
Total	<u>46,950</u>
Zone 2 Assessment per parcel	<u>11.738</u>

Allocation of Costs

The costs of sewer system improvements are allocated equally to each residential lot within each zone. This allocation is based on each lot within a zone being a low-density, single family residential lot which share the same wastewater generation rates per lot. The Bond costs (Reserve Fund and Underwriter's discount) are allocated based on a percentage of the principal amount of Bonds are also allocated equally to each residential lot within each zone, except lots which prepaid the assessment. The fixed Bond costs (*i.e.*, Bond and Disclosure Counsel, Engineering costs, Paying Agent fees and printing) are allocated equally to each lot within the District, except lots which prepaid the assessment.

The parcels who elected to make an up-front cash payment will not pay costs relating to the Bond costs.

Value to Lien Analysis

Article XIII A of the California Constitution ("Proposition 13") limits assessed value to a City's valuation of real property shown on the 1975-76 tax roll, subject to certain annual adjustments (equal to the percentage increase in the consumer price index not to exceed two percent) or the appraised value of real property when purchased, newly constructed or after a change in ownership has occurred after 1975. Therefore, the assessed value is typically much less than market value for most properties, particularly the property has not been a recent change of ownership. See "THE LYDIA LANE SEWER ASSESSMENT DISTRICT - Individual Parcel Information."

Based on Contra Costa City Assessor's records as of the 2001-02 tax year, the assessed valuation of land and improvements of parcels bearing unpaid assessments within the District total \$3,400,828. The total assessed valuation of the land and improvements within the District is approximately 14.8 times the assessment lien for all Bonds.

Individual Parcel Information

Set forth below is a schedule which identifies the last date of change of ownership and assessed valuation by the City for each parcel which bears an unpaid assessment within the District.

**Lydia Lane Sewer Assessment District
Change of Ownership And Assessed Valuation
Lydia Lane Sewer Assessment District
Change of Ownership And Assessed Valuation⁽¹⁾**

Zone	Last Change Of Ownership	Assessor's Parcel Number	Assessed Value	Lien	Assessed Value to Lien
1	09/08/99	120-052-017-7	\$ 277,440	\$15,124.96	18.34
1	12/08/00	120-051-010-3	372,000	15,124.96	24.60
1	07/22/97	120-051-008-7	120,810	15,124.96	7.99
1	08/31/94	120-051-007-9	133,763	15,124.96	8.84
1	02/25/00	120-052-016-9	222,839	15,124.96	14.73
1	10/30/98	120-052-015-1	274,664	15,124.96	18.16
1	01/17/97	120-052-011-0	408,738	15,124.96	27.02
1	05/30/97	120-052-009-4	218,964	15,124.96	14.48
1	04/01/98	120-052-006-0	230,387	15,124.96	15.23
1	08/31/94	120-052-005-2	78,787	15,124.96	5.21
1	03/03/58	120-052-004-5	51,871	15,124.96	3.43
1	12/16/86	120-052-003-7	199,887	15,124.96	13.22
2	01/19/90	120-042-006-3	230,387	11,737.23	19.63
2	04/05/77	120-042-005-5	78,787	11,737.23	6.71
2	02/24/95	120-043-009-6	246,124	11,737.23	20.97
2	05/21/98	120-043-007-0	<u>255,380</u>	<u>11,737.23</u>	<u>21.76</u>
Total			\$3,400,828	\$228,448.44	14.89
Prepaid Parcels					
1	08/25/88	120-051-009-5	\$ 63,487	\$15,124.96	
1		120-051-006-1	87,042	15,124.96	
1	06/20/97	120-051-005-3	234,547	15,124.96	
1		120-051-004-6	321,187	15,124.96	
1		120-051-003-8	63,487	15,124.96	
1		120-051-013-7	402,900	15,124.96	
1	07/08/93	120-051-012-9	63,487	15,124.96	
1	08/17/90	120-052-012-8	178,873	15,124.96	
1	10/05/90	120-052-010-2	62,617	15,124.96	
1	07/30/96	120-052-008-6	296,051	15,124.96	
1	09/03/98	120-052-007-8	<u>50,970</u>	<u>15,124.96</u>	
			\$1,824,648	\$166,374.56	

2002-03 Assessment

The estimated assessment for 2002-03 is \$22,512. The amount of estimated assessment on a per parcel basis for 2002-03 is \$1,482 for Zone 1 (12 parcels) and \$1,182 for Zone 2 (4 parcels). The per parcel assessment includes the annual bond administration assessment of \$150. The total annual administration assessment may vary each year subject to a maximum of

\$150. All parcels subject to the assessment lien share proportionately in the cost of the wastewater facilities, and therefore, the per parcel assessment is the same for all parcels.

Special Tax and Assessment Delinquencies and Foreclosure Proceedings

The Board of Supervisors of the County of Contra Costa (the "County") has adopted the Teeter Plan. The Teeter Plan guarantees distribution of 100% of the general and special assessments levied to the taxing entities within the County including the special assessments levied by the District. Under the County's Teeter Plan, a Tax Loss Reserve Account is held by the Auditor-Controller in order to cover losses resulting from unpaid taxes and assessments only to ultimately guarantee the tax collector full receipt whenever property is sold at a tax sale. The Tax Loss Reserve Fund is required to be funded to the amount of 25% of the County's aggregate delinquencies held at June 30 of the preceding year. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County's general fund.

A county electing to utilize the Teeter Plan may elect to discontinue its use for any tax levying agency if the rate of secured tax delinquencies in any fiscal year exceeds 3% of the total of all taxes levied on the secured roll of that agency. Otherwise, the Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year, the County Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the County Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions, including the District. Further, the District's assessments would be subject to taxpayer delinquencies, and the District would realize the benefit of interest and penalties collected from delinquent taxpayers, pursuant to law.

The County has agreed to file an action in the Superior Court to foreclose the lien on each delinquent assessment if the sum of unsecured assessment delinquencies for the preceding fiscal year exceeds five percent of the assessment installments posted to the tax roll for that fiscal year, and if the amount of the Reserve Fund is less than the Reserve Requirement.

Direct and Overlapping Bonded Debt

The District's statement of direct and overlapping bonded debt, which is set forth below, was prepared by California Municipal Statistics. It has been included for general information purposes only. The City has not reviewed the statement for completeness or accuracy and makes no representations in connection with the statement.

Contained within the District's boundaries are numerous overlapping local entities providing public services. These local entities may have outstanding bonds or other obligations issued in the form of general obligation, lease revenue, special tax and special assessment bonds. The first column in the table names the public agencies which have outstanding debt as of the date of the report and whose boundaries overlap the District. The second column in the table shows the percentage of each overlapping entity's assessed value located within the boundaries of the District. The third column shows the corresponding portion of each overlapping entity's existing debt payable from property taxes levied within the District. The total amount of debt for each overlapping entity is not shown in the table. The table below includes all of the parcels in the District, including any parcels that may have prepaid assessments.

**Statement Of Direct And Overlapping Bonded Debt
Lydia Lane Sewer Assessment District (As of 7/31/02)**

2001-02 Local Secured Assessed Valuation: \$5,283,258

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 7/31/02</u>
Contra Costa Community College District	0.006%	\$3,000
Mount Diablo Unified School District	0.026	18,044
East Bay Regional Park District	0.003	5,023
Mount Diablo Unified School District Community Facilities District No. 1	0.026	19,945
City of Clayton – Lydia Lane Assessment District	100.	_____ - (1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$46,012

<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>	<u>% Applicable(2)</u>	<u>Debt 7/31/02</u>
Contra Costa County General Fund Obligations	0.006%	\$20,061
Contra Costa County Pension Obligations	0.006	16,886
Contra Costa County Board of Education Certificates of Participation	0.006	163
Contra Costa Community College District Certificates of Participation	0.006	84
Mount Diablo Unified School District Certificates of Participation	0.028	1,974
Contra Costa County Mosquito Abatement District Certificates of Participation	0.006	63
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$39,231

COMBINED TOTAL DEBT

\$85,243 (3)

- (1) Excludes 1915 Act bonds to be sold.
- (2) Based on redevelopment adjusted all property assessed valuation of \$5,083,831.
- (3) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2001-02 Assessed Valuation:

Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt	0.87%
Combined Total Debt	1.61%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$0

SPECIAL RISK FACTORS

The following factors, which represent major risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the credit quality of the Bonds. There can be no assurance that other major risk factors do not exist or will not become evident at any future time regarding the credit quality of the Bonds. Payment of the Bonds is a limited obligation of the City, payable from unpaid assessments levied upon real property within the District.

General

Under the provisions of the Bond Law, assessment installments, from which amounts for the payment of annual installments of principal of and interest on the Bonds are derived, will be billed to properties against which there are unpaid assessments on the regular property tax bills sent to owners of such properties. Such assessment installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Assessment installment payments cannot be made separately from property tax payments. Payments of assessment installments made by the owners of parcels will be applied on a pro-rata basis to all series of Bonds issued by the City on behalf of the District.

In order to pay debt service on the Bonds, it is necessary that unpaid installments of assessments on land within the District are paid in a timely manner. Should the installments not be paid on time, the City has established a Reserve Fund from the proceeds of the Bonds to cover delinquencies. The assessments are secured by a lien on the parcels within the District and the City has covenanted in certain circumstances to institute foreclosure proceedings to sell parcels with delinquent installments for amounts sufficient to cover such delinquent installments in order to obtain amounts to pay debt service on the Bonds.

Amendments to the Bond Law enacted in 1988 and effective January 1, 1989 provide that under certain circumstances property may be sold upon foreclosure at a lesser Minimum Price or without a Minimum Price. "Minimum Price" as used in the Bond Law is the amount equal to the delinquent installments of principal or interest of the assessment or reassessment, together with all interest penalties, costs, fees, charges and other amounts more fully detailed in the Bond Law. The court may authorize a sale at less than the Minimum Price if the court determines that sale at less than the Minimum Price will not result in an ultimate loss to the beneficial owners or, under certain circumstances, if beneficial owners of 75% or more of the outstanding bonds consent to such sale. However, there can be no assurance that foreclosure proceedings will occur in a timely manner so as to avoid depletion of the Reserve Fund and delay in payments of debt service on the Bonds.

Failure by owners of the parcels to pay installments of assessments when due, depletion of the Reserve Fund, delay in foreclosure proceedings, or the inability of the City to sell parcels which have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of assessments levied against such parcels may, result in the inability of the City to make full or punctual payments of debt service on the Bonds and Beneficial Owners would therefore be adversely affected.

Unpaid assessments do not constitute a personal indebtedness of the owners of the parcels within the District. There is no assurance the owners shall be able to pay the assessment installments or that they shall pay such installments even though financially able to do so.

Bankruptcy and Foreclosure

The payment of assessments and the ability of the City to foreclose the lien of a delinquent unpaid assessment may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by State law relating to judicial foreclosure. In addition, the prosecution of a foreclosure could be delayed due to lengthy local court calendars or procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of

the Bonds and various other legal instruments by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the assessments to become extinguished, bankruptcy of a property owner or anyone who claims an interest in such property could result in a delay in prosecuting superior court foreclosure proceedings and could result in delinquent assessment installments not being paid in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218. Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain, among other things, a number of provisions affecting the ability of the City to levy and collect both existing and future assessments.

Article XIII D requires that, beginning July 1, 1997, the proceedings for the levy of any assessment by the City under the 1913 Act (including, if applicable, any increase in such assessment or any supplemental assessment under the Act) must be conducted in conformity with the provisions of Section 4 of Article XIII D. The City has complied with the requirements of Article XIII D in connection with the proceedings to levy the assessments in the District. Under Section 10400 of the 1913 Act, any challenge (including any constitutional challenge) to the proceedings or the assessments must be brought within 30 days after the date the assessment was levied.

Article XIII C removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Article XIII C does not define the term "assessment", and it is unclear whether this term is intended to include assessments levied under the 1913 Act. In the case of the unpaid assessments which are pledged as security for payment of the Bonds, the Act provides a mandatory, statutory duty of the City and the County Auditor- Controller to post installments on account of the unpaid assessments to the property tax roll of the City each year while any of the Bonds are outstanding, commencing with property for fiscal year 1998-99, in amounts equal to the principal of and interest on the Bonds coming due in the succeeding calendar year. The City believes that the initiative power cannot be used to reduce or repeal the unpaid assessments which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the City and the Contra Costa City Auditor-Controller with respect to the unpaid assessments which are pledged as security for payment of the Bonds.

Effective July 1, 1997, the California State Legislature has enacted Chapter 38, Statutes of 1997. Among other things, Chapter 38 adds Section 5854 to the California Government Code to read as follows: "5854. Section 3 of Article XIII C of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution."

Assuming that, if challenged, Section 5854 is upheld as a valid interpretation of Section 3 of Article XIII C, Section 5854 establishes that owners of the Bonds from time to time are entitled to protection from an unconstitutional impairment of their contractual entitlement to receive payment of the principal of and interest on the Bonds by an exercise of the power of initiative

seeking to reduce or repeal the assessments and the installments thereon which are pledged pursuant to the Act as security for the Bonds.

The interpretation and application of Proposition 218 and Chapter 38 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.

Property Owned by the FDIC

The ability of the City to foreclose upon the lien relating to property on which assessments have not been paid may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. On June 10, 1991 the Resolution Trust Corporation issued a Statement of Policy Regarding the Payment of State and Local Real Property Taxes (the "Policy Statement"). The FDIC has adopted a substantially identical policy. The Policy Statement applies to the FDIC when it is liquidating asset in its corporate and receivership capacities; it does not apply when the FDIC is acting as a conservator. The Policy Statement provides, in part, that owned real property of the FDIC is subject to state and local real property taxes if those taxes are assessed according to the property's value, and that the FDIC is immune from ad valorem real property taxes assessed on other bases. The Policy Statement also provides that the FDIC will pay its proper tax obligations when they become due and will pay claims for delinquencies as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC interest in the property is appropriate. It further provides that the FDIC will pay claims for interest on delinquent property taxes owned at the rate provided under state law. The FDIC will not pay for any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. The Policy Statement also provides that if any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. No property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, a lien for taxes and interest may attach, but the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement is unclear as to whether the FDIC considers the assessments imposed by the City to be "real property taxes" which the FDIC intends to pay. The Policy Statement provides: "The (FDIC) is only liable for state and local taxes which are based on the value of the property during the period for which the tax is imposed, notwithstanding the failure of any person, including prior record owners, to challenge an assessment under the procedures available under state law. In the exercise of its business judgment, the (FDIC) may challenge assessments which do not conform with the statutory provisions, and during the challenge will generally pay tax claims based on the assessment level deemed appropriate. The (FDIC) may, in the exercise of its business judgment, challenge any prior taxes and assessments provided that (1) the (FDIC's) records (including appraisals, offers or bids received for the purchase of the property, etc.) indicate that the assessed value is clearly excessive, (2) a successful challenge will result in a substantial savings to the (FDIC), (3) the challenge will not unduly delay the sale of the property, and (4) there is a reasonable likelihood of a successful challenge".

In a letter dated August 25, 1992 to the Treasurer of the State of California, the FDIC stated that with respect to property owned by an institution under FDIC receivership, the FDIC will pay special taxes, special assessments and related interest if such taxes were imposed and valid liens secured prior to receivership. If any special tax, special assessment or any other non-ad valorem based tax is assessed while the institution is in receivership the taxes will not be

paid. In the letter the FDIC further stated that "where an institution in receivership does not own the underlying real property but holds only a mortgage or other security interest in the property, special taxes and special assessments and related interest, secured by a valid lien with priority over the receivership's institutions lien interest, eventually will be paid (e.g., at the time of foreclosure)." However, the FDIC may elect not to pay such claims but instead abandon its security interest.

The City is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel included in the District in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed on at a judicial foreclosure sale would likely reduce the number of or eliminate the persons willing to purchase a parcel at a foreclosure sale. Beneficial Owners of the Bonds should assume that the City will be unable to foreclose on parcels of land in the District owned by the FDIC. Such an outcome would cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment, of the Bonds.

Availability of Funds to Pay Delinquent Assessment Installments

If a delinquency occurs in the Redemption Fund, the City will transfer into the Redemption Fund an amount out of the Reserve Fund needed to pay the debt service on the Bonds. There is no assurance that the balance in the Reserve Fund will always be adequate to pay the debt service on the Bonds in the event of delinquent assessment installments. If, during the period of delinquency, there are insufficient amounts in the Reserve Fund to pay all delinquent installments, a delay may occur in payments to the Beneficial Owners of the Bonds. Such risk may be greater or its consequence more severe when ownership is concentrated and may be expected to decrease as ownership is diversified through development and sales.

Limited Obligation Upon Delinquency

The City's obligation to advance monies to pay Bond debt service in the event of delinquent assessment installments shall not exceed the balance in the Reserve Fund. The City has made an election in the Resolution of Intention not to be obligated to advance amounts from the General Fund of the City for delinquent assessment installments pursuant to Section 8769(b) of the Bond Law; the only obligation of the City is to transfer amounts available in the Reserve Fund. During a period of delinquency if there are insufficient amounts in the Reserve Fund, a delay may occur in payments to Beneficial Owners.

Disclosure to Future Home Buyers

The City has recorded a notice of assessment lien in the Office of the City Recorder. While title companies normally refer to such notices in title reports, there can be no assurances that such reference will be made, or, if made, that a prospective home buyer or lender will consider such assessment obligations in the purchase of a home or the lending of money thereon. Failure of the parties involved in the sale of a parcel to disclose the existence of the assessment may adversely affect the willingness and ability of future owners of property within the District to pay the assessment when due.

Factors Which May Affect Property Values

Property values of the property within the District may be affected by changes in general economic conditions, fluctuations in the real estate market, competition from other developing areas and other factors beyond the control of the property owners.

Discontinuance of Advancement of the Assessment

Taxing jurisdictions with delinquencies in excess of a 3% allowable limit at the end of a fiscal year may be subject to the discontinuance of their special assessment installment collections being advanced under the Alternate Method of Tax Apportionment (otherwise known as the Teeter Plan) of the City. In any case, the Teeter Plan cannot be depended upon for continued advancement of the assessment collections as this method of advancement of such tax collections may be discontinued at any time by majority vote of the Board of Supervisors of the County.

If such event should occur, the ability of the City to pay the principal of and interest on and redemption premiums, if any, upon the Bonds may be adversely affected, and the City may not be in a position to provide for the timely payment of the Bonds when due.

Direct and Overlapping Indebtedness

The ability of an owner of land within the District to pay the assessments could be affected by the existence of other taxes and assessments imposed upon the property. In addition, other public agencies whose boundaries overlap those of the District, without the consent of the City, may impose additional taxes or assessment liens on the property within the District to finance public improvements to be located inside of or outside of the District.

LEGAL MATTERS

No Litigation

There is no action, suit or proceeding known to be pending or threatened that seeks to restrain or enjoin the collection of the assessments or the execution or delivery of the Bonds, the Resolutions or in any way contesting or affecting the validity of the foregoing or any proceeding of the City taken with respect to the foregoing. There are no lawsuits or claims pending against the City which would impair the ability of the City to make payments or otherwise meet its outstanding obligations.

Legal Opinion

Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will render their opinion with respect to the validity and enforceability of the Bonds. Copies of such approving opinion will be available at the time of delivery of the Bonds. The form of the legal opinion to be delivered by Bond Counsel is included as "APPENDIX B - FORM OF OPINION OF BOND COUNSEL" to this Official Statement. The opinion is based on existing laws, regulations, rulings and court decisions. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

In further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Beneficial Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

Bank Qualified

The Code generally prohibits the deduction of interest on indebtedness incurred or continued by a bank or other financial institution to purchase or carry tax-exempt obligations, such as the Bonds. The Code, however, contains an exception to this provision which permits an 80 percent deduction for interest expense of banks and other financial institutions allocable to their investments in tax-exempt obligations to the extent they purchase obligations of certain small governmental units (i) that together with all subordinate entities thereof do not reasonably expect to issue in the aggregate more than \$10,000,000 of tax-exempt obligations (not counting private activity bonds other than qualified 501(c)(3) bonds) in a calendar year, and (ii) that designate such obligations as qualifying for the exception. The City has (i) represented that it expects that it and all subordinate entities thereof will not issue in the aggregate more than \$10,000,000 of tax-exempt obligations during calendar year 2002, and (ii) designated the Bonds as qualifying for such exception.

NO RATING

The City has not applied to any rating agency for the assignment of a credit rating to the Bonds.

UNDERWRITING

The Bonds were sold to U.S. Bancorp Piper Jaffray (the "Underwriter"), pursuant to a bond purchase contract, for an amount equal to the principal amount of the Bonds, less an underwriter's discount of \$5,708.13, for a total purchase amount of \$222,616.87.

The Underwriter has certified to the City and to Bond Counsel that the initial reoffering prices of the Bonds to the general public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers), at which prices at least ten percent (10%) of the Bonds of each maturity were reoffered, are as set forth on the Cover Page hereof. The initial offering prices stated on the Cover Page to this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to

APPENDIX A

GENERAL DEMOGRAPHIC INFORMATION ABOUT THE CITY OF CLAYTON

General Description

The City of Clayton (the "City") is located in the northeastern portion of Contra Costa County (the "County"), at the base of Mt. Diablo. It lies approximately 30 miles east of San Francisco and 90 miles southwest of Sacramento. The City of Concord abuts the City on the northwest, west and southwest sides, while unincorporated rural areas of the County lie to the south and east. City limits cover approximately 4.2 square miles.

The location of the City beyond the edge of the growing communities of Concord and Walnut Creek to the west and Pittsburg and Antioch to the north has preserved a distinctly rural atmosphere in the City. Although the City is increasingly becoming a suburban community, the City's general plan is intended to, and the surrounding buffers of Mt. Diablo and Black Diamond Regional Parks help, ensure that this rural atmosphere will be preserved.

Municipal Government

The City was incorporated in 1964, as a general law city. The council-manager form of municipal government is utilized, with five city council members, including the mayor, appointing a city administrator to administer day-to-day affairs under policy guidelines of the council. City offices are housed near the downtown area, which is sometimes referred to as "Old Town." The City has formed a Redevelopment Agency and Project Area to carry out needed redevelopment projects.

Population

The State Department of Finance estimates the population of the City to be 10,600 as of January 2002. This represents a 133% increase from its 1980 population and a more than six-fold increase from the 1970 population, as estimated by the United States Bureau of the Census. The following table summarizes the City, the County, and the State of California's population history from 1993 through 2002.

CITY OF CLAYTON, COUNTY OF CONTRA COSTA and STATE OF CALIFORNIA Population Estimates

<u>Year</u>	<u>City of Clayton</u>	<u>County of Contra Costa</u>	<u>State of California</u>
1993	8,250	843,700	31,303,000
1994	8,475	856,000	31,661,000
1995	8,750	863,300	31,910,000
1996	9,025	878,100	31,837,000
1997	9,625	892,600	32,207,000
1998	10,100	910,800	32,657,000
1999	10,500	928,500	33,140,000
2000	10,762	948,816	33,753,000
2001	10,950	965,100	34,385,000
2002	11,000	981,600	35,037,000

Source: State Department of Finance estimates (as of January 1) .

Employment

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 1997 through 2001. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

CONTRA COSTA COUNTY Civilian Labor Force, Employment and Unemployment (Annual Averages)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Civilian Labor Force ⁽²⁾	472,800	480,000	490,100	504,100	509,800
Employment	453,200	462,600	475,300	490,400	493,100
Unemployment	19,600	17,300	14,800	13,700	16,700
Unemployment Rate	4.1%	3.6%	3.0%	2.7%	3.3%
<u>Wage and Salary Employment:</u> ⁽³⁾					
Total All Industries	310,800	317,600	326,600	336,600	342,300
Agriculture	1,100	900	1,300	2,200	2,400
Mining	1,700	1,600	2,100	1,700	1,600
Construction	20,400	21,700	24,200	26,300	28,200
Manufacturing	26,000	25,600	24,400	25,400	25,500
Transportation, Public Utilities	20,400	20,100	19,900	20,500	20,800
Wholesale Trade	11,300	11,000	12,100	12,300	12,200
Retail Trade	57,400	59,200	60,600	62,000	62,200
Finance, Insurance, Real Estate	27,900	28,100	28,500	28,400	30,100
Services	98,900	103,800	106,300	109,800	109,900
Government	45,600	45,500	47,200	48,200	49,600

(1) Preliminary data not adjusted for seasonality, as of March 1999.

(2) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: Labor Division of the California State Employment Development Department.

The unemployment rate in the Oakland Metropolitan Statistical Area (which includes Contra Costa County) was 5.4 percent in May 2002, down from a revised 5.7 percent in April 2002, but above the year-ago estimate of 3.4 percent. This compares with an unadjusted unemployment rate of 5.9 percent for California and 5.5 percent for the nation during the same period. The unemployment rate was 6.0 percent in Alameda County and 4.5 percent in Contra Costa County.

Wage and salary employment rose by 2,700 jobs between April and May of 2002 in the Oakland MSA to reach 1,061,400. Construction businesses reported the largest upswing of 1,000 jobs. Transportation and public utilities employment rose by 900 jobs, primarily in air and water transportation. Retail trade added 800 jobs with gains spread throughout most industries while wholesale trade improved by 300 jobs. Services posted only a modest increase of 200 jobs. Gains in most services industries were partially offset by a seasonal loss of 900 jobs in personal services due to the end of the tax season. Government payrolls shrunk by 500 jobs with losses concentrated in local and state education. All other industry divisions remained unchanged between April and May.

Between May 2001 and May 2002, job totals in the Oakland MSA shrunk by 2,300 jobs, a downturn of 0.2 percent. Manufacturing dropped by 5,200 jobs with nearly two-thirds of the loss in electronic equipment and industrial machinery. Services decreased by 2,400 jobs due to a major drop in business services (down 4,100 jobs) which outweighed gains in almost all other services industries. The transportation and public utilities industry division recorded cutbacks of 1,600 jobs. Both wholesale and retail trade reduced payrolls over the year by 1,000 jobs and 300 jobs respectively. In retail, eating and drinking places and apparel and accessory stores recorded the largest losses. Construction employment slowed by 900 jobs over the year. On the other hand, government totals moved up by 7,600 jobs with almost all of the growth in public education and county government employment. Finance, insurance and real estate expanded by 1,100 jobs and farm employment picked up by 400 jobs. Mining remained unchanged over the year.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the County, the State and the United States for the period 1996 through 2000.

COUNTY OF CONTRA COSTA
Effective Buying Income
As of January 1, 1996 through 2000

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1996	Contra Costa County	\$ 17,251,252	\$45,119
	California	477,640,503	34,533
	United States	3,964,285,118	32,238
1997	Contra Costa County	\$ 17,773,391	\$46,468
	California	492,516,991	35,216
	United States	4,161,512,384	33,482
1998	Contra Costa County	\$ 19,979,564	\$48,476
	California	524,439,600	36,483
	United States	4,399,998,410	34,618
1999	Contra Costa County	\$ 21,772,470	\$53,234
	California	590,376,663	39,492
	United States	4,877,786,658	37,233
2000	Contra Costa County	\$ 24,823,698	\$60,189
	California	652,190,282	44,464
	United States	5,230,824,904	39,129

Source: Sales & Marketing Management Survey of Buying Power.

Commercial Activity

During the first two quarters of calendar year 2001, total taxable transactions in the City were reported to be \$18,485,000, or 5.1% greater than total taxable transactions of \$17,591,000 that were reported in the City during the first two quarters of calendar year 2000. A summary of historic taxable sales within the City during the past five years for which information is available is shown in the following table.

CITY OF CLAYTON
Taxable Transactions
(dollars in thousands)

<u>Year</u>	<u>Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Permits</u>	<u>Total Outlets Taxable Transactions</u>
1996	113	22,519	214	26,163
1997	109	25,240	193	29,354
1998	105	26,787	196	32,750
1999	99	30,388	196	36,978
2000	96	30,958	201	37,096

Source: California State Board of Equalization.

Construction Activity

Residential building activity for the past eight years in the County is shown in the following table.

COUNTY OF CONTRA COSTA New Residential Building Permits 1994 through 2001

Year	Single Family Units	Single Family Percent of Total	Multi-Family Units	Multi-Family Percent of Total
1994	3,680	95	189	5
1995	3,047	91	307	9
1996	3,137	88	415	12
1997	3,093	88	421	12
1998	3,143	62	1,106	38
1999	4,081	89	508	11
2000	4,344	77	1,295	23
2001	4,152	81	984	19

Source: Construction Industry Research Board.

Transportation

Interstate Route 680 and State Route 24 provide access for destinations in downtown Concord, Walnut Creek, Martinez, Pittsburg, Antioch, Alameda County and San Francisco.

Clayton Road carries traffic to downtown Clayton from State Route 24 in Concord and from there to Interstate Route 680.

Fire and Police Services

Fire suppression services are provided by the Contra Costa County Consolidated Fire District (the "District"). The Fire District has one fire station located at the intersection of Mitchell Canyon Road to serve the entire community. This station houses one response engine, one reserve engine and three full-time personnel.

Police protection services are provided by the City of Clayton Police Department.

Utilities

Pacific Gas and Electric Co. (PG&E) provides electricity and natural gas to the City. Telephone service to the community is supplied by Pacific Bell Telephone.

Water supply and planning for the area are provided by the Contra Costa County Water District. The major sources of water are the Sacramento River (directly) and the Sacramento River via the Contra Costa Water District Canal. There are adequate water sources at present and no problem in supply is foreseen in the future. The sewage generated by the City is treated by Contra Costa Central Sanitary District (the "Central Sanitary District") under the terms an agreement between the District and the Cities of Concord and Clayton, superseded by a new agreement executed in December 1991. The City of Concord provides sanitary sewer service lines from the City to the plant operated by the Central Sanitary District. The agreement to use Concord lines was initially executed in 1966 and the current agreement guarantees capacity to

the City for all properties located within the City limits and within the City's Sphere of Influence for development consistent with the City's current general plan growth projections.

APPENDIX B
FORM OF OPINION OF BOND COUNSEL

August 7, 2002

City of Clayton
6000 Heritage Trail
Clayton, California 94517

**OPINION: \$228,325.00 City of Clayton Lydia Lane Sewer Assessment District Limited
Obligation Improvement Bonds, Series 2002**

Members of the Board of Supervisors:

We have acted as bond counsel in connection with the issuance by the City of Clayton (the "City") of its \$228,325.00 City of Clayton Lydia Lane Sewer Assessment District Limited Obligation Improvement Bonds, Series 2002, dated August __, 2002 (the "Bonds"), pursuant to the Improvement Bond Act of 1915, Division 10 of the California Streets and Highways Code (the "Bond Law"), Resolution No. 25-2002 of the City Council of the City adopted June 18, 2002 (the "Resolution") and a Paying Agent Agreement dated as of August 1, 2002 (the "Agreement") between the City and Wells Fargo Bank, National Association, as paying agent. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is duly created and validly existing as a general law city with the power to adopt the Resolution and enter into the Agreement and to perform the agreements on its part contained therein and to issue the Bonds.

2. The Resolution has been duly adopted by the City Council of the City, and the Agreement has been duly executed by the City and constitutes a valid and binding obligation of the City enforceable in accordance with its terms.

3. Pursuant to the Bond Law, the Agreement creates a valid lien on the funds pledged under the Agreement for the security of the Bonds, subject to no prior lien granted under the Bond Law.

4. The Bonds have been duly authorized, executed and delivered by the City and are valid and binding limited obligations of the City, payable solely from the sources provided therefor in the Agreement.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code"), and, in the case of financial institutions (within the meaning of Section 265(b)(5) of the Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that such interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Agreement may be subject to bankruptcy, insolvency reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

