

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of Installment Payments designated as and comprising interest and received by the owners of the Certificates 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, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "CONCLUDING INFORMATION - Tax Matters" herein with respect to tax consequences of the Certificates.

\$11,145,000
2008 Water and Wastewater Revenue
Certificates of Participation
Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof
in Installment Payments to be Made by the
CITY OF SAN JUAN BAUTISTA
to the Public Property Financing Corporation of California

Dated: Date of Delivery**Due: October 1, as shown on inside cover**

The Certificates evidence and represent direct, undivided fractional interests in certain Installment Payments (the "Installment Payments"), to be made by the City of San Juan Bautista (the "City") pursuant to an Installment Sale Agreement, dated as of October 1, 2008 (the "Installment Sale Agreement"), between the City and the Public Property Financing Corporation of California (the "Corporation"). The payment of Installment Payments is secured by a pledge of the Net Revenues (as defined herein) of the City's Water System and Wastewater System (collectively, the "Enterprises"). The Corporation, for the benefit of the Owners of the Certificates, has assigned, among other things, its right to receive Installment Payments to the Trustee.

The Certificates are being issued (i) to finance certain water and wastewater facilities of the City of San Juan Bautista (the "City") (see "THE PROJECT" herein), (ii) to prepay certain indebtedness of the City, (iii) to fund, in whole or in part, a Reserve Fund for the Certificates, and (iv) to pay certain costs of executing and delivering the Certificates (see "ESTIMATED SOURCES AND USES OF FUNDS" herein).

The Certificates will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the Certificates. Individual purchases of the Certificates will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Interest represented by the Certificates will be payable on April 1 and October 1 of each year, commencing April 1, 2009 (the "Payment Dates"), and principal represented by the Certificates will be paid on the dates set forth in the Maturity Schedule on the inside cover. Payments of principal and interest with respect to the Certificates will be paid by Wells Fargo Bank, National Association, San Francisco, California, as trustee (the "Trustee"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates.

The Certificates are subject to prepayment prior to their scheduled payment dates as described herein. See "THE CERTIFICATES" herein.

MATURITY SCHEDULE
See inside front cover

This cover page contains information for general reference only, and is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Certificates. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

THE CITY'S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INSTALLMENT SALE AGREEMENT. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS CONSTITUTES A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Certificates are offered when, as and if sold, executed and delivered, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Jones Hall is also serving as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the Certificates in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about October 23, 2008.



DE LA ROSA & Co.
 INVESTMENT BANKERS

MATURITY SCHEDULE

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] (79824R)
2009	\$115,000	3.000%	3.000%	AA6
2010	115,000	3.250	3.300	AB4
2011	120,000	3.400	3.600	AC2
2012	125,000	3.700	3.900	AD0
2013	130,000	4.000	4.150	AE8
2014	135,000	4.200	4.400	AF5
2015	140,000	4.400	4.650	AG3
2016	150,000	4.625	4.850	AH1
2017	155,000	4.800	5.050	AJ7
2018	165,000	5.000	5.200	AK4
2019	170,000	5.125	5.350	AL2

\$1,020,000 6.000% Term Certificates Due October 1, 2024 – Yield: 6.100%; CUSIP[†]: AM0

\$1,075,000 6.125% Term Certificates Due October 1, 2028 – Yield: 6.250%; CUSIP[†]: AN8

\$7,530,000 6.250% Term Certificates Due October 1, 2043 – Yield: 6.500%; CUSIP[†]: AP3

[†] Copyright 2008, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. None of the City, the Corporation or the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

CITY OF SAN JUAN BAUTISTA, CALIFORNIA

CITY COUNCIL

George Dias, III, Mayor
Rick Edge, Vice Mayor
Priscilla Hill, Council Member
Robert Paradice, Council Member
Edward Laverone, Council Member

CITY STAFF

Stephen Julian, Interim City Manager
Linda G. McIntyre, Acting City Treasurer
Trish Paetz, Acting City Clerk

Trustee, Registrar, and Transfer Agent

Wells Fargo Bank, National Association
San Francisco, California

Financial Advisor

Bartle Wells Associates
Berkeley, California

Special Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations in connection with the offer or sale of the Certificates 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 Certificates 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 the Water System 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.

THE CERTIFICATES 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 CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

TABLE OF CONTENTS

INTRODUCTION.....	1
THE PROJECT	4
ESTIMATED SOURCES AND USES OF FUNDS	5
THE CERTIFICATES.....	6
General	6
Prepayment of the Certificates.....	6
Book-Entry System	9
SECURITY FOR THE CERTIFICATES	11
General	11
Installment Payments.....	13
Application of Revenues	13
Rate Stabilization Fund.....	14
Limitations on Parity Debt and Superior Obligations	14
Rate Covenants.....	15
Reserve Fund	16
Installment Payments are Unconditional	17
Additional Covenants	17
THE CORPORATION.....	18
THE CITY	19
General	19
Governance and Management.....	19
Water System and Wastewater System Staff	19
Post – Employment Benefits	20
Insurance Coverage.....	20
Investment of Surplus Funds.....	20
Collections and Delinquencies	20
THE WATER SYSTEM.....	22
General Description	22
Water Sources.....	22
Service Connections	22
Environmental Regulation	22
Capital Improvement Program	23
Water Demand and Deliveries	23
Water System Rates and Charges	23
Comparative Rates	25
Outstanding Water System Indebtedness.....	25
Largest Customers.....	25
Historic Operating Results	26
THE WASTEWATER SYSTEM	28
General Description	28
Environmental Regulation	28
Wastewater System Users	29
Largest Customers.....	29
Capital Improvement Program	30
Historical Wastewater Flow	31
Wastewater System Rates and Charges	31
Comparative Rates	32
Outstanding Wastewater System Indebtedness.....	33
Historic Operating Results.....	33
PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE	35
CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS	37
Article XIII B Gann Limit.....	37
Proposition 218	37
RISK FACTORS.....	40

Demand for the Enterprises	40
Expenses of the Enterprises	40
Parity Debt	40
Natural Disasters	40
Limited Recourse on Default	41
Limitations on Remedies Available; Bankruptcy	41
No Obligation to Tax	41
Change in Law	41
Loss of Tax Exemption	42
CONTINUING DISCLOSURE	42
CONCLUDING INFORMATION	42
Underwriting	42
Legal Opinions	42
Tax Matters	43
Litigation	44
Financial Advisor	44
Financial Statements	44
Professional Fees	45
Rating	45
Miscellaneous	45
APPENDIX A -- SUMMARY OF PRINCIPAL LEGAL DOCUMENTS	A-1
APPENDIX B -- CITY OF SAN JUAN BAUTISTA GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION	B-1
APPENDIX C -- CITY FINANCIAL STATEMENTS	C-1
APPENDIX D -- PROPOSED FORM OF FINAL OPINION	D-1
APPENDIX E -- FORM OF CONTINUING DISCLOSURE CERTIFICATE	E-1
APPENDIX F -- BOOK ENTRY PROVISIONS	F-1

OFFICIAL STATEMENT

\$11,145,000
2008 Water and Wastewater Revenue
Certificates of Participation

Evidencing the Direct, Undivided Fractional Interests of the
Owners Thereof in Installment Payments to be Made by the
CITY OF SAN JUAN BAUTISTA
to the Public Property Financing Corporation of California

The purpose of this Official Statement (which includes the cover page and the Appendices attached hereto) is to provide information concerning the execution and delivery of the City of San Juan Bautista 2008 Water and Wastewater Revenue Certificates of Participation (the "**Certificates**"), in the aggregate principal amount of \$11,145,000, evidencing and representing direct, undivided fractional interests of the registered owners thereof in certain Installment Payments (described herein) to be made by the City of San Juan Bautista (the "**City**") to the Public Property Financing Corporation of California (the "**Corporation**").

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Definitions of certain terms used herein and not defined herein have the meanings set forth in the Trust Agreement.

INTRODUCTION

The Certificates. The Certificates are being executed and delivered pursuant to the provisions of a Trust Agreement, dated as of October 1, 2008 (the "**Trust Agreement**"), among the City, the Corporation and Wells Fargo Bank, National Association, as trustee (the "**Trustee**"). The Certificates evidence and represent direct, undivided fractional interests of the registered owners thereof (the "**Owners**") in certain Installment Payments (the "**Installment Payments**") to be made by the City pursuant to an Installment Sale Agreement, dated as of October 1, 2008 (the "**Installment Sale Agreement**"), between the City and the Corporation. The Certificates are subject to prepayment prior to their scheduled payment dates as described herein. See "THE CERTIFICATES."

Purpose. The City presently owns rights and property and operates facilities for the supply, treatment and distribution of water (the "**Water System**") and for the collection, treatment and disposal of wastewater (the "**Wastewater System**") each within the service area of the City, and the City wishes to provide funds to finance improvements to the Water System and Wastewater System (the "**Project**"), as described herein. The Water System and the Wastewater System are referred to collectively as the "**Enterprises**."

The proceeds of the sale of the Certificates will be used (i) to finance the Project, (ii) to prepay certain indebtedness of the City relating to the Water System, (iii) to fund a Reserve Fund for the Certificates, and (iv) to pay certain costs of execution and delivery of the Certificates. See "THE FINANCING PLAN," "THE WATER SYSTEM," "THE WASTEWATER SYSTEM" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security for the Certificates. The Certificates evidence and represent direct, undivided fractional interests of the Owners in the Installment Payments to be made by the City pursuant to the Installment Sale Agreement. The payment of Installment Payments is secured by a pledge of the Net Revenues (as defined herein) of the Enterprises. See "SECURITY FOR THE CERTIFICATES" and "PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE" herein. The Installment Sale Agreement provides that the City may incur Parity Debt secured by a pledge of Net Revenues on a parity basis with the Installment Payments only upon the satisfaction of certain conditions as described therein (see "SECURITY FOR THE CERTIFICATES - Limitations on Parity Debt and Superior Obligations" herein).

Pursuant to the Installment Sale Agreement, the City has covenanted to fix, prescribe and collect certain rates and charges for service provided by the Enterprises. See "SECURITY FOR THE CERTIFICATES - Rate Covenant" herein.

Prepayment. The Certificates are subject to optional and mandatory prepayment as described herein.

Assignment. Pursuant to the Trust Agreement, the Corporation has transferred, conveyed and assigned to the Trustee, for the benefit of the Owners, substantially all of the Corporation's rights under the Installment Sale Agreement, including the right to receive Installment Payments from the City and the right to exercise any remedies provided therein in the event of a default by the City thereunder.

Risk Factors. There can be no assurance that the local demand for the services provided by the Enterprises will be maintained at levels described in this Official Statement, or that the City's expenses for the Enterprises will be consistent with the levels described in this Official Statement. Changes in technology, decreased demand, new regulatory requirements, natural disasters, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand.

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

See "RISK FACTORS" herein for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Certificates, including a discussion of the impact of Proposition 218, Constitutional limits on fees and charges, seismic considerations, limitation on remedies and changes in law.

The City. The City is a mission city located in the San Juan Valley in San Benito County and has a 2008 estimated population of 1,874 according to the California Department of Finance. The City operates under a council-manager form of government, with a five-member

City Council elected at large for overlapping four-year terms. The City provides water and wastewater service to residential and nonresidential customers in and adjacent to the City. For other selected information concerning the City, see "APPENDIX B - CITY OF SAN JUAN BAUTISTA GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION" hereto.

Limited Obligations. THE CITY'S OBLIGATION TO PAY THE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INSTALLMENT SALE AGREEMENT. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS CONSTITUTES A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Tax Matters. Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Special Counsel, interest with respect to the Certificates will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Special Counsel, interest on the Certificates will be exempt from State of California (the "State") personal income taxes. See "CONCLUDING INFORMATION – Tax Matters."

Summaries Not Definitive. The summaries and references of 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 document, statute, report, or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See APPENDIX A hereto for the definitions of certain terms used herein and for a summary of certain provisions of the Trust Agreement and the Installment Sale Agreement. Copies of the documents described herein will be available at the office of the Interim City Manager, 311 2nd Street, San Juan Bautista, California 95045.

THE PROJECT

The Project to be financed with proceeds of the Certificates includes the upgrading of critical portions of the City's existing infrastructure for water and wastewater. The Project is necessary to comply with a Cease and Desist Order issued by the State Regional Water Quality Control Board ("**RWQCB**"). The Project will reduce total dissolved solids ("**TDS**"), sulfates, and chlorides in the water the City delivers through its domestic water system by introducing higher-quality water into its supply. The improved water quality would be beneficial to public health and to the environment by making recycling of the City's wastewater feasible.

Specific components of the Project are described below.

Water Distribution System. The existing water distribution system consists of pipe ranging from 2-inch to 12-inch in diameter. The distribution system is undersized and nearing the end of its useful life with pipes in deteriorating condition. Pipe sizes and the pipeline grid do not meet industry standards, which require 6-inch and 8-inch pipelines in residential areas, with larger pipelines in commercial areas. The project will upgrade and replace pipelines throughout the system to meet current industry standards.

Water Treatment System. Many Water System customers have installed individual water softeners that add chloride to the water. In order to soften the City's groundwater without increasing levels of chloride, the City will install a large scale water softening system that uses pellet water softening technology to remove chloride from the water. The softening system will blend and treat the water from all three City wells and eliminate the need for customers to use individual water softeners.

Storage Reservoir. A new 1.2 million gallon reservoir is intended to be operated in conjunction with the City's production wells and existing reservoir. The City currently owns a single 235,000-gallon reservoir.

Other Improvements. The remaining proposed infrastructure improvements include upgrading the existing storm drainage system and replacing the existing sewer main along Fourth Street, Tualami Street, and Third Street to the wastewater treatment plant to reduce storm water infiltration and inflow.

Financing for the Project will be provided through net proceeds of the Certificates, as well as proceeds of an \$880,000 grant from the California Department of Transportation to fund the storm drainage system portion of the Project. The Project is expected to be completed in June 2011.

A portion of the proceeds of the Certificates will be applied to reimburse the City for preliminary expenditures relating to the Project, and amounts so reimbursed to the City will be applied to refinance the following obligations of the City relating to the Water System: (a) the Non-Revolving Line of Credit/Term Loan entered into on June 21, 2006, between the City and Pacific Capital Bank, N.A., d/b/a San Benito Bank, and (b) the City of San Juan Bautista Emergency Drought Relief Promissory Note of 1977 issued in the aggregate principal amount of \$65,600, dated December 6, 1977 (collectively, the "**Prior Debt**").

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Certificates are anticipated to be applied as follows:

SOURCES:

Principal Amount of Certificates	\$11,145,000.00
Less: Original Issue Discount	<u>(301,316.35)</u>
TOTAL SOURCES	\$10,843,683.65

USES:

Project Fund	\$9,468,870.72
Prepayment of Prior Debt	387,927.28
Costs of Issuance Fund (1)	211,104.40
Reserve Fund (2)	<u>775,781.25</u>
TOTAL USES	\$10,843,683.65

(1) Includes fees of Special Counsel, Disclosure Counsel, Financial Advisor and Trustee, Underwriter's discount and other costs of executing and delivering the Certificates.

(2) Equal to Reserve Requirement for the Certificates. See "SECURITY FOR THE CERTIFICATES – Reserve Fund."

THE CERTIFICATES

General

The Certificates will be delivered in the form of fully registered Certificates, without coupons, in denominations of \$5,000 or any integral multiple thereof, and will be dated the date of delivery to the initial purchaser thereof. The Certificates, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Certificates, all payments with respect to the Certificates will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. See “APPENDIX F – DTC and the Book-Entry Only System.”

Interest evidenced by the Certificates is payable on April 1 and October 1 of each year, commencing April 1, 2009 (each, an “Interest Payment Date”), and continuing to and including the date of maturity or prior prepayment, whichever is earlier. Principal evidenced by the Certificates is payable on October 1 in each of the years and in the amounts set forth on the inside cover page of this Official Statement. Principal and premium, if any, evidenced by the Certificates shall be payable to the Owner upon presentation and surrender of such Certificate at the corporate trust office of the Trustee in San Francisco, California. Interest evidenced by the Certificates shall be calculated on the basis of a 360-day year consisting of twelve 30-day months and payment of interest due with respect to any Certificate on any Interest Payment Date shall be made to the person appearing on the Registration Books as the Owner thereof as of the 15th calendar day of the month immediately preceding such Interest Payment Date (each, a “Record Date”), such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his address as it appears on the Registration Books as of such Record Date. At the written request of the Owner of Certificates in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of the Record Date preceding any Interest Payment Date, the Trustee will pay interest represented by the Certificates by wire transfer in immediately available funds to such account in the United States as is specified in the written request.

Prepayment of the Certificates

Optional Prepayment. The Certificates maturing on or before October 1, 2018, are not subject to optional prepayment prior to their respective stated maturities. The Certificates maturing on or after October 1, 2019, are subject to optional prepayments in whole or in part, on any date on or after October 1, 2018, from prepayments of the Installment Payments made at the option of the City under the Installment Sale Agreement. Certificates are subject to prepayment under this provision at a prepayment price equal to 100% of the principal amount of Certificates or portions thereof to be prepaid, together with accrued interest represented thereby to the prepayment date, without premium.

If the City prepays the Certificates in part but not in whole, the Trustee will select the Certificates for prepayment among maturities on such basis as the City designates in written notice to the Trustee, and by lot within a maturity.

Mandatory Sinking Account Prepayment. Certificates maturing on October 1, 2024, October 1, 2028 and October 1, 2043 (collectively, the “**Term Certificates**”) are subject to mandatory sinking fund prepayment on October 1 in each of the years as set forth in the following table, from the principal components of the Installment Payments required to be paid by the City under the Installment Sale Agreement with respect to each such prepayment date, at a prepayment price equal to the principal amount thereof to be prepaid, without premium, together with accrued interest represented thereby to the date fixed for prepayment, as follows:

\$1,020,000 Term Certificates Maturing October 1, 2024

Prepayment Date (October 1)	Principal Amount
2020	\$ 180,000
2021	190,000
2022	205,000
2023	215,000
2024 (Maturity)	230,000

\$1,075,000 Term Certificates Maturing October 1, 2028

Prepayment Date (October 1)	Principal Amount
2025	\$ 245,000
2026	260,000
2027	275,000
2028 (Maturity)	295,000

\$7,530,000 Term Certificates Maturing October 1, 2043

Prepayment Date (October 1)	Principal Amount
2029	\$ 315,000
2030	335,000
2031	355,000
2032	375,000
2033	400,000
2034	425,000
2035	455,000
2036	485,000
2037	515,000
2038	550,000
2039	585,000
2040	620,000
2041	660,000
2042	705,000
2043 (Maturity)	750,000

Notwithstanding the foregoing, if some but not all of the Term Certificates have been prepaid under the optional prepayment provisions described above, the aggregate principal

amount of such Term Certificates to be prepaid in each year thereafter will be reduced by the aggregate principal amount of such Term Certificates so prepaid, to be allocated among maturities in integral multiples of \$5,000 such that the resulting amount of principal represented by such Term Certificates subject to prepayment on any date is not less than the aggregate principal components of the Installment Payments coming due and payable on such date, as provided in a written certificate of the City filed with the Trustee.

Selection of Certificates for Prepayment. Whenever provision is made for the prepayment of Certificates and less than all Outstanding Certificates of any one maturity are called for prepayment, the Trustee will select Certificates for prepayment within such maturity by lot in any manner deemed fair by the Trustee. For the purposes of such selection, Certificates will be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid.

Notice of Prepayment; Rescission. When prepayment is authorized or required, at least 30 days but not more than 60 days prior to the prepayment date, the Trustee shall give notice of the prepayment of the Certificates on behalf and at the expense of the City. Such notice shall state the prepayment date and prepayment price and, if less than all of the then Outstanding Certificates of any maturity are to be called for prepayment, shall designate the numbers of the Certificates to be prepaid by giving the individual number (including the CUSIP number) of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment or by stating that all of the Certificates of one or more maturities have been called for prepayment, and shall require that such Certificates be surrendered on the designated prepayment date at the Trust Office of the Trustee for prepayment at said prepayment price. Such notice shall also provide that further interest represented by the Certificates will not accrue from and after the prepayment date.

The City has the right to rescind any optional prepayment by written notice to the Trustee on or prior to the date fixed for prepayment. Any such notice of optional prepayment shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation shall not constitute an Event of Default under the Trust Agreement. The City and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of prepayment. The Trustee shall mail notice of such rescission of prepayment in the same manner as the original notice of prepayment was sent.

Effect of Notice of Prepayment. Moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates having been set aside in the Installment Payment Fund, the Certificates shall become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Trust Office of the Trustee, said Certificates will be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus any applicable premium and plus interest accrued and unpaid to said date of prepayment. If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest represented thereby to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, then, from and after said date of prepayment, interest represented by the Certificates shall cease to accrue and become payable.

Book-Entry System

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered Certificates registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F- DTC and the Book-Entry Only System."

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

SCHEDULE OF INSTALLMENT PAYMENTS

The table below shows the annual payments of principal and interest with respect to the Certificates.

Period Ending (June 30)	Principal	Interest	Total
2009	—	\$ 290,514.27	\$ 290,514.27
2010	\$ 115,000	660,206.26	775,206.26
2011	115,000	656,612.51	771,612.51
2012	120,000	652,703.76	772,703.76
2013	125,000	648,351.26	773,351.26
2014	130,000	643,438.76	773,438.76
2015	135,000	638,003.76	773,003.76
2016	140,000	632,088.76	772,088.76
2017	150,000	625,540.01	775,540.01
2018	155,000	618,351.26	773,351.26
2019	165,000	610,506.26	775,506.26
2020	170,000	602,025.01	772,025.01
2021	180,000	592,268.76	772,268.76
2022	190,000	581,168.76	771,168.76
2023	205,000	569,318.76	774,318.76
2024	215,000	556,718.76	771,718.76
2025	230,000	543,368.76	773,368.76
2026	245,000	528,965.63	773,965.63
2027	260,000	513,500.00	773,500.00
2028	275,000	497,115.63	772,115.63
2029	295,000	479,659.38	774,659.38
2030	315,000	460,781.25	775,781.25
2031	335,000	440,468.75	775,468.75
2032	355,000	418,906.25	773,906.25
2033	375,000	396,093.75	771,093.75
2034	400,000	371,875.00	771,875.00
2035	425,000	346,093.75	771,093.75
2036	455,000	318,593.75	773,593.75
2037	485,000	289,218.75	774,218.75
2038	515,000	257,968.75	772,968.75
2039	550,000	224,687.50	774,687.50
2040	585,000	189,218.75	774,218.75
2041	620,000	151,562.50	771,562.50
2042	660,000	111,562.50	771,562.50
2043	705,000	68,906.25	773,906.25
2044	750,000	23,437.50	773,437.50
TOTAL	\$11,145,000	\$16,209,801.32	\$27,354,801.32

SECURITY FOR THE CERTIFICATES

General

THE CITY'S OBLIGATION TO PAY THE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INSTALLMENT SALE AGREEMENT. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS CONSTITUTES A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION OR ANY OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Each Certificate evidences and represents a direct, undivided fractional interest of the Owner thereof in the Installment Payments to be made by the City under the Installment Sale Agreement. The Corporation, pursuant to the Trust Agreement, has transferred, conveyed and assigned to the Trustee, for the benefit of the Owners, substantially all of the Corporation's rights under the Installment Sale Agreement, including the right to receive Installment Payments from the City and the right to exercise any remedies provided therein in the event of a default by the City thereunder.

All Net Revenues (defined below) are pledged to the payment of the Installment Payments and debt service on other Parity Debt as provided in the Installment Sale Agreement, and the Net Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided, however, that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Sale Agreement, including payment of debt service on any Parity Debt. This pledge constitutes a first lien on the Net Revenues for the payment of the Installment Payments and debt service on any Parity Debt in accordance with the Installment Sale Agreement. The Installment Sale Agreement provides that the City may incur additional Parity Debt upon the satisfaction of certain conditions as described therein (see "- Limitations on Parity Debt and Superior Obligations" below).

The "**Water System**" means the entire water supply, storage and distribution system of the City, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the supply, treatment and delivery of water to residents of the City and adjacent areas, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

The "**Wastewater System**" means the entire wastewater collection, treatment and disposal system owned or operated by the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the City for the collection, treatment and disposal of wastewater within the service area of the City, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the City.

The Water System and the Wastewater System are referred to collectively as the "Enterprises." The physical assets of the Enterprises are not security for the Installment

Payments or the Certificates. Neither the Certificate Owners nor the Trustee has any rights whatsoever to operate or dispose of any physical asset of the Enterprises under any circumstances.

“Net Revenues” means, with respect to the Water System or the Wastewater System for any period, all of the Gross Revenues received from the related Enterprise during such period minus the amount required to pay all Operation and Maintenance Costs of the related Enterprise which are payable during such period.

“Gross Revenues” means all gross income and revenue received by the City from the ownership and operation of the Enterprises, including, without limiting the generality of the foregoing:

- (a) all income, rents, rates, fees, charges and other moneys received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Enterprises or otherwise arising from the Enterprises;
- (b) all amounts levied by the City as a fee for connecting to the Enterprises, as such fee is established from time to time under the applicable laws of the State of California;
- (c) the earnings on and income derived from the investment of the foregoing income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Enterprises;
- (d) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Enterprises as permitted in e Installment Sale Agreement; and
- (e) amounts transferred from a Rate Stabilization Fund to the Enterprise Funds in any Fiscal Year under the Installment Sale Agreement.

The term “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Enterprises.

“Operation and Maintenance Costs” means, with respect to the Water System or the Wastewater System, all costs paid or incurred by the City for maintaining and operating the Water System or the Wastewater System, as the case may be, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System or the Wastewater System in good repair and working order, (b) all administrative costs of the City that are charged directly or apportioned to the operation of the Water System or the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance, and (c) administrative costs of the Certificates which the City is required to pay under the Installment Sale Agreement. “Operating and Maintenance Costs” do not include (i) payments of debt service on bonds, notes, contracts or other obligations issued by the City with respect to the Water System or the Wastewater System, (ii) depreciation,

replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

In the Installment Sale Agreement, the City covenants that it will not make any pledge of or place any lien on Net Revenues senior to the pledge and lien for the payment of the Installment Payments and will not make any pledge of or place any lien on the Net Revenues on a parity with the pledge and lien for Installment Payments, or subordinate thereto, except as otherwise provided in the Installment Sale Agreement. The City has the right to issue or incur indebtedness or other obligations on a parity with the Installment Payments (see “- Limitations on Parity Debt and Superior Obligations” below).

Installment Payments

The Installment Sale Agreement requires the City to make semi-annual payments of Installment Payments three Business Days preceding such Interest Payment (each, an “**Installment Payment Date**”), and continuing thereafter during the term of the Certificates, in amounts as specified in the Installment Sale Agreement (see “Application of Revenues” below, and APPENDIX A hereto). As a result of the assignment by the Corporation to the Trustee, the City will pay the Installment Payments directly to the Trustee.

The City shall determine the portion of each Installment Payment which is allocable to the Water System and the portion of each Installment Payment which is allocable to the Wastewater System. Notwithstanding such allocations, the Installment Payments are payable from all of the Net Revenues from the Enterprises as described above.

Application of Revenues

The City has previously established the Water Fund and the Wastewater Fund (collectively, the “**Enterprise Funds**”), which the City shall continue to hold and maintain for the purposes and uses set forth in the Installment Sale Agreement. The City shall deposit all Gross Revenues in the Enterprise Funds immediately on receipt. The City shall apply amounts in the Enterprise Funds as set forth in the Installment Sale Agreement and any agreements relating to the issuance of Parity Debt. The City shall apply amounts on deposit in the Enterprise Funds to pay when due the following amounts in the following order of priority:

- all Operation and Maintenance Costs;
- the Installment Payments and all payments of principal of and interest on any Parity Debt;
- to the Trustee the amount of any deficiency in the Reserve Fund established for the Certificates and in any reserve fund established for Parity Debt, the notice of which deficiency has been given to the City in accordance with the Trust Agreement and the related Parity Debt Documents, respectively;
- any other payments required to comply with the provisions of the Installment Sale Agreement and any Parity Debt Documents; and
- so long as no Event of Default has occurred and is continuing, the City may use and apply moneys in the Enterprise Funds for (i) the payment of any

subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Enterprises, (iii) the prepayment of any other obligations of the City relating to the Enterprises, or (iv) any other lawful purposes of the City.

Rate Stabilization Fund

The City has the right at any time to establish a Rate Stabilization Fund to be held by it for the purpose of stabilizing the rates and charges imposed by the City with respect to the Enterprises. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Installment Payments, as the City may determine. The City may, but is not be required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Enterprise Funds in any Fiscal Year for the purpose of paying the Installment Payments or the principal of and interest on any Parity Debt coming due and payable in such Fiscal Year. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Installment Payments or any Parity Debt. All interest or other earnings on amounts in the Rate Stabilization Fund shall be retained therein or, at the option of the City, be applied for any other lawful purposes. The City has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

Limitations on Parity Debt and Superior Obligations

Obligations Superior to Installment Payments. The City has covenanted in the Installment Sale Agreement that it will not, so long as any Certificates are outstanding, issue or incur any additional bonds or other obligations having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments.

Obligations on a Parity with the Installment Payments. The City has covenanted in the Installment Sale Agreement that, except for obligations issued or incurred to prepay the Installment Payments, the City will not issue or incur any Parity Debt unless:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Trustee a report of a Fiscal Consultant showing that for each of the five Fiscal Years following the issuance of such Parity Debt (beginning with the Fiscal Year in which such Parity Debt is issued), the Net Revenues (excluding any amounts derived from a Rate Stabilization Fund) which the City is projected to receive in such Fiscal Year will be at least equal to 120% of Debt Service coming due in such Fiscal Year. In computing the amount of Net Revenues which are projected to be received in any Fiscal Year, (i) amounts transferred from a Rate Stabilization Fund shall not be included in Net Revenues, and (ii) Net Revenues may be increased by the amount of any Additional Revenues which are projected to be received in such Fiscal Year.
- (c) The trustee or fiscal agent, if any, for such Parity Debt is the same entity performing the functions of Trustee under the Trust Agreement.

“Additional Revenues” means, with respect to the projection of Net Revenues to be received in any Fiscal Year in connection with the issuance of any Parity Debt, any or all of the following amounts:

- (i) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprises to be made by the City from the proceeds of such Parity Debt, in an amount equal to 100% of the estimated additional Net Revenues to be received in such Fiscal Year from properties to which service will be provided by such additions, improvements and extensions.
- (ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprises which has been adopted prior to the incurring of such Parity Debt, in an amount equal to 100% of the estimated additional Net Revenues which are projected to be received in such Fiscal Year from such increased charges.

Obligations Subordinate to Installment Payments. Nothing in the Installment Sale Agreement limits or affects the ability of the City to issue or incur obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established thereunder.

Rate Covenants

Water System Revenues. The City has covenanted in the Installment Sale Agreement to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay 100% of the following amounts in the following order of priority

- (a) All Operation and Maintenance Costs of the Water System estimated by the City to become due and payable in such Fiscal Year.
- (b) All Installment Payments which are allocable to the Water System and all payments of principal of and interest on any Parity Debt of the Water System as they become due and payable during the Fiscal Year, without preference or priority, except to the extent payable from amounts the proceeds of the Certificates or any Parity Debt.
- (c) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues of the Water System during such Fiscal Year.

Wastewater System Revenues. The City has covenanted in the Installment Sale Agreement to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay 100% of the following amounts in the following order of priority

- (a) All Operation and Maintenance Costs of the Wastewater System estimated by the City to become due and payable in such Fiscal Year.

- (b) All Installment Payments which are allocable to the Wastewater System and all payments of principal of and interest on any Parity Debt of the Wastewater System as they become due and payable during the Fiscal Year, without preference or priority, except to the extent payable from amounts the proceeds of the Certificates or any Parity Debt.
- (c) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues of the Wastewater System during such Fiscal Year.

Combined Net Revenues. In addition to the Gross Revenue rate covenants for each of the Water System and Wastewater System as described above, the City has covenanted to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprises during each Fiscal Year which are sufficient to yield Net Revenues of the Enterprises which are at least equal to 120% of the amount of debt service calculated for such Fiscal Year with respect to the Enterprises. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed by including in Gross Revenues all amounts transferred into the Wastewater Fund from the Rate Stabilization Fund during the Fiscal Year.

Reserve Fund

The City has agreed to establish and maintain so long as any Certificates are outstanding a separate fund, to be held by the Trustee, to be known as the Reserve Fund. The City is initially funding the Reserve Fund from proceeds of the Certificates, as described in "ESTIMATED SOURCES AND USES OF FUNDS" above. All amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying interest or principal represented by the Certificates when due and payable to the extent that moneys deposited in the Installment Payment Fund are not sufficient for such purpose, and making the final payments of principal and interest represented by the Certificates. After the initial deposit has been made, the City shall maintain or cause to be maintained in the Reserve Fund an amount equal to the Reserve Requirement. In the event of a deficiency in the Reserve Fund, the City shall pay to the Trustee, from Net Revenues, an amount necessary to bring the amounts on deposit in the Reserve Fund to the Reserve Requirement.

If, on any Interest Payment Date, the moneys on hand in the Installment Payment Fund do not equal the amount of the interest payment or principal payment then due and payable with respect to the Certificates, the Trustee shall apply the moneys on hand in the Reserve Fund to make such payment on behalf of the City by transferring the amount necessary to the Installment Payment Fund. Upon receipt by the Trustee from the City of any delinquent Installment Payment with respect to which moneys have been advanced from the Reserve Fund, such Installment Payment shall be deposited in the Reserve Fund to the extent of such advance.

If the amount of any income realized from the investment of the money in the Reserve Fund plus the remaining principal amount thereof exceeds the Reserve Requirement, such excess shall be transferred to the Installment Payment Fund.

The City may satisfy the requirement to deposit a specified amount in the Reserve Fund by the deposit of a surety bond, insurance policy or letter of credit meeting the requirements set

forth in the Trust Agreement (a "Qualified Reserve Fund Credit Instrument"). See APPENDIX A.

Installment Payments are Unconditional

The obligation of the City to make the Installment Payments and to perform and observe the other agreements contained in the Installment Sale Agreement are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim, or recoupment arising out of any breach of the City or the Trustee of any obligation to the City, or out of indebtedness or liability at any time owing to the City by the City or the Trustee.

Until such time as all of the Installment Payments have been fully paid, prepaid or secured, the City:

- (a) will not suspend, discontinue or fail to make any Installment Payments, Additional Payments or such other amounts;
- (b) will perform and observe all other agreements contained in the Installment Sale Agreement; and
- (c) will not terminate the Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any act or circumstance that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Enterprises, the taking by eminent domain of title to or temporary use of any or all of the Enterprises, 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 City or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with the Trust Agreement or the Installment Sale Agreement.

Nothing in the Installment Sale Agreement will be construed to release the City or the Trustee from the performance of any of the agreements on its part contained in the Installment Sale Agreement or in the Trust Agreement, and if the City or the Trustee fails to perform any such agreements on its part, the other party may institute such action to compel performance so long as such action does not abrogate the obligations of the City to pay the Installment Payments.

Additional Covenants

Additional covenants of the City contained in the Installment Sale Agreement include, but are not limited to, the following (for additional covenants, see "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Installment Sale Agreement" hereto):

- (a) Insurance. The City shall at all times maintain with responsible insurers all such insurance on the Enterprises as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. All amounts collected from insurance against accident to or destruction of any portion of the Enterprises shall be used, at the option of the City, either (a) be used for the acquisition or

construction of improvements and extension of the Enterprises, or (b) be applied prepay the Installment Payments or any Parity Debt. The City is required to maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the interests of the City, the Corporation, the Trustee and the Owners of the Certificates. Any such policy of insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

- (b) Operation of the Water System. The City shall operate the Enterprises in an efficient and economical manner and to operate, maintain and preserve the Enterprises in good repair and working order.
- (c) Sale or Eminent Domain of Water System. Except as provided in the Installment Sale Agreement, the City covenants that the Enterprises shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the City to pay the Installment Payments or the principal of or interest on any Parity Debt, or would materially adversely affect its ability to comply with the terms of the Installment Sale Agreement or any Parity Debt Documents. The City may not enter into any agreement which impairs the operation of the Enterprises or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments or any Parity Debt, or which otherwise would impair the rights of the Certificate Owners or the Trustee with respect to the Net Revenues. If any substantial part of the Enterprises is sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied to prepay the Installment Payments or any Parity Debt.

Any amounts received as awards as a result of the taking of all or any part of the Enterprises by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, shall either (a) be used for the acquisition or construction of improvements and extension of the Enterprises, or (b) be applied prepay the Installment Payments or any Parity Debt.

THE CORPORATION

The Public Property Financing Corporation of California, a nonprofit public benefit corporation was incorporated pursuant to the Nonprofit Public Benefit Corporation Law of the State (Title 1, Division 2, Part 2 of the California Corporation Code). The Corporation was established in order to facilitate and assist California municipalities and school districts in financing their facilities and equipment needs.

THE CITY

General

The City of San Juan Bautista, a California mission city, was incorporated in 1869 and is located in the San Juan Valley in San Benito County, California. For general demographic and economic information about the City, see APPENDIX B.

Governance and Management

The City is a general law city that operates under a Council-Manager form of government. The City Council has 5 members who are elected by district to serve 4-year overlapping terms at elections held every two years. The mayor and mayor pro tempore are selected by the City Council annually to serve one-year terms. The current mayor and city council members are set forth below:

Name	Position	Expiration of Term
George Díaz, III	Mayor	November 2008
Rick Edge	Mayor Pro Tempore	November 2008
Priscilla Hill	Council Member	November 2010
Robert Paradice	Council Member	November 2010
Edward Laverone	Council Member	November 2010

The City Manager is appointed by the City Council and is responsible for the administration of the affairs of the City. Stephen Julian was appointed Interim City Manager in April 2008. Mr. Julian has almost 40 years experience in municipal government. Immediately prior to his appointment with the City, he served as the City Manager for the City of Coalinga, California.

Water System and Wastewater System Staff

Operating Agreement. The treatment facility and sewer lift station staff of the Wastewater System are employed by Bracewell Engineering Inc. (the "**Operator**") under the Agreement for Operations, Maintenance, and Management Services executed in 1991 (the "**Operating Agreement**"), between the Operator and the City. The Operator is also responsible for the monitoring and reporting services required by the California Department of Public Health for the Water System. The Operating Agreement is automatically renewed for successive terms of 5 years, but either party may terminate the Operating Agreement with 120 days' notice to the other party.

Lloyd Bracewell is the project engineer and principal of the Operator. He received his PhD in Sanitary Engineering from University of California, Berkeley, in 1977, and has 30 years experience in project engineering and wastewater system management. He has worked with several California municipalities with respect to the design and management of their wastewater systems.

Maintenance Agreement. Day to day maintenance and operations of the Water System and the Wastewater System, other than the Wastewater Treatment Plant, are handled by MCE Corporation, under a Consulting Services Agreement dated as of January 3, 2008.

City Staff. The City does not have any employees that provide service to the Enterprises. Some revenues from Enterprises used to cover staff time.

Post – Employment Benefits

The Water System and Wastewater System are not responsible for any contributions to employee retirement plans or payments of post-employment healthcare benefits. The City makes varying matching contributions to a deferred compensation plan for employees which provides them an opportunity to save for retirement, but the City has no accrued, unfunded liability with respect to such plan. The City does not offer any post-employment health care benefits.

Insurance Coverage

The City is obligated under the Installment Sale Agreement to maintain certain insurance with respect to the Enterprises. See Appendix A. The City of San Juan Bautista is a member of the Public Agency Risk Sharing Authority of California (“**PARSAC**”) risk sharing pool. The PARSAC program provides the City with a shared risk layer of coverage up to \$995,000 net loss per occurrence above the \$5,000 retention. PARSAC is a joint powers authority comprised of 37 cities and towns throughout California. See Note 14 to the City’s Financial Statements shown in Appendix C.

Investment of Surplus Funds

Surplus funds of the Enterprises are invested in the City’s investment portfolio. See Appendix B for information about the City’s investment policy and its investment portfolio.

Collections and Delinquencies

The City bills each customer for water and sewer jointly on a monthly basis. The current charges are payable on presentation and delinquent 20 days after the date the bill was mailed (the “**Delinquency Date**”). A penalty of 10% of the bill is charged to delinquent accounts, plus a collection charge of 0.5%. If payment is not made by the Delinquency Date, the City mails a notice to the delinquent customer setting a date (such date to be at least 15 days from the mailing) of termination of service if payment is not made in full. If payment is not made in full, the City may disconnect or discontinue utility service to the delinquent customer with 24 hours additional notice.

The following table details the five-year history of billings and collections of the combined Enterprises. The average delinquency rate over the past five years is 5.4%.

TABLE 1
CITY OF SAN JUAN BAUTISTA ENTERPRISES
HISTORICAL BILLINGS AND COLLECTIONS
2004 through 2008

As of June 30	Billings	Collections	Collection Percentage	Delinquent Percentage
2004	\$ 544,764	\$ 538,783	98.9%	1.1%
2005	565,012	536,830	95.0	5.0
2006	891,459	756,976	84.9	15.1
2007	979,437	1,023,079	104.5 [1]	(4.5)
2008	1,374,883	1,235,643	89.9	10.1

[1] Overpayment in Fiscal Year 2006-07 was a result of receipt of delinquent payments from the previous Fiscal Year.

Source: City of San Juan Bautista.

THE WATER SYSTEM

General Description

The San Juan Bautista Water System consists primarily of groundwater operations and has operated for over 100 years. The Water System serves approximately 694 accounts. The City currently operates 3 wells and a 235,000 gallon reservoir. The existing reservoir is over 50 years old and is being replaced by a new 1.2 million gallon reservoir. The existing distribution system consists of pipe ranging from 2-inch to 12-inch in diameter. The distribution system is undersized and in poor condition and will be upgraded as part of the Project. See "THE PROJECT."

Water Sources

The sole City water supply is groundwater from the 3 wells in the Water System and the reservoir. After construction of the new reservoir, the City believes the Water System will have sufficient capacity for the needs of its existing customers and for growth anticipated by the City's General Plan. The raw groundwater water is currently chlorinated but not further treated prior to distribution to customers and is very hard and contains high levels of total dissolved solids ("TDS"). The City plans to install a large-scale water softener as part of the Project. See "THE PROJECT."

Service Connections

Service connections in the Water System range in diameter from 2 inch to 12 inches. The following table presents a summary of service connections for the current Fiscal Year.

TABLE 2
CITY OF SAN JUAN BAUTISTA WATER SYSTEM
ACTIVE WATER SERVICE CONNECTIONS
(Fiscal Year Ended June 30, 2008)

Category	Connections
Single Family Residential	614
Commercial/Institutional	79
Agriculture	<u>1</u>
Total	694

Source: City of San Juan Bautista.

Environmental Regulation

The City's Water System is subject to various State and Federal water quality regulations. The Regional Water Quality Control Boards ("RWQCBs") have the authority to enforce Federal Clean Water Act and other Federal water regulations and guidelines. The Water System operates under a permit issued by the California Department of Public Health.

The City is required to monitor many constituents in its groundwater supply, including: TDS, sodium, chloride, nitrates, manganese, sulfate, and total coliform bacteria. The primary water quality issue relating to the City's groundwater supply is the high concentration of TDS and hardness in all three wells and the high concentration of nitrates in Well 3.

In 2002, the California Department of Health Services, now the California Department of Public Health (“DPH”) issued a citation (No. 02-05-02C-010) against the City requiring the City to reduce nitrate levels in the drinking water. The City complied with the citation by taking Well 3 of the Water System off-line. The Project is designed to bring the Water System into compliance with all State and Federal requirements, including DPH requirements, while allowing active use of all three wells. See “THE PROJECT.”

Capital Improvement Program

Other than the Project, the City has no additional plans for capital improvements to the Water System. See “THE PROJECT” herein for a description of the improvements to the Water System being financed by the proceeds of the Certificates.

Water Demand and Deliveries

The volume of potable water utilized by the Water System over the past four years, has averaged 112.16 million gallons of water per year. The current average daily demand is approximately 354,000 gallons. The following table summarizes treated water deliveries for the most recent four calendar years.

**TABLE 3
CITY OF SAN JUAN BAUTISTA WATER SYSTEM
HISTORIC POTABLE WATER DELIVERIES**

Calendar Year	Total Million Gallons Delivered	Change Over Prior Year
2004	120.20	--
2005	120.53	0.33
2006	106.87	(13.66)
2007	101.03	(5.84)

Source: City of San Juan Bautista.

During calendar year 2007, residential uses comprised approximately 73% of total consumption while commercial/industrial uses constituted approximately 27%.

Water System Rates and Charges

General. In accordance with California law, the City may, from time to time, fix, alter or change fixed monthly system access fees, commodity charges and other fees related to the Water System. The City establishes rates by ordinance. It has the authority to establish charges for water service without the approval of any other governmental agency. It can terminate service to delinquent customers, require full payment of delinquent accounts, and impose reconnection fees to resume service. Neither the City nor the Water System is subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body in connection with the establishment of charges and fees related to the Water System. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Proposition 218” herein for a discussion of the treatment of the City’s rates and charges in light of Proposition 218.

Current Service Charges. The table below shows the City's current water rates for the quantities shown.

**TABLE 4
CITY OF SAN JUAN BAUTISTA
WATER SYSTEM RATES AND CHARGES
(as of July 1, 2008)**

Customer Class	Monthly Charge	Tier 1 (0-3,000 gal/mo) Rate per 1,000 gallons	Tier 2 (3,001-8,000 gal/mo) Rate per 1,000 gallons	Tier 3 (greater than 8,000 gal/mo) Rate per 1,000 gallons
City				
residential/commercial				
1/1/2008	\$36.00	1.50	3.90	5.40
1/1/2009	43.20	1.80	4.50	6.00
County				
residential/commercial				
1/1/2008	45.00	1.50	3.90	5.40
1/1/2009	54.00	1.80	4.50	6.00

Source: City of San Juan Bautista.

Beginning January 1, 2010, all service charges will be adjusted annually by an amount equal to the percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose metropolitan area, as published by the U.S. Department of Labor, Bureau of Statistics. This adjustment shall be applied to the first billing cycle occurring after January 1st of each year.

Connection Charges. The City also charges development impact fees, including water capacity charges to new customers connecting to the Water System. Development impact fees may be used for the payment of installation payments on the Certificates and constitute gross revenues from which pledged net revenues are derived. Connection fee revenues do not generally constitute a significant percentage of annual Water System revenues. As of September 1, 2008, no permits for water connections had been issued in Fiscal Year 2008-09.

Comparative Rates

Service Charges. The table below sets forth a comparison of average monthly bill for a single family residential unit in the City to those of surrounding communities.

**TABLE 5
CITY OF SAN JUAN BAUTISTA WATER SYSTEM
COMPARISON OF WATER SYSTEM RATES AND CHARGES
(AS OF AUGUST 26, 2008)**

Community	5,000 gal/mth	10,000 gal/mth	15,000 gal/mth
City of San Juan Bautista	\$48.30	\$70.80	\$97.80
Aromas Water District	\$43.29	\$63.86	\$84.43
City of Hollister	\$25.47	\$41.95	\$58.44
Sunnyslope County Water District	\$25.12	\$36.37	\$47.63
Tres Pinos Water District	\$24.02	\$28.04	\$32.06
City of Gilroy	\$10.67	\$18.92	\$27.17

Source: City of San Juan Bautista.

Outstanding Water System Indebtedness

On the date of issuance of the Certificates, the City will prepay certain outstanding indebtedness relating to the Water System as described under "THE PROJECT" above. After such prepayment, the City will have no outstanding indebtedness secured by Net Revenues of the Water System other than the Installment Payments.

Largest Customers

The following are the ten largest potable water customers of the Water System based on billings for the 12 months ended October 31, 2007. The top ten potable water users accounted for approximately 23.06% of total water billings during this period.

TABLE 6
CITY OF SAN JUAN BAUTISTA WATER SYSTEM
TEN LARGEST WATER CUSTOMERS
(November 1, 2006 - October 31, 2007)

Customer	Billed Amount	Percent of Total Billings
Amycel	\$ 40,591.50	6.38%
San Juan Grammar School	17,158.14	2.70
Mission Vista Home Owners	16,578.00	2.60
Christopher Ranch	12,876.68	2.02
State Division of Parks & Rec	12,798.74	2.01
Jardines Restaurant	11,944.87	1.88
Alameda Plaza Associates	10,803.50	1.70
San Juan Inn	8,881.02	1.40
Mission San Juan Bautista	8,666.64	1.36
CalTrans	<u>6,487.81</u>	<u>1.02</u>
Total Top Ten Customers	\$146,786.90	23.06%
Total All Customers	\$636,602.80 ^[1]	100.00%

[1] Water rates were increased in January 2007, and the additional four months of billing at the increased rates resulted in a significant increase in total billings for the twelve months ending October 31, 2007 over the twelve months ended June 30, 2007.

Source: City of San Juan Bautista.

Amycel is the City's largest water customer, in terms of both flow and billings, and is an industry leader in the production of mushroom spawn. Amycel operates a 60,000 square foot facility and has its business administration and process development headquarters in the City. The company has been located in the City for almost twenty years.

Historic Operating Results

The following table is a summary of audited operating results of the Water System for the Fiscal Years indicated, and unaudited results for Fiscal Year 2007-08. The following summary of operating results are qualified in their entirety by reference to the City's audited financial statements, including the notes thereto, which are reproduced in APPENDIX C hereto.

TABLE 7
CITY OF SAN JUAN BAUTISTA WATER SYSTEM
HISTORIC OPERATING RESULTS ^[1]

	Actual Fiscal Year 2004-05	Actual Fiscal Year 2005-06	Actual Fiscal Year 2006-07	Estimated Fiscal Year 2007-08
<u>Operating Revenues</u>				
Charges for services	\$143,665	\$294,792	\$354,764	\$569,400
Miscellaneous	22,864	11,816	12,894	12,184
Total operating revenues	166,529	306,608	367,658	581,584
<u>Operating Expenses</u>				
General and administration	76,736	82,305	116,837	63,790
Public works	134,727	159,913	148,363	100,058
Depreciation	29,317	34,649	34,649	34,649
Total operating expenses	240,780	276,867	299,849	198,497
Income (Loss) from Operations	(74,251)	29,741	67,809	383,087
<u>Nonoperating Revenues (Expenses)</u>				
Investment earnings	10,985	20,148	22,872	20,200
Interest expense	(1,939)	(1,770)	(2,458)	(1,858)
Gain (loss) on sale/retirement of capital assets	-	(1,293)	-	-
Forgiveness of Indebtedness ^[2]	-	229,073	20,414	-
Total nonoperating revenues (expenses)	9,046	246,158	-	-
Change in Net Assets	(65,205)	275,899	88,223	401,429
Net Assets, Beginning of Year	(62,613)	(127,818)	148,081	236,304
Net Assets, End of Year	\$(127,818)	\$148,081	\$236,304	\$637,733

[1] Audited Financial Statements for Fiscal Years prior to 2007-08 included capital expenditures and depreciation in the operating results.

[2] The Water System borrowed money from the City's General Fund to cover operating losses which debt has been forgiven.

Source: Audited Financial Statements for Fiscal Years 2004-05, 2005-06 and 2006-07; City of San Juan Bautista for Fiscal Year 2007-08.

THE WASTEWATER SYSTEM

General Description

The Wastewater System has been operating for over 70 years and currently serves a population of approximately 1,874 residents, representing approximately 661 accounts.

Collection System. The Wastewater System's collection system is composed of approximately 6.2 linear miles of gravity sewer pipeline ranging from 4 inches to 15 inches in diameter, 2.0 miles of force mains and 2 lift stations. The lift station on Ahwahnee Street is new, is in good condition, and has a backup generator. The lift station at Lang Court is approximately 40 years old, is in need of refurbishing and has no backup generator. Most of the sewer pipe in the Wastewater System is over 30 years old and made of vitrified clay pipe.

Wastewater Treatment Plant. The City has one wastewater treatment facility (the "Wastewater Treatment Plant"). The Wastewater Treatment Plant is located at 1120 3rd Street in the City. The Wastewater Treatment Plant treats both domestic and commercial wastewater from the City and surrounding unincorporated areas of the County. The current capacity of the Wastewater Treatment Plant is 270,000 gallons per day (gpd) for dry weather averaged from May through October, and 500,000 gpd for wet weather averaged from November through April, which is sufficient to meet the City's current need and growth anticipated by the City's General Plan.

The Wastewater Treatment Plant begins with preliminary treatment by screening solids larger than one-quarter inch and removing grit from the raw wastewater. The preliminary treated water then flows into a lift station and is pumped into Pond 1 where it is treated using the sequencing batch reactor activated sludge process to remove biochemical oxygen demand (BOD) and ammonia to meet secondary treatment standards. The secondary effluent from Pond 1 then flows through a pressure sand filter system and is disinfected with ultraviolet radiation to provide a tertiary level of treatment. This tertiary quality effluent is then discharged to San Juan Creek. The tertiary treated and disinfected effluent flows down the San Juan Creek to the Pajaro River and then ultimately to Monterey Bay.

Waste sludge created in the sequencing batch reactor activated sludge process is stored for up to 10 years in Pond 2 and then dredged, dewatered, and transported to a sanitary landfill in Monterey County for disposal.

Maintenance. In April 2008, the City updated their Sewer System Management Plan, originally adopted in 2005, in order to provide a plan and schedule to properly manage, operate, and maintain all parts of the sanitary sewer system. The goal was to help reduce and prevent Sewer System Overflows (SSOs), as well as mitigate any SSOs that might occur. The plan clarifies the responsibilities of City employees and employees of the Wastewater Operator with respect to maintenance and operation of the Wastewater System.

Environmental Regulation

The Regional Water Quality Control Boards (the "RWQCBs") have authority over all publicly-owned or -operated wastewater treatment facilities in California. The primary purpose of the RWQCBs' Waste Discharge Requirements ("WDR") is to assure water quality protection pursuant to a variety of State and Federal water quality regulations. In California, the RWQCB is the statutorily designated agency with authority to enforce Federal Clean Water Act

requirements and standards as well as other federal water quality regulations and guidelines such as the National Pollutant Discharge Elimination System (the "NPDES"), on behalf of the U.S. Environmental Protection Agency. The City's NPDES permit for the Wastewater System was issued in September 2003 and expires in September 2008. The permit has been administratively extended until December 2008, when City will have a hearing with RWQCB and the permit. The Report of Waste Discharge required for renewal of the was filed with the RWQCB in a timely manner.

The RWQCB issued Cease and Desist order CDO 01-106 in 2001 which requires the City to reduce the chloride levels in the effluent from the Wastewater Treatment Plant. After completion of the Project, the City expects to be in full compliance with these effluent waste discharge requirements. See "THE PROJECT."

Wastewater System Users

The Wastewater System served approximately 661 accounts as of June 30, 2008. Residential utility accounts account for approximately 58% of the Wastewater System's billings and commercial utility accounts are responsible for approximately 42%, includes one customer which has a wholesale contract for wastewater services. See "- Largest Customers" below. The number of accounts has remained steady over the past three years.

Largest Customers

The ten principal users of the Wastewater System, based on billings for the period from November 1, 2006 through October 31, 2007, are shown in the following table. Amounts billed to these principal users accounted for approximately 30.54% of the total billings for such period. Billings for the ten largest customers are expected to account for approximately 20% of total billings for the Wastewater System in Fiscal Year 2007-08.

**TABLE 8
CITY OF SAN JUAN BAUTISTA WASTEWATER SYSTEM
TEN LARGEST WASTEWATER CUSTOMERS
(November 1, 2006 – October 31, 2007)**

Customer	Amount Billed	Percent of Total
Earthbound Farm	\$166,867.35	21.12%
San Juan Grammer School	22,293.93	2.82
Jardines Restaurant	14,082.57	1.78
Mission Farm RV Park	11,284.80	1.43
San Juan Inn	7,618.20	0.96
Alameda Plaza Associates	6,403.11	0.81
True Leaf Farms	5,356.34	0.68
Posada de San Juan	4,723.08	0.60
State Division of Parks & Rec	1,766.61	0.22
Aromas San Juan Unified School	<u>947.88</u>	<u>0.12</u>
Total Top Ten Customers	\$241,343.87	30.54%
Total All Customers	\$790,156.00 ^[1]	100.00%

[1] Wastewater rates were increased in January 2007, and the additional four months of billing at the increased rates resulted in a significant increase in total billings for the twelve months ending October 31, 2007 over the twelve months ended June 30, 2007.

Source: City of San Juan Bautista.

Natural Selection Foods, d/b/a Earthbound Farms was founded in 1984 and offers organic produce for retail sale. Earthbound Farms has 1,200 employees in California and Arizona, and its company headquarters are located in San Juan Bautista. Earthbound Farm has a wholesale contract with the City which specifies a minimum charge of \$75,900 annually for wastewater services. In 2005 Earthbound Farm started discharging its 5,000 to 10,000 gpd of sanitary wastewater for treatment in the Wastewater System. However, from April 2006 through November 2006 and again from April 2007 through November 2007 Earthbound Farm discharged both sanitary wastewater and up to 100,000 gpd of process washwater from their produce packaging plant to the Wastewater Treatment Plant because of capacity limitations in their own process washwater treatment system. Earthbound Farm upgraded their own treatment facilities in late 2007 and early 2008 and now only discharges sewer water to the Wastewater Treatment Plant; as a result, the volume of discharge from Earthbound Farm has decreased significantly. Earthbound Farm was responsible for approximately 16% of revenues in Fiscal Year 2007-08, and the City projects that Earthbound Farm will be responsible for approximately 11% of revenues beginning in Fiscal Year 2008-09.

Capital Improvement Program

Other than the Project, the City has no additional plans for capital improvements to the Wastewater System to be paid from funds other than annual revenues of the Wastewater System. See "THE PROJECT" herein for a description of the improvements to the Wastewater System being financed by the proceeds of the Certificates.

Historical Wastewater Flow

The following table sets forth the daily volume of wastewater collected by the Wastewater System and treated at the Wastewater Treatment Plant in the first eight months of calendar year 2008 and the preceding three calendar years

**TABLE 9
CITY OF SAN JUAN BAUTISTA WASTEWATER SYSTEM
HISTORICAL INFLUENT FLOWS
(GPD)**

Year	Monthly Average Peak Flow	Monthly Average Flow
2005	245,000	195,000
2006	308,000	234,000
2007	267,000	205,000
2008 ^[1]	241,000	192,000

[1] Eight months ended August 31, 2008.

Source: City of San Juan Bautista.

Wastewater System Rates and Charges

Historical Service Charges. The following table identifies historical residential Wastewater System service charges from 1997 to the present.

**TABLE 10
CITY OF SAN JUAN BAUTISTA WASTEWATER SYSTEM
HISTORICAL RESIDENTIAL SERVICE CHARGES
1997-2008**

Year	Single Family Residential Sewer Service Charge
1997-2005	\$33.75
2006	54.00
2007	58.00
2008	62.00

Source: Bartle Wells Associates; City of San Juan Bautista.

Current Service Charges. On February 20, 2007, the City Council adopted the following rate structure, which includes 7% rate increases for each Fiscal Year through 2009-2010.

**TABLE 11
CITY OF SAN JUAN BAUTISTA WASTEWATER SYSTEM
CURRENT AND ADOPTED RESIDENTIAL SERVICE CHARGES
2008-2010**

Effective Date	Monthly Charge
1/1/2008	\$62.00
1/1/2009	66.00
1/1/2010	71.00

Source: Bartle Wells Associates; City of San Juan Bautista.

**TABLE 12
CITY OF SAN JUAN BAUTISTA WASTEWATER SYSTEM
CURRENT AND ADOPTED COMMERCIAL SERVICE CHARGES
2008-2010**

Effective Date	Minimum Monthly Charge	Standard Strength [1]	Moderate Strength [1]	High Strength [1]	Septage [1]
1/1/2008	\$62.00	\$6.70	\$10.05	\$13.40	\$33.50
1/1/2009	66.00	7.14	10.71	14.28	35.70
1/1/2010	71.00	7.68	11.52	15.36	38.40

[1] \$/1,000 gallons. Source: Bartle Wells Associates; City of San Juan Bautista.

Beginning January 1, 2011, all service charges will be adjusted annually by an amount equal to the percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose metropolitan area, as published by the U.S. Department of Labor, Bureau of Statistics. This adjustment shall be applied to the first billing cycle occurring after January 1st of each year.

Connection Fees. The City also charges development impact fees, including wastewater connection charges to new customers connecting to the Wastewater System. Development impact fees may be used for the payment of installation payments on the Certificates and constitute gross revenues from which pledged net revenues are derived.

Other than in Fiscal Year 2004-05, when an industrial customer paid over \$15,000 in connection fees, connection fee revenues do not generally constitute a significant percentage of annual Wastewater System revenues. As of September 1, 2008, no permits for wastewater connections had been issued in Fiscal Year 2008-09.

Comparative Rates

The table below sets forth a comparison of average monthly bill for a single family residential unit in the City to those of surrounding communities, based on rates in effect as of January 2008 and adopted rate increases to become effective in January 2009 and 2010.

**TABLE 13
CITY OF SAN JUAN BAUTISTA WASTEWATER SYSTEM
FLAT RATE PER SINGLE FAMILY DWELLING**

Community	January 2008	January 2009	January 2010
Sunnyslope County Water District	\$75.79	\$83.37	\$91.71
City of Hollister	64.86	90.15	124.40
City of San Juan Bautista	62.00	66.00	71.00

Source: City of San Juan Bautista.

Outstanding Wastewater System Indebtedness

As of the date of issuance of the Certificates, the City has no outstanding indebtedness secured by Net Revenues of the Wastewater System other than the Installment Payments.

Historic Operating Results

The following table is a summary of audited operating results of the Wastewater System for the Fiscal Years indicated, and the unaudited estimates for Fiscal Year 2007-08. The following summary of operating results are qualified in their entirety by reference to the City's audited financial statements, including the notes thereto, which are reproduced in APPENDIX C hereto.

TABLE 14
CITY OF SAN JUAN BAUTISTA WASTEWATER SYSTEM
HISTORIC OPERATING RESULTS ^[1]
(Fiscal Year Ended June 30)

	Actual Fiscal Year 2004-05	Actual Fiscal Year 2005-06	Actual Fiscal Year 2006-07	Estimated Fiscal Year 2007-08
<u>Operating Revenues</u>				
Charges for services	\$381,429	\$562,392	\$632,577	\$774,200
Miscellaneous	6,051	2,284	(67)	94,360 ^[2]
Total operating revenues	387,480	564,676	632,510	868,560
<u>Operating Expenses</u>				
General and administration	131,764	136,536	136,337	133,207
Public works	275,727	254,980	322,204	137,896
Depreciation	86,442	85,418	83,305	75,387
Total operating expenses	493,933	476,934	541,846	346,490
Income (Loss) from Operations	(108,453)	87,742	90,664	522,070
<u>Nonoperating Revenues (Expenses)</u>				
Investment earnings	18	27	39	43
Interest expense	(7,929)	(6,026)	(3,089)	(917)
Gain (loss) on sale/retirement of capital assets	-	(5,563)	-	-
Forgiveness of Indebtedness ^[3]		352,134	-	-
Total nonoperating revenues (expenses)	(7,911)	340,572	(3,050)	(874)
Change in Net Assets	(114,364)	428,314	87,614	521,196
Net Assets, Beginning of Year	1,234,414	1,120,050	1,548,364	1,635,978
Net Assets, End of Year	\$1,120,050	\$1,548,364	\$1,635,978	\$2,157,174

[1] Audited Financial Statements for Fiscal Years prior to 2007-08 included capital expenditures and depreciation in the operating results.

[2] Consists primarily of miscellaneous one-time fees from Earthbound Farm for washwater discharge. See "Largest Customers" above.

[3] The Wastewater System borrowed money from the City's General Fund to cover operating losses which debt has been forgiven.

Source: Audited Financial Statements for Fiscal Years 2004-05, 2005-06 and 2006-07; City of San Juan Bautista for Fiscal Year 2007-08.

PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE

The City's estimated projected operating results for the Enterprises for the Fiscal Years ending June 30, 2009 through June 30, 2013 are set forth below, excluding depreciation.

Growth: The projections assume no annual growth in the number of active accounts for the Wastewater System or the Water System.

Rate adjustments: With respect to service charges, the projections assume rates will be as described above under "WATER SYSTEM - Service Charges – Current Service Charges" and "WASTEWATER SYSTEM - Service Charges – Current Service Charges" including adopted rate increases and annual inflation-tied increases. The projections assume that no Connection Fees will be collected annually.

Expenses: It is assumed baseline operation and maintenance expenses of the Enterprises will increase approximately 5.4% per year.

Collections: The projections assume that collections remain at the Fiscal Year 2007-08 level (89.9%). See "THE CITY – Collections and Delinquencies" above.

The financial forecast represents the City's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. The obligation of the City to make Installment Payments under the Installment Sale Agreement is limited to Net Revenues of the Water System and Wastewater System and the City is not obligated to apply any other revenues to make such Installment Payments. **The table shows debt service coverage on the Installment Payments based on projected Gross Revenues and projected Net Revenues.**

**TABLE 15
CITY OF SAN JUAN BAUTISTA
WATER SYSTEM AND WASTEWATER SYSTEM
PROJECTED OPERATING RESULTS
AND DEBT SERVICE COVERAGE**

	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Operating Revenues					
Water and Sewer Fees	\$1,415,200	\$1,567,100	\$1,633,400	\$1,691,300	\$1,751,400
Connection Fees	-	-	-	-	-
Maintenance Fees	11,500	11,500	11,500	11,500	11,500
Interest and Penalties	28,200	35,800	33,200	41,500	50,800
Miscellaneous Revenues	-	-	-	-	-
Total Operating Revenue	1,454,900	1,614,400	1,678,100	1,744,300	1,813,700
Operating Expenses					
General Administrative Expenses	\$223,500	\$236,900	\$251,000	\$266,100	\$282,000
Public Works					
Salaries & Benefits	38,100	41,100	44,400	48,000	51,900
Operational Contracts	121,800	127,900	134,300	141,000	148,000
Electricity	88,700	93,200	97,900	102,800	108,000
Other	40,500	42,500	44,500	46,600	48,900
Subtotal Public Works Expenses	289,100	304,700	321,100	338,400	356,800
New Wellhead Treatment System O&M	-	60,000	63,000	66,200	69,500
Total O&M Expenses	512,600	601,600	635,100	670,700	708,300
Net Operating Revenues	\$942,300	\$1,012,800	\$1,043,000	\$1,073,600	\$1,105,400
2008 Certificates Debt Service	290,514	775,206	771,613	772,704	773,351
Debt Service Coverage by Gross Revenues	5.01	2.08	2.17	2.26	2.35
Debt Service Coverage by Net Revenues	3.24	1.31	1.35	1.39	1.43
Scheduled Rate Increases					
Water System	18%	4%	4%	4%	4%
Wastewater System	7%	7%	4%	4%	4%

Source: E.J. de la Rosa; City of San Juan Bautista.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS

Article XIII B Gann Limit

Article XIII B of the California State 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 and population. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to 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 is of the opinion that its charges with respect to its Enterprises do not exceed the costs it reasonably bears in providing wastewater service and are not subject to the limits of Article XIII B.

Proposition 218

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

Specifically, under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a

majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

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

In addition, Article XIIC states that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives."

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, some recent cases have indicated that certain types of water and wastewater charges are subject to the requirements of Proposition 218 under certain circumstances.

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

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

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil*, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public

agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Proposition 218 and the City Rates. The City's wastewater and water rate structure as of April 20, 2007 was adopted by Ordinance 2007-11 on February 20, 2007. The City took the following actions to meet the requirements of Proposition 218:

- Notices were sent to property owners on January 24, 2007;
- A protest hearing was conducted on March 20, 2007.

The City intends to comply with the provisions of Proposition 218 in connection with any future rate increases.

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Certificates.

Demand for the Enterprises

There can be no assurance that the local demand for water service provided by the Water System or for wastewater service provided by the Wastewater System will be maintained at levels described in this Official Statement under the headings "THE WATER SYSTEM" and "THE WASTEWATER SYSTEM." Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with the City's rate covenant in the Installment Sale Agreement. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand. Furthermore, there can be no assurance that any other entity with regulatory authority over the Enterprises will not adopt further restrictions on operation of either of the Enterprises.

Expenses of the Enterprises

There can be no assurance that Operation and Maintenance Costs of the Water System or Wastewater System will be consistent with the levels described in this Official Statement. Changes in technology, increases in the cost of energy, additional regulatory requirements or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenants. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Parity Debt

Although the City has covenanted not to issue additional obligations payable from Net Revenues senior to the Installment Payments, the Installment Sale Agreement permits the issuance by the City of certain indebtedness which may have a lien upon the Net Revenues which is on a parity basis to the lien which secures the Installment Payments, if certain coverage tests are met (see "THE CERTIFICATES – Limitations on Parity Debt and Superior Obligations" herein). These coverage tests involve, to some extent, projections of Net Revenues. If such indebtedness is issued, the debt service coverage for the Certificates will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions which form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Installment Payments and such additional indebtedness.

Natural Disasters

General. The City, like all northern California communities, is subject to unpredictable seismic activity, fires or floods. If there were a severe seismic, flood or fire event in the City, there could be substantial damage to and interference with the City, including the Enterprises, which could impact the receipt of Revenues and adversely affect the City's ability to pay the Installment Payments.

Seismic Activity. The City could experience groundshaking, ground failure, landslides or fault creep related to the two major faults in the area. The San Andreas Fault runs through the City and has historically caused significant damage in San Benito County. Large earthquakes on the San Andreas Fault were recorded in 1838, 1865, 1890, 1906 and 1989. The Calaveras Fault is an active fault located 8 miles east of the City.

Flooding. Most of the City is lies above the 100-year flood plain elevation, but a portion of the City is mapped within the 100-year flood plain. Some areas are frequently flooded during heavy winter rains.

Limited Recourse on Default

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

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the City 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; 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 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 Owners 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.

No Obligation to Tax

The obligation of the City to pay the Installment Payments 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. The obligation of the City to pay Installment Payments does not constitute a debt or indebtedness of any City, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the City. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Net Revenues and adversely affecting the security of the Certificates.

Loss of Tax Exemption

As discussed in this Official Statement under the caption "CONCLUDING INFORMATION – Tax Matters," interest with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were issued, as a result of future acts or omissions of the City in violation of its covenants in the Installment Sale Agreement or Trust Agreement. Should such an event of taxability occur, the Certificates are not subject to a special prepayment and will remain outstanding until maturity or until prepaid under one of the other prepayment provisions contained in the Trust Agreement.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners to provide certain financial information and operating data relating to the City and the Water System by not later than nine (9) months after the end of the City's Fiscal Year (presently June 30) in each year commencing with its report for the 2007-08 Fiscal Year (the "**City Annual Report**") and to provide notices of the occurrence of certain enumerated events. The City Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the City Annual Report or the notices of material events by the City is contained in "APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE." Failure of the City to provide the required ongoing information may have a negative impact on the value of the Certificates in the secondary market. The City has had no instance in the previous five years in which it failed to comply in all material respects with any previous continuing disclosure obligation under the Rule.

CONCLUDING INFORMATION

Underwriting

The Certificates were sold to E.J. de la Rosa & Co. (the "**Underwriter**"), whose proposal represented the lowest true interest rate for the Certificates. The Certificates are being purchased by the Underwriter at a purchase price of \$10,771,241.15, which represents the aggregate principal amount of the Certificates, less an underwriter's discount of \$72,442.50 and less a net original issue discount of \$301,316.35. The Underwriter is committed to purchase all of the Certificates if any are purchased.

The Certificates are offered for sale at the initial prices stated on the cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Certificates may be offered and sold to certain dealers at prices lower than the public offering prices.

Legal Opinions

All legal matters in connection with the issuance of the Certificates are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. A copy of the approving opinion of Special Counsel will be provided to the registered owners of the Certificates, and the form of such opinion is attached hereto as APPENDIX D.

Certain legal matters will be passed upon for the City by the City Attorney, and Jones Hall, A Professional Law Corporation, as Disclosure Counsel.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to the qualifications set forth below, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates 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, 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 "Tax Code") that must be satisfied subsequent to the delivery of the Installment Sale Agreement 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 delivery of the Installment Sale Agreement.

If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Certificates to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Certificate. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Certificates who purchase the Certificates after the initial offering of a substantial amount of such maturity. Owners of such Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Certificates under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Certificate (said term being the shorter of the Certificate's maturity date or its call

date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Certificate for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Certificate is amortized each year over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Certificate premium is not deductible for federal income tax purposes. Owners of Premium Certificates, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Certificates.

In the further opinion of Special Counsel, interest payable with respect to the Certificates is exempt from California personal income taxes.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates have federal or state tax consequences other than as described above. Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Installment Sale Agreement and the Certificates other than as expressly described above.

The form of the opinion of Special Counsel is attached hereto as APPENDIX D.

Litigation

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance or delivery of the Certificates, the Trust Agreement or the Installment Sale Agreement or in any way contesting or affecting the validity of the foregoing or any proceedings of the City taken with respect to any of the foregoing. The City is not aware of any litigation pending or threatened questioning the existence or powers of the City or the ability of the City to pay principal or interest with respect to the Certificates.

Although the City is subject to a number of lawsuits in the ordinary conduct of its affairs, there are no claims or actions, threatened or pending which, if determined against the City, either individually or in the aggregate, would have a material adverse effect on the financial conditions of the City or the Enterprise Funds.

Financial Advisor

The City has retained Bartle Wells Associates, Berkeley, California, as financial advisor (the "**Financial Advisor**") in connection with the issuance of the Certificates. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy or completeness of the information contained in this Official Statement. Bartle Wells Associates is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

Financial Statements

Vavrinek, Trine, Day & Co., LLP, Pleasanton, California, audited the financial statements of the City for the Fiscal Year ended June 30, 2007. The firm's examination was made in accordance with generally accepted auditing standards and Governmental Auditing Standards,

issued by the Comptroller General of the United States. See "APPENDIX C – CITY FINANCIAL STATEMENTS."

The City has not requested nor did the City obtain permission from the auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the auditor has not performed any post-audit review of the financial condition or operations of the City.

Professional Fees

In connection with the execution and delivery of the Certificates, fees payable to Special Counsel, Disclosure Counsel, Financial Advisor and the Trustee are contingent upon the execution and delivery of the Certificates.

Rating

Standard & Poor's Credit Market Services, a division of The McGraw Hill Companies, Inc. ("**Standard & Poor's**") has assigned its underlying municipal bond rating of "A-" to the Certificates. The rating reflects only the view of Standard & Poor's, and an explanation of the significance of the rating may be obtained from Standard & Poor's. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Standard & Poor's, if, in the judgment of the rating agency, circumstances so warrant. The City undertakes no responsibility to oppose any revision or withdrawal. Any downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Miscellaneous

All of the descriptions of California laws, other applicable legislation, the Installment Sale Agreement, the Trust Agreement, the Enterprises, the City, the Corporation, agreements and other documents are made subject to the provisions of such legislation and documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF SAN JUAN BAUTISTA

By: /s/ Stephen Julian
Interim City Manager

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the principal legal documents. Such summary is not intended to be definitive. Reference is made to the actual documents (copies of which are available from the City) for the complete terms thereof.

DEFINED TERMS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

"Additional Revenues" means, with respect to the issuance of any Parity Debt, any or all of the following amounts:

- (i) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprises to be made by the City from the proceeds of such Parity Debt, in an amount equal to 100% of the estimated additional Net Revenues to be received in such Fiscal Year from properties to which service will be provided by such additions, improvements and extensions.
- (ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprises which has been adopted prior to the incurring of such Parity Debt, in an amount equal to 100% of the estimated additional Net Revenues which are projected to be received in such Fiscal Year from such increased charges.

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income for purposes of federal income taxation under the Tax Code.

"Business Day" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, or in any state in which the Trust Office of the Trustee is located, are closed.

"Closing Date" means the date of original execution and delivery of the Certificates.

"Debt Service" means, for any period of calculation, the sum of: (a) the Installment Payments coming due and payable in such period, except to the extent that interest thereof is payable from the proceeds of the Certificates, plus (b) the principal of and interest on all outstanding Parity Debt coming due and payable in such period, except to the extent that interest thereof is payable from the proceeds of the Parity Debt; but less the earnings to be derived from the investment of amounts on deposit in the Reserve Fund or in any debt service reserve funds established for Parity Debt.

"Enterprise Funds" means, collectively, the Water Fund and the Wastewater Fund.

"Enterprises" means, collectively, the Water System and the Wastewater System.

"Federal Securities" means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

"Fiscal Consultant" means any consultant or firm of such consultants appointed by the City and who, or each of whom: (a) is judged by the City to have experience in matters relating to the financing of water and wastewater systems; (b) is in fact independent and not under domination of the City; (c) does not have any substantial interest, direct or indirect, with the City other than as purchaser of the Certificates or any Parity Debt; and (d) 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.

"Fiscal Year" means each twelve-month period beginning on July 1 in any year during the term of the Installment Sale Agreement and ending on the next succeeding June 30.

"Gross Revenues" means all gross income and revenue received by the City from the ownership and operation of the Enterprises, including but not limited to the following:

- (a) all income, rents, rates, fees, charges and other moneys received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Enterprises or otherwise arising from the Enterprises;
- (b) all amounts levied by the City as a fee for connecting to the Enterprises, as such fee is established from time to time under the applicable laws of the State of California;
- (c) the earnings on and income derived from the investment of the foregoing income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Enterprises;
- (d) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Enterprises as permitted in this Agreement; and
- (e) amounts transferred from a Rate Stabilization Fund to the Enterprise Funds in any Fiscal Year.

The term "Gross Revenues" does not include (i) customers' deposits or any other deposits subject to refund until such deposits have become the property of the City, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Enterprises.

"Installment Payment Date" means, with respect to any Interest Payment Date, the 3rd Business Day preceding such Interest Payment Date.

"Maximum Annual Debt Service" means the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year.

"Net Revenues" means, with respect to the Water System or the Wastewater System for any period, all of the Gross Revenues received from the related Enterprise during such period minus the amount required to pay all Operation and Maintenance Costs of the related Enterprise which are payable during such period.

"Operation and Maintenance Costs" means, with respect to the Water System or the Wastewater System, all costs paid or incurred by the City for maintaining and operating the Water System or the Wastewater System, as the case may be, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System or the Wastewater System in good repair and working order, (b) all administrative costs of the City that are charged directly or apportioned to the operation of the Water System or the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance, and (c) administrative costs of the Certificates which the City is required to pay under the Installment Sale Agreement. "Operating and Maintenance Costs" do not include (i) payments of debt service on bonds, notes, contracts or other obligations issued by the City with respect to the Water System or the Wastewater System, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Overdue Rate" means the highest rate of interest represented by any of the Outstanding Certificates.

"Owner" means, with reference to any Certificate, the person in whose name the Ownership of such Certificate is registered on the registration books maintained by the Trustee for such purpose.

"Parity Debt" means any bonds, notes, leases, installment sale agreements, contracts or other obligations of the City which are secured by a pledge of and lien upon any of the Gross Revenues and which are payable from the Net Revenues on a parity with the Installment Payments, entered into or issued under and in accordance with the Installment Sale Agreement.

"Parity Debt Documents" means, collectively, the indenture of trust, trust agreement, contract or other document which authorizes the issuance of any Parity Debt or otherwise establishes or evidences Parity Debt.

"Permitted Investments" means any of the following:

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) certificates of beneficial ownership of the Farmers

Home Administration; (ii) Federal Housing Administration debentures; (iii) participation certificates of the General Services Administration; (iv) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (v) guaranteed Title XI financings of the U.S. Maritime Administration; and (vi) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development.

- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of Fannie Mae; (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System.
- (d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and which are rated in the highest short-term rating category by the Rating Agency (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).
- (e) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A or better by the Rating Agency, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral.
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation.
- (g) Investment agreements with a financial institution the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated at least A or better from the Rating Agency, by the terms of which the Trustee is permitted to withdraw the invested funds if the rating from any Rating Agency falls below A.
- (h) Commercial paper rated A or better by the Rating Agency.

- (i) Bonds or notes issued by any state or municipality which are rated A or better by the Rating Agency.
- (j) Federal funds, deposit accounts or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of A or better by the Rating Agency.
- (k) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.
- (l) Repurchase agreements with a financial institution the long-term debt or claims paying ability of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated at least A or better from the Rating Agency; provided that: (i) the over-collateralization is at 102%, computed weekly, consisting of such securities as described in this section, items (a), (b) and (c); (ii) a third party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (iii) the Trustee shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the agreement.
- (m) Forward delivery or forward purchase agreements with underlying securities of the types described in (a), (b), (c) and (h) above.

"Prior Debt" means, collectively, (a) the Non-Revolving Line of Credit/Term Loan entered into on June 21, 2006, between the City and Pacific Capital Bank, N.A., d/b/a San Benito Bank, and (b) the City of San Juan Bautista Emergency Drought Relief Promissory Note of 1977 issued in the aggregate principal amount of \$65,600, dated December 6, 1977.

"Projects" means the facilities, improvements and other property described more fully in Appendix B attached to the Installment Sale Agreement, as that Appendix may be amended from time to time in accordance with the Installment Sale Agreement.

"Project Costs" means, with respect to the Projects, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Projects;
- (b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Projects;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Projects;

- (d) all preliminary costs of the Projects, including but not limited to design, environmental, engineering and architectural services, costs for testing, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and costs for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Projects;
- (e) any sums required to reimburse the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Projects;
- (f) all financing costs incurred in connection with the acquisition, construction and installation of such Projects; and
- (g) the interest components of the Installment Payments during the period of acquisition, construction and installation of the Projects.

"Qualified Reserve Fund Credit Instrument" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee:

- (a) the long-term credit rating of such bank or insurance company is A or better from the Rating Agency;
- (b) such letter of credit or surety bond has a term of at least 12 months;
- (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and
- (d) the Trustee is authorized under the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Installment Payment Fund for the purpose of making payments required under the Trust Agreement.

"Rate Stabilization Fund" means any fund established and held by the City as a fund for the stabilization of rates and charges imposed by the City with respect to the Enterprises, which fund is established, held and maintained in accordance with the Installment Sale Agreement.

"Rating Agency" means Standard & Poor's Corporation, its successors and assigns.

"Reserve Requirement" means, as of the date of calculation, an amount equal to the maximum amount Installment Payments payable by the City under the Installment Sale Agreement in the current or any calendar year.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or as it may be amended to apply to obligations issued on the Closing Date, together with

applicable proposed, temporary and final regulations promulgated, and applicable official guidance published, under the Tax Code.

"Wastewater Fund" means the fund or funds established and held by the City with respect to the Enterprise for the deposit of Gross Revenues from the Wastewater System.

"Wastewater System" means the entire wastewater collection, treatment and disposal system owned or operated by the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the City for the collection, treatment and disposal of wastewater within the service area of the City, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

"Water Fund" means the fund or funds established and held by the City with respect to the Enterprise for the deposit of Gross Revenues from the Water System.

"Water System" means the entire water supply, storage and distribution system of the City, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the supply, treatment and storage of water to residents of the City and adjacent areas, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

INSTALLMENT SALE AGREEMENT

Acquisition and Construction of the Projects

The Corporation appoints the City as its agent to carry out all phases of the acquisition, construction and installation of the Projects under and in accordance with the provisions of the Installment Sale Agreement. The City accepts such appointment and assumes all rights, liabilities, duties and responsibilities of the Corporation regarding the acquisition, construction and installation of the Projects. As agent of the Corporation, the City will enter into, administer and enforce all purchase orders or other contracts relating to the Projects. Payment of Project Costs will be made by the City from amounts held by the Trustee in the Project Fund in accordance with the provisions of the Trust Agreement. If and to the extent the amounts on deposit in the Project Fund are insufficient to enable the City to complete the Projects in full, the City has the sole responsibility for completing the Projects and financing such completion from any source of legally available funds of the City.

The City agrees with due diligence to supervise and provide for, or cause to be supervised and provided for, the acquisition, construction and installation of the Projects in accordance with the plans and specifications, purchase orders, construction contracts and other documents relating thereto and approved by the City under all applicable requirements of law. All contracts for, and all work relating to, the acquisition, construction and installation of the Projects are subject to all applicable provisions of law relating to the acquisition and construction of public works by the City. The City expects that the Projects will be completed on or before June 30, 2011. The failure to complete the Projects by that date does not constitute an Event of Default or a grounds for termination of the Installment Sale Agreement, nor will such

failure result in the diminution, abatement or extinguishment of the obligations of the City to pay the Installment Payments when due.

Certificate of Completion

Upon the completion of the Projects, but in any event not later than 60 days following such completion, the City Representative must execute and deliver to the Corporation and the Trustee a written certificate of the City Representative which (a) states that the construction of the Projects has been substantially completed, (b) identifies the total Project Costs thereof, and (c) identifies the amounts, if any, to be reserved in the Project Fund for payment of future Project Costs. Any amounts remaining on deposit in the Project Fund and not required for payment of future Project Costs will be transferred to the Installment Payment Fund to be applied, at the written direction of the City Representative, to pay the Installment Payments next coming due and payable.

Allocation of Project Costs between Water System and Wastewater System

The City will maintain accurate records showing the amount of all disbursements from the Project Fund and allocating all such disbursements between the Water System and the Wastewater System. Based on such records, the City shall determine the portion of each Installment Payment which is allocable to the Water System and the portion of each Installment Payment which is allocable to the Wastewater System. Notwithstanding such allocations, the Installment Payments are payable from all of the Net Revenues from the Enterprises.

Sale of Projects; Term

The Corporation agrees to sell the completed Projects to the City under the Installment Sale Agreement. The Installment Sale Agreement terminates on the date on which the City has paid all of the Installment Payments and all other amounts due and payable thereunder. Title to the Projects, and each component thereof, is deemed conveyed to and vested in the City on the date of completion thereof.

Installment Payments

The City agrees to pay Installment Payments as the purchase price of the Projects. The Installment Payments are secured by a pledge of and lien on, and are payable from, the Net Revenues and other funds pledged under the Installment Sale Agreement. If the City fails to pay any Installment Payment when due, the payment in default will continue as an obligation of the City until fully paid, and the City will pay the same with interest thereon, from the date of default to the date of payment, at the Overdue Rate.

Pledge and Application of Net Revenues

All of the Net Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Trust Agreement are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments. Such pledge, charge and assignment constitute a lien on and security interest in the Net Revenues and such other moneys for the payment of the Installment Payments in accordance with the terms of the Installment Sale Agreement, on a parity with the pledge and lien which secures any Parity Debt.

Deposit of Gross Revenues to Make Payments

The City has previously established the Enterprise Funds, which the City will continue to hold and maintain for the purposes and uses set forth in the Installment Sale Agreement. The City will deposit all Gross Revenues from the Water System into the Water Fund, and all of the Gross Revenues from the Wastewater Fund into the Wastewater Fund, immediately on receipt. The City will apply amounts on deposit in the Enterprise Funds to pay when due the following amounts in the following order of priority:

- all Operation and Maintenance Costs;
- the Installment Payments and all payments of principal of and interest on any Parity Debt;
- to the Trustee the amount of any deficiency in the Reserve Fund established for the Certificates and in any reserve fund established for Parity Debt, the notice of which deficiency has been given to the City in accordance with the Trust Agreement and the related Parity Debt Documents, respectively;
- any other payments required to comply with the provisions of the Installment Sale Agreement and any Parity Debt Documents; and
- any other authorized purposes as described in the next paragraph.

The City will manage, conserve and apply the amounts on deposit in the Enterprise Funds in such a manner that all deposits required to be made under the preceding provisions will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the City may use and apply moneys in the Enterprise Funds for (a) the payment of any subordinate obligations or any unsecured obligations, (b) the acquisition and construction of improvements to the Enterprises, (c) the prepayment of any other obligations of the City relating to the Enterprises, or (d) any other lawful purposes of the City.

No Preference or Priority

Payment of the Installment Payments and the principal of and interest on any Parity Debt shall be made without preference or priority. If the amount of Gross Revenues on deposit in the Enterprise Funds is any time insufficient to enable the City to pay when due the Installment Payments and the principal of and interest on any Parity Debt, such payments will be made on a pro rata basis.

Option to Prepay

The City has the option to prepay the Installment Payments or post a security deposit to pay the Installment Payments, in whole or in part, in the amounts and on the dates set forth in the Installment Sale Agreement. The optional prepayment dates and prices have been determined to correspond to the optional prepayment dates and prices applicable to the Certificates under the Trust Agreement.

Establishment of Rate Stabilization Fund

The City has the right (but not the obligation) at any time to establish a fund to be held by it for the purpose of stabilizing the rates and charges imposed by the City with respect to the Enterprises. From time to time the City may deposit amounts in the Rate Stabilization Fund from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Installment Payments and any Parity Debt, as the City may determine.

The City may, but is not be required to, withdraw any amounts from the Rate Stabilization Fund and deposit such amounts in the Enterprise Funds in any Fiscal Year for the purpose of paying the Installment Payments or the principal of and interest on any Parity Debt. Amounts so transferred from the Rate Stabilization Fund to the Enterprise Funds will constitute Gross Revenues for such Fiscal Year. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Installment Payments or any Parity Debt. The City may at any time withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

Issuance of Parity Debt

Except for obligations incurred to prepay or post a security deposit for the payment of Installment Payments or Parity Debt, the City will not issue or incur any Parity Debt during the term of the Installment Sale Agreement unless:

- No Event of Default has occurred and is continuing.
- The City shall file with the Trustee a report of a Fiscal Consultant showing that for each of the five full Fiscal Years following the issuance of such Parity Debt, the Net Revenues (excluding any amounts derived from a Rate Stabilization Fund) which the City is projected to receive in such Fiscal Year will be at least equal to 120% of Debt Service coming due in such Fiscal Year. In computing the amount of Net Revenues which are projected to be received in any Fiscal Year, such report may take into account any Additional Revenues which are projected to be received in such Fiscal Year.
- The trustee or fiscal agent, if any, for such Parity Debt is the same entity performing the functions of Trustee under the Trust Agreement.

Superior and Subordinate Obligations

The City will not issue or incur any additional bonds or other obligations during the term of the Installment Sale Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments. Nothing limits or affects the ability of the City to issue or incur (a) Parity Debt, or (b) obligations which are either unsecured or which are secured by an interest in the Gross Revenues or the Net Revenues which are junior and subordinate to the pledge and lien established under the Installment Sale Agreement.

Rates and Charges

Covenant to Maintain Water Revenues. The City agrees to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Water System sufficient to pay 100% of the following amounts in the following order of priority:

- All Operation and Maintenance Costs of the Water System estimated by the City to become due and payable in the Fiscal Year.
- All Installment Payments which are allocable to the Water System and all payments of principal of and interest on any Parity Debt of the Water System as they become due and payable during the Fiscal Year, without preference or priority, except to the extent payable from amounts the proceeds of the Certificates or any Parity Debt.
- All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues of the Water System during such Fiscal Year.

Covenant to Maintain Wastewater Revenues. The City agrees to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Wastewater System sufficient to pay 100% of the following amounts in the following order of priority:

- All Operation and Maintenance Costs of the Wastewater System estimated by the City to become due and payable in the Fiscal Year.
- All Installment Payments which are allocable to the Wastewater System and all payments of principal of and interest on any Parity Debt of the Wastewater System as they become due and payable during the Fiscal Year, without preference or priority, except to the extent payable from amounts the proceeds of the Certificates or any Parity Debt.
- All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues of the Wastewater System during such Fiscal Year.

Covenant to Maintain Combined Net Revenues. In addition to the covenants set forth above, the City agrees to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System and the Wastewater System during each Fiscal Year which are sufficient to yield aggregate Net Revenues of the Water System and the Wastewater System which are at least equal to 120% of the amount of Debt Service calculated for coming due in such Fiscal Year with respect to the Water System and the Wastewater System.

Transfers from Rate Stabilization Fund. For purposes of the foregoing rate covenants, the amount of Net Revenues or Gross Revenues for a Fiscal Year will include amounts transferred into the Water Fund or the Wastewater Fund from the Rate Stabilization Fund during such Fiscal Year.

Sale or Eminent Domain of Water System

The City covenants that the Enterprises will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the City to pay the Installment Payments or the principal of or interest on any Parity Debt, or would materially adversely affect its ability to comply with the terms of the Installment Sale Agreement or any Parity Debt Documents. The City may not enter into any agreement which impairs the operation of the Enterprises or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments or any Parity Debt, or which otherwise would impair the rights of the Certificate Owners or the Trustee with respect to the Net Revenues. If any substantial part of the Enterprises is sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied to prepay the Installment Payments or any Parity Debt.

Any amounts received as awards as a result of the taking of all or any part of the Enterprises by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, shall either (a) be used for the acquisition or construction of improvements and extension of the Enterprises, or (b) be applied prepay the Installment Payments or any Parity Debt.

Insurance

The City will at all times maintain with responsible insurers all such insurance on the Enterprises as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Enterprises. All amounts collected from insurance against accident to or destruction of any portion of the Enterprises will be used, at the option of the City, either (a) be used for the acquisition or construction of improvements and extension of the Enterprises, or (b) be applied prepay the Installment Payments or any Parity Debt.

The City will maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the interests of the City, the Corporation, the Trustee and the Owners of the Certificates.

Any such policy of insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

Assignment and Amendment of Installment Sale Agreement

The Installment Sale Agreement may not be assigned by the City in whole or in part. The Installment Sale Agreement may be amended by the City and the Corporation, but only (a) for the purpose of providing for the issuance of any Parity Debt in accordance with the Installment Sale Agreement, or (b) otherwise under the circumstances and to the extent

permitted under the Trust Agreement. See "TRUST AGREEMENT – Amendment of Trust Agreement or Installment Sale Agreement" below.

Events of Default

Each of the following constitutes an event of default under the Installment Sale Agreement:

- Failure by the City to pay any Installment Payment when due and payable.
- Failure by the City to pay any other payment due under the Installment Sale Agreement when due and payable, and the continuation of such failure for a period of 30 days.
- Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation or the Trustee; *provided, however*, that if the City notifies the Corporation and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within the 60-day period, the failure will not constitute an event of default if the City commences to cure such failure within the 60 day period and thereafter diligently and in good faith cures such failure in a reasonable period of time.
- Certain events relating to the insolvency or bankruptcy of the City.
- The occurrence of any event defined to be an event of default under any Parity Debt Documents.

Remedies on Default

Whenever any event of default has happened and is continuing, the Trustee as assignee of the Corporation has the right, at its option and without any further demand or notice, to:

- Declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the Overdue Rate from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable;
- take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under the Installment Sale Agreement; and
- as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Certificate Owners, cause the appointment of a receiver or receivers

of the Gross Revenues and other amounts pledged, with such powers as the court making such appointment may confer.

No remedy conferred upon or reserved to the Corporation under the Installment Sale Agreement is intended to be exclusive and every such remedy will be cumulative and shall be in addition to every other remedy given under the Installment Sale Agreement or at any time existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

If any agreement contained in the Installment Sale Agreement is breached by a parties and is thereafter waived by the other party, such waiver is limited to the particular breach so waived and will not be deemed to waive any other breach thereunder.

Such rights and remedies as are given to the Corporation under the Installment Sale Agreement have been assigned by the Corporation to the Trustee under the Trust Agreement, and will be exercised by the Trustee and the Owners of the Certificates as provided in the Trust Agreement.

TRUST AGREEMENT

Trustee

The Trustee is appointed pursuant to the Trust Agreement and is authorized to prepare, execute and deliver the Certificates thereunder, and to act as a depository of amounts held thereunder. The Trustee is required to make deposits into and withdrawals from funds, and invest amounts held under the Trust Agreement in accordance with the City's instructions.

Funds

The Trust Agreement creates the Installment Payment Fund, the Reserve Fund and the Project Fund to be held in trust by the Trustee.

Installment Payment Fund. There will be deposited in the Installment Payment Fund, when received by the Trustee, all Installment Payments and prepayments thereof (except reimbursement for funds drawn from the Reserve Fund, as described below). Moneys on deposit in the Installment Payment Fund will be used to pay principal and interest represented by the Certificates when due and payable. Any earnings on investment of moneys in the Installment Payment Fund will remain therein. Any surplus remaining in the Installment Payment Fund after the payment of all Certificates, or provision for their payment has been made, will be paid to the City.

Costs of Issuance Fund. The Trustee will establish and maintain a Costs of Issuance Fund. The Trustee will disburse amounts in the Costs of Issuance Fund to pay costs of issuance relating to the Certificates from time to time upon the receipt of a written requisition of the City which states (i) the amounts to be disbursed for payment or reimbursement of costs of issuance, (ii) the name and address of the person or persons to whom said amounts are to be disbursed, and (iii) that all amounts to be disbursed are for costs of issuance properly

chargeable to the Costs of Issuance Fund. The Trustee will withdraw any funds remaining in the Costs of Issuance Fund on January 1, 2009, and transfer such funds to the Project Fund.

Project Fund. The Trustee will establish and maintain a separate fund to be known as the "Project Fund". Moneys in the Project Fund will be used solely for the payment of the Project Costs. The Trustee will disburse moneys in the Project Fund from time to time to pay Project Costs (or to reimburse the City for payment of Project Costs) in accordance with written requisitions filed with the Trustee by the City from time to time. Any amounts remaining on deposit in the Project Fund and not required to complete the acquisition and construction of the Projects will be transferred by the Trustee to the Installment Payment Fund.

Reserve Fund. The Reserve Fund will be initially funded from the proceeds of the Certificates, in an amount equal to the Reserve Requirement. If on any Interest Payment Date, there are insufficient moneys in any Installment Payment Fund to pay principal and interest then due, the Trustee is required to transfer so much of the Reserve Fund as is necessary to make such payment. Amounts on deposit in the Reserve Fund in excess of the Reserve Requirement will be transferred to the Installment Payment Fund. Any deficiency in Installment Payments which is paid from the Reserve Fund and thereafter reimbursed by the City will be deposited in the Reserve Fund. Amounts on deposit in the Reserve Fund will be applied to make the final Installment Payments on behalf of the City or will be transferred to the City to be used for any lawful purposes.

With prior notification to the Rating Agency, the City has the right at any time to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (a) a Qualified Reserve Fund Credit Instrument, (b) an opinion of Bond Counsel stating that such release will not, of itself, cause interest represented by the Certificates to become includable in gross income for purposes of federal income taxation, and (c) confirmation from the Rating Agency that the release and substitution will not cause a downgrade in the rating for the Bonds. Upon tender of such items to the Trustee, the Trustee is required to transfer such funds from the Reserve Fund to the City for deposit into a separate account to be held by the City and expended for purposes authorized under applicable state and federal law. Upon the expiration of any Qualified Reserve Fund Credit Instrument, the City will be obligated either (a) to replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (b) to deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from any source of legally available funds of the City.

Investment of Funds

The Trustee is required to invest and reinvest all moneys held under the Trust Agreement, at the written direction of the City, in Permitted Investments maturing not later than the date moneys are expected to be required for expenditure. In the absence of any written request of the City directing the investment of uninvested moneys held by the Trustee, the Trustee will invest such moneys in Permitted Investments constituting money market funds, which mature not later than the date such moneys are required or estimated by the Trustee to be required to be expended. Such investments, if registrable, shall be registered in the name of the Trustee, as trustee or in the name of its nominee, and shall be held by the Trustee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as purchaser or agent in the making or disposing of any investment. For purposes of acquiring

any investments under the Trust Agreement, the Trustee may in its sole discretion commingle funds held by it.

All earnings on the investment of amounts on deposit in the funds and accounts established under the Trust Agreement will be deposited in such funds and accounts, except that all earnings on the investment of amounts in the Reserve Fund will be transferred to the Installment Payment Fund, to the extent not required to be retained in the Reserve Fund to maintain the Reserve Requirement, and (b) the City has the right to direct the Trustee to deposit any portion of the earnings in a fund to be applied to pay federal arbitrage rebate.

Amendment of Agreements

Amendments Permitted With Owners' Consent. The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time with the written consents of the Owners of a majority in aggregate principal amount of the Certificates then outstanding. No such modification or amendment may (a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (b) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Installment Sale Agreement, or (c) modify any of the rights or obligations of the Trustee without its written consent.

Amendments Permitted Without Owners' Consent. The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the respective parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any of the Certificate Owners, only to the extent permitted by law and only for one of more of the following purposes:

- to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power reserved to the Corporation or the City,
- to cure, correct or supplement any ambiguous or defective provision contained therein,
- in any respect whatsoever in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which do not, in the opinion of Bond Counsel, materially adversely affect the interests of the Owners of the Certificates,
- to provide for matters relating to the issuance of Parity Debt, or
- if and to the extent permitted in the opinion of Bond Counsel filed with the Trustee, the City and the Corporation, to delete or modify any of the provisions thereof relating to the exclusion from gross income for federal income tax purposes of interest represented by the Certificates.

Remedies Upon Event of Default

Remedies Generally. If an event of default occurs under and as defined in the Installment Sale Agreement, then and in each and every such case during the continuance of such event of default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Certificates then outstanding the Trustee shall, exercise any and all remedies available pursuant to law or granted pursuant to the Installment Sale Agreement. The Trustee must immediately notify the Certificate Owners upon the occurrence of any event of default of which the Trustee has knowledge in accordance with the Trust Agreement.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or the Installment Sale Agreement will be applied by the Trustee in the order following upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the fees, costs and expenses of the Trustee and of the Certificate Owners in declaring and enforcing such event of default, including reasonable compensation to its or their agents, attorneys and counsel;

Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest at the respective rates represented by the outstanding Certificates (but such interest on overdue installments of interest will be paid only to the extent funds are available therefor following payment of principal and interest and interest on overdue principal, as aforesaid), and in case such moneys are insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Institution of Legal Proceedings. If one or more Events of Default occur and are continuing, the Trustee in its discretion may, and at the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement or in aid of the execution of any power granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee deems most effectual in support of any of its rights or duties under the Trust Agreement.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or the Certificate Owners is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given under the Trust Agreement or at any time existing, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceedings. If the Trustee, upon the happening of an event of default, has taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Certificates then outstanding, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless: (a) such Owner has previously given to the Trustee written notice of the occurrence of an event of default; (b) the Owners of a majority in aggregate principal amount of all the Certificates then outstanding have made written request upon the Trustee to exercise its powers or to institute such action, suit or proceeding in its own name; (c) said Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Defeasance

Upon payment of the outstanding Certificates in whole, or upon the deposit of cash or non-callable Federal Securities with the Trustee sufficient with other available funds to retire the obligations represented by such Certificates at or before maturity, all rights thereunder of the Owners of such Certificates and all obligations of the Corporation, the Trustee and the City with respect to the Certificates ceases and terminates, except only the obligation of the Trustee to pay or cause to be paid, from Installment Payments paid by or on behalf of the City from funds so deposited, all sums represented thereby when due.

APPENDIX B

CITY OF SAN JUAN BAUTISTA GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION

The following is presented as general background data. The taxing power of the City, the State of California or any political subdivision thereof is not pledged to the payment of the Bonds.

General

The City of San Juan Bautista is located in San Benito County, in the San Jose-Sunnyvale metropolitan area, approximately 20 miles south of San Jose. Incorporated in 1869, the general law City of San Juan Bautista is situated in the heart of the noted San Juan Valley between the Gabilan Mountains and Flint Hills. Rich with culture and history, the City offers residents and visitors a refreshing small town atmosphere filled with the charm and character of the past. Mission San Juan Bautista, the 15th and largest of the 21 California Missions, was founded in 1797 and faces the City's central plaza.

The City Council is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at large for staggered four-year terms. At the regular meeting in December of each year the City Council chooses one of its members to serve as Mayor and one of its members to serve as Mayor Pro Tempore, each to serve until successors are chosen at the regular meeting in the following December. The City Manager is appointed by the City Council solely on the basis of executive and administrative qualifications. The City Manager holds office for an indefinite term at the pleasure of the City Council. The City Manager is the chief executive of the City government under the direction and control of the Council, and has authority over all other officers and employees except the City Clerk, City Treasurer and City Attorney.

Population

The City of San Juan Bautista is currently estimated to have a population of approximately 1,874. The following table sets forth population statistics for the City and San Benito County since 2004.

CITY OF SAN JUAN BAUTISTA AND COUNTY OF SAN BENITO Population Estimates

Year	San Juan Bautista	San Benito County	State of California
2004	1,717	57,040	36,245,016
2005	1,723	57,350	36,728,196
2006	1,722	57,513	37,172,015
2007	1,811	57,296	37,559,440
2008	1,874	57,784	38,049,462

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

Commercial Activity

Total taxable transactions during calendar year 2006 in the City were reported to be \$13.2 million, a 3.8% decrease over the total taxable transactions of \$13.7 reported during calendar year 2005. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County is presented in the following table. Annual figures are not yet available for 2007.

**CITY OF SAN JUAN BAUTISTA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2002	106	\$13,740	211	\$14,338
2003	118	13,197	257	13,812
2004	118	12,494	264	13,389
2005	115	12,834	254	13,765
2006	115	12,461	228	13,248

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable transactions during calendar year 2006 in the County were reported to be \$536.8 million, a 0.2% increase over the total taxable transactions of \$535.6 million reported during calendar year 2005. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County is presented in the following table. Annual figures are not yet available for 2007.

**COUNTY OF SAN BENITO
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2002	722	\$196,091	1,301	\$498,465
2003	861	199,547	1,416	498,251
2004	855	211,454	1,442	526,272
2005	862	214,283	1,417	535,651
2006	809	209,348	1,370	536,846

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

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 of San Benito, the State and the United States for the period 2003 through 2007.

COUNTY OF SAN BENITO Effective Buying Income As of January 1, 2003 through 2007

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2003	San Benito County	\$ 984,870	\$50,756
	California	674,721,020	42,924
	United States	5,466,880,008	38,201
2004	San Benito County	\$ 1,021,563	\$52,210
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	San Benito County	\$ 1,049,703	\$53,872
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	San Benito County	\$ 1,067,895	\$54,557
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	San Benito County	\$ 1,109,888	\$56,281
	California	814,894,438	48,203
	United States	6,300,794,040	41,792

Source: Sales & Marketing Management Survey of Buying Power for 2003 and 2004; Claritas Demographics for 2005 through 2007.

Employment and Industry

For July, 2008 the unemployment rate in the City was estimated at 9.4% (not seasonally adjusted). A five-year history of the unemployment rate in the City is shown below.

CITY OF SAN JUAN BAUTISTA Unemployment Rates (Annual Averages)

	2003	2004	2005	2006	2007
Unemployment Rate	10.9%	10.5%	8.9%	7.9%	7.9%

Source: State of California Employment Development Department.

The unemployment rate in the County was 8.6% in July 2008. The table below shows civilian labor force, employment and unemployment; and employment by industry for San Benito County

SAN BENITO COUNTY Civilian Labor Force, Employment and Unemployment; Employment by Industry (Annual Averages)

	2003	2004	2005	2006	2007
Civilian Labor Force ⁽¹⁾	25,700	25,300	24,800	24,600	25,100
Employment	23,100	22,900	22,800	22,800	23,300
Unemployment	2,600	2,400	2,000	1,800	1,800
Unemployment Rate	10.0%	9.6%	8.1%	7.2%	7.2%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	2,400	2,600	2,500	2,400	2,500
Natural Resources and Mining	0	0	0	0	0
Construction	1,400	1,600	1,800	1,900	1,800
Manufacturing	2,300	2,400	2,900	3,100	2,500
Wholesale Trade	400	400	500	500	400
Retail Trade	1,900	1,900	1,700	1,800	1,800
Transportation, Warehousing, Utilities	200	300	200	300	200
Information	100	100	100	100	100
Finance and Insurance	200	200	200	300	300
Real Estate and Rental and Leasing	100	100	100	100	100
Professional and Business Services	700	600	600	1,700	1,700
Educational and Health Services	600	600	700	700	700
Leisure and Hospitality	1,500	1,500	1,400	1,400	1,400
Other Services	600	400	400	500	500
Federal Government	200	200	200	200	200
State Government	200	200	200	200	200
Local Government	2,700	2,600	2,600	2,500	2,500
Total, All Industries ⁽³⁾	15,600	15,700	16,200	17,600	16,800

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The following table shows the major employers in the County as of January 2008, listed in alphabetical order.

COUNTY OF SAN BENITO
Major Employers (Listed alphabetically)
2008

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Albertsons	Hollister	Grocers-Retail
American Electrical Svc	Hollister	Electric Contractors
Cedar Valley Shingle Systems	Hollister	Shingles & Shakes
Cimino's Cabinet Doors Inc	Hollister	Cabinet Makers
Cinderella Motel	Hollister	Motels & Hotels Reservations
Corbin Inc	Hollister	Motorcycles-Supls & Parts-Manufacturers
Earthbound Farm	San Juan Bautista	Fruits & Vegetables-Growers & Shippers
EI Modeno Gardens Inc	Hollister	Nurseries-Plants Trees & Etc-Wholesale
Hazel Hawkins Memorial Hsp	Hollister	Hospitals
Jesus Quintero Inc	Hollister	Labor Contractors
M C Electronics	Hollister	Electronic Equipment & Supplies-Mfrs
Mc Cormick Selph Inc	Hollister	Scientists-Consulting
Milgard Manufacturing Inc	Hollister	Windows-Manufacturers
Nob Hill Foods Inc	Hollister	Grocers-Retail
Pacific Scientific Energetic	Hollister	Explosives-Manufacturers
R & R Labor	Hollister	Labor Contractors
Ridgemark Golf & Country Club	Hollister	Hotels & Motels
Safety Storage Inc	Hollister	Prefabricated Metal Buildings (Mfrs)
Safeway	Hollister	Grocers-Retail
Safeway	Hollister	Grocers-Retail
San Benito Foods	Hollister	Canning (Manufacturers)
San Benito High School	Hollister	Schools
Tanimura & Antle	Hollister	Fruits & Vegetables-Wholesale
Target	Hollister	Department Stores
West Marine	Hollister	Marine Equipment & Supplies

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database.

Construction Activity

Provided below are the building permits and valuations for the City for calendar years 2003 through 2007.

CITY OF SAN JUAN BAUTISTA Total Building Permit Valuations (Valuations in Thousands)

	2003	2004	2005	2006	2007
<u>Permit Valuation</u>					
New Single-family	\$420.0	\$ 0.0	\$620.0	\$ 0.0	\$594.0
New Multi-family	0.0	0.0	2,578.4	0.0	0.0
Res. Alterations/Additions	<u>91.0</u>	<u>92.0</u>	<u>115.0</u>	<u>126.0</u>	<u>89.0</u>
Total Residential	511.0	92.0	3,313.6	126.0	683.0
New Commercial	0.0	0.0	0.0	0.0	0.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	83.0	106.0	73.0	0.0	18.0
Com. Alterations/Additions	<u>0.0</u>	<u>0.0</u>	<u>5.5</u>	<u>0.0</u>	<u>0.0</u>
Total Nonresidential	83.0	106.0	78.0	84.0	18.0
New Dwelling Units					
Single Family	4	0	4	0	3
Multiple Family	<u>0</u>	<u>0</u>	<u>40</u>	<u>0</u>	<u>0</u>
TOTAL	4	0	44	0	3

Source: Construction Industry Research Board, Building Permit Summary.

Provided below are the building permits and valuations for the County of San Benito for calendar years 2003 through 2007.

COUNTY OF SAN BENITO Total Building Permit Valuations (Valuations in Thousands)

	2003	2004	2005	2006	2007
<u>Permit Valuation</u>					
New Single-family	\$14,794.5	20,846.1	\$14,967.6	\$7,608.0	\$11,557.3
New Multi-family	0.0	0.0	2,578.4	0.0	0.0
Res. Alterations/Additions	<u>5,329.5</u>	<u>3,580.3</u>	<u>3,293.1</u>	<u>4,918.8</u>	<u>6,075.4</u>
Total Residential	20,124.0	24,426.4	20,839.1	12,526.8	17,632.7
New Commercial	4,160.4	4,781.6	3,736.7	4,042.6	771.5
New Industrial	0.0	0.0	888.1	1,425.4	0.0
New Other	3,059.0	4,319.4	5,896.3	5,394.7	3,685.8
Com. Alterations/Additions	<u>3,525.5</u>	<u>4,982.8</u>	<u>2,430.5</u>	<u>4,097.5</u>	<u>2,565.1</u>
Total Nonresidential	10,744.9	14,083.8	12,951.6	14,960.2	7,022.5
New Dwelling Units					
Single Family	98	112	86	34	33
Multiple Family	<u>0</u>	<u>0</u>	<u>40</u>	<u>0</u>	<u>0</u>
TOTAL	98	112	126	34	33

Source: Construction Industry Research Board, Building Permit Summary.

Investment Policy

The City voluntarily participates in the Local Agency Investment Fund ("LAIF") that is regulated by California Government Code Section 16429 and is under the oversight of the State Treasurer. The City is also authorized by statute and under its investment policy to make direct investments in U.S. Treasury instruments and securities of the U.S. Government, and federally insured deposits in commercial banks and savings and loan institutions.

At September 29, 2008, the City's investments were all held by LAIF and had an average interest rate of 4.5%. The City may withdraw its investments from LAIF at any time.

APPENDIX C
CITY FINANCIAL STATEMENTS

CITY OF SAN JUAN BAUTISTA
FINANCIAL STATEMENTS
JUNE 30, 2007

City of San Juan Bautista

**TABLE OF CONTENTS
JUNE 30, 2007**

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet - Governmental Funds	5
Reconciliation of the Governmental Funds - Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Special Revenue Funds	10
Statement of Net Assets - Proprietary Funds	11
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	12
Statement of Cash Flows - Proprietary Funds	13
NOTES TO FINANCIAL STATEMENTS	15
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of San Juan Bautista
San Juan Bautista, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of San Juan Bautista, California (City) as of and for the year ended June 30, 2007 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the *overall* financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business - type activities, each major fund and the aggregate remaining fund information of the City of San Juan Bautista, California as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2008, on our consideration of the City of San Juan Bautista's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering results of our audit.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as listed in the table of contents, is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The City has elected not to present Management's Discussion and Analysis.

Vaurine K, Trine, Day & Co. LLP.

Pleasanton, California
March 4, 2008

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SAN JUAN BAUTISTA

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 714,462	\$ 25,355	\$ 739,817
Accounts receivable - net of allowance for doubtful accounts	193,956	149,164	343,120
Prepays	7,011	6,711	13,722
Restricted assets			
Cash and investments	-	3,824	3,824
Advances to \ from other funds (internal balances)	202,829	(202,829)	-
Capital assets			
Land	22,610	69,783	92,393
Buildings and improvements	586,668	265,846	852,514
Equipment	273,158	222,144	495,302
Vehicles	456,965	7,268	464,233
Infrastructure	85,883	3,045,256	3,131,139
Construction in progress	507,570	-	507,570
Accumulated depreciation	(1,091,232)	(1,601,846)	(2,693,078)
TOTAL ASSETS	1,959,880	1,990,676	3,950,556
LIABILITIES			
Accounts payable	97,739	16,544	114,283
Leases payable	10,490	14,878	25,368
Other liabilities	6,891	3,913	10,804
Payable from restricted assets			
Deposits	-	34,150	34,150
Current portion notes payable	23,007	2,164	25,171
Accrued interest	-	2,164	2,164
Noncurrent liabilities			
Accrued vacation	3,055	1,748	4,803
Notes payable, net of current portion	266,094	31,043	297,137
Leases payable, net of current portion	1,235	11,790	13,025
TOTAL LIABILITIES	408,511	118,394	526,905
NET ASSETS			
Invested in capital assets - net related debt	540,796	1,948,576	2,489,372
Unrestricted (deficit)	1,010,573	(76,294)	934,279
TOTAL NET ASSETS	\$ 1,551,369	\$ 1,872,282	\$ 3,423,651

The accompanying notes are an integral part of these financial statements.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Program Activities						
Governmental Activities						
General governmental and administration	\$ 378,515	\$ 67,512	\$ 7,039	\$ (303,964)	\$ -	\$ (303,964)
Public works	432,130	37,518	-	(394,612)	-	(394,612)
Public safety	313,429	6,879	100,080	(206,470)	-	(206,470)
Library	83,729	1,590	9,026	(73,113)	-	(73,113)
Total Governmental Activities	1,207,803	113,499	116,145	(978,159)	-	(978,159)
Business-Type Activities						
Water	302,307	354,764	-	-	52,457	52,457
Sewer	544,935	632,577	-	-	87,642	87,642
Total Business-Type Activities	847,242	987,341	-	-	140,099	140,099
TOTAL GOVERNMENT	\$ 2,055,045	\$ 1,100,840	\$ 116,145	(978,159)	140,099	(838,060)
General Revenues						
Taxes						
Secured and unsecured				260,954	-	260,954
Sales				394,883	-	394,883
Gas				36,486	-	36,486
Other				169,844	-	169,844
Franchise fee, license, etc.				252,005	-	252,005
Investment earnings				6,311	22,911	29,222
Miscellaneous				91,820	12,827	104,647
TOTAL GENERAL REVENUES				1,212,303	35,738	1,248,041
CHANGE IN NET ASSETS				234,144	175,837	409,981
NET ASSETS, BEGINNING OF YEAR				1,317,225	1,696,445	3,013,670
NET ASSETS, END OF YEAR				\$ 1,551,369	\$ 1,872,282	\$ 3,423,651

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General	Roads - Restrooms Fund	Historical Preservation Grant	COPS Frontline Funds	Gas Tax Funds	Valle Vista Lighting/ Landscaping Fund	2002-2009 Water/Sewer Capital Project	Non-Major Governmental Funds	Total Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 167,280	\$ 14,133	\$ -	\$ 209,324	\$ 251,445	\$ 40,560	\$ -	\$ 31,720	\$ 714,462
Accounts receivable (net where applicable of allowance for doubtful accounts)	183,893	-	-	-	10,063	-	-	-	193,956
Prepays	7,011	-	-	-	-	-	-	-	7,011
Due to/from other funds	997,722	-	(22,183)	-	-	-	(772,710)	-	202,829
Total Assets	\$ 1,355,906	\$ 14,133	\$ (22,183)	\$ 209,324	\$ 261,508	\$ 40,560	\$ (772,710)	\$ 31,720	\$ 1,118,258
LIABILITIES									
Accounts payable	\$ 40,564	\$ -	\$ -	\$ 5,925	\$ 269	\$ 2,781	\$ 48,200	\$ -	\$ 97,739
Accrued expenses	6,527	-	-	-	364	-	-	-	6,891
Total Liabilities	47,091	-	-	5,925	633	2,781	48,200	-	104,630
FUND BALANCES									
Reserved for:									
Future expenditures	2,000	-	-	203,399	-	-	-	-	205,399
Noncurrent receivables	202,829	-	-	-	-	-	-	-	202,829
Unreserved (Deficit), reported in:									
General fund	1,103,986	-	-	-	-	-	-	-	1,103,986
Special revenue funds	-	14,133	(22,183)	-	260,875	37,779	(820,910)	31,720	(498,586)
TOTAL FUND BALANCES (DEFICIT)	1,308,815	14,133	(22,183)	203,399	260,875	37,779	(820,910)	31,720	1,013,628
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,355,906	\$ 14,133	\$ (22,183)	\$ 209,324	\$ 261,508	\$ 40,560	\$ (772,710)	\$ 31,720	\$ 1,118,258

The accompanying notes are an integral part of these financial statements.

CITY OF SAN JUAN BAUTISTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS - BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,013,628
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet, these are deferred in the funds.	841,622
Long term liabilities are not recorded in the governmental funds	(300,826)
Compensated absences are considered long term and therefore are not recorded in the governmental funds.	<u>(3,055)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,551,369</u>

The accompanying notes are an integral part of these financial statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	General	Roads - Restrooms Fund	Historical Preservation Grant	COPS Frontline Funds	Gas Tax Funds	Valle Vista Lighting/ Landscaping Fund	2002-2009 Water/Sewer Capital Project	Non Major Governmental Funds	Total Governmental Funds
REVENUES									
Taxes									
Secured and unsecured	\$ 260,954	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260,954
Sales	394,883	-	-	-	-	-	-	-	394,883
Gas	-	-	-	-	36,486	-	-	-	36,486
Other	163,893	5,756	-	-	-	195	-	-	169,844
Charges for services	110,369	-	-	-	-	-	-	-	110,369
License and fees	251,478	-	-	-	-	-	-	-	251,478
Investment income	703	-	-	-	4,929	-	-	679	6,311
Fines and forfeitures	3,657	-	-	-	-	-	-	-	3,657
Grants and contributions	1,606	-	7,039	100,000	-	-	-	7,500	116,145
Miscellaneous	91,807	-	-	-	13	-	-	-	91,820
TOTAL REVENUES	1,279,350	5,756	7,039	100,000	41,428	195	-	8,179	1,441,947
EXPENDITURES									
Current									
General administration	310,564	-	-	-	17,702	-	7,841	-	336,107
Public works	330,582	-	20,918	-	34,542	10,389	-	12,590	409,021
Law enforcement	133,279	-	-	100,000	-	-	-	-	233,279
Fire department	43,107	-	-	-	-	-	-	-	43,107
Library	67,198	-	-	-	-	-	-	5,124	72,322
Capital outlay	2,250	-	-	-	-	-	450,457	-	452,707
Debt Service									
Principal payments	1,744	-	-	-	-	-	1,580	-	3,324
TOTAL EXPENDITURES	888,724	-	20,918	100,000	52,244	10,389	459,878	17,714	1,549,867
EXCESS (DEFICIENCY) OF									
REVENUES OVER EXPENDITURES	390,626	5,756	(13,879)	-	(10,816)	(10,194)	(459,878)	(9,535)	(107,920)
Other Financing Sources (Uses)									
Proceeds from line of credit	-	-	-	-	-	-	290,681	-	290,681
Net Change in Fund Balance	390,626	5,756	(13,879)	-	(10,816)	(10,194)	(169,197)	(9,535)	182,761
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	918,189	8,377	(8,304)	203,399	271,691	47,973	(651,713)	41,255	830,867
FUND BALANCES (DEFICIT), END OF YEAR	\$ 1,308,815	\$ 14,133	\$ (22,183)	\$ 203,399	\$ 260,875	\$ 37,779	\$ (820,910)	\$ 31,720	\$ 1,013,628

The accompanying notes are an integral part of these financial statements.

CITY OF SAN JUAN BAUTISTA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 182,761

Amounts reported for governmental activities in the statement of activities are different because:

Governmental fund report capital outlay as expenditures. However, in the government-wide statements of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 452,707

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (110,910)

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities. 3,324

New debt issued is accounted for as other sources in the governmental funds, but increase long-term debt obligations in the statement of net assets and does not affect the statement of activities. (290,681)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (3,057)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 234,144

The accompanying notes are an integral part of these financial statements.

CITY OF SAN JUAN BAUTISTA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

REVENUES	Budgeted Amounts		Actual Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Taxes				
Secured and unsecured	\$ 227,000	\$ 227,000	\$ 260,954	\$ 33,954
Sales	310,000	309,996	394,883	84,887
Other	103,000	103,000	163,893	60,893
Charges for services	86,775	86,775	110,369	23,594
License and fees	72,560	72,560	251,478	178,918
Investment Income	400	400	703	303
Fines and forfeitures	11,000	11,000	3,657	(7,343)
Grants and contributions	8,198	8,198	1,606	(6,592)
Miscellaneous	3,100	3,100	91,807	88,707
TOTAL REVENUES	822,033	822,029	1,279,350	457,321
EXPENDITURES				
Current				
General administration	293,445	293,445	312,308	(18,863)
Public works	310,640	310,640	330,582	(19,942)
Law enforcement	208,708	208,708	133,279	75,429
Fire department	92,861	92,861	43,107	49,754
Library	91,008	91,008	67,198	23,810
Capital outlay	-	-	2,250	(2,250)
TOTAL EXPENDITURES	996,662	996,662	888,724	107,938
EXCESS OF REVENUES OVER EXPENDITURES	\$ (174,629)	\$ (174,633)	390,626	\$ 565,259
FUND BALANCE, BEGINNING OF YEAR			918,189	
FUND BALANCE, END OF YEAR			\$ 1,308,815	

The accompanying notes are an integral part of these financial statements.

CITY OF SAN JUAN BAUTISTA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Budget Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
COPS Frontline Law Enforcement	\$ 110,000	\$ 110,000	\$ 100,000	\$ (10,000)
Gas Tax Fund	72,500	72,500	41,428	(31,072)
Valle Vista Lighting	1,500	1,500	195	(1,305)
Roads-Restrooms	-	-	5,756	5,756
Historical Preservation Grant	-	-	7,039	7,039
TOTAL REVENUES	184,000	184,000	154,418	(29,582)
EXPENDITURES				
CA Law Enforcement Equipment Project	6,864	6,864	-	6,864
COPS Frontline Law Enforcement	110,000	110,000	100,000	10,000
Gas Tax Fund	66,237	66,237	52,244	13,993
Valle Vista Lighting	1,500	1,500	10,389	(8,889)
Historical Preservation Grant	-	-	20,918	(20,918)
TOTAL EXPENDITURES	184,601	184,601	183,551	1,050
EXCESS OF REVENUES OVER EXPENDITURES	\$ (601)	\$ (601)	\$ (29,133)	\$ (28,532)

The accompanying notes are an integral part of these financial statements.

CITY OF SAN JUAN BAUTISTA

**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
JUNE 30, 2007**

	Business Type Activities - Enterprise Funds		
	Water	Sewer	Totals
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 23,063	\$ 2,292	\$ 25,355
Accounts receivable (net of allowance for doubtful accounts)	69,989	79,175	149,164
Prepaid Assets	3,262	3,449	6,711
Total Current Assets	96,314	84,916	181,230
Restricted assets			
Cash and investments	3,824	-	3,824
Noncurrent assets			
Capital assets			
Land	11,085	58,698	69,783
Buildings and improvements	265,846	-	265,846
Equipment	66,799	155,345	222,144
Vehicles	1,817	5,451	7,268
Infrastructure	493,688	2,551,568	3,045,256
Accumulated depreciation	(505,641)	(1,096,205)	(1,601,846)
Total Noncurrent Assets	333,594	1,674,857	2,008,451
TOTAL ASSETS	433,732	1,759,773	2,193,505
LIABILITIES			
Current Liabilities			
Accounts payable	15,985	559	16,544
Leases payable	-	14,878	14,878
Other	1,092	2,821	3,913
Total Current Liabilities	17,077	18,258	35,335
Liabilities payable from restricted assets			
Accrued interest	2,164	-	2,164
Current portion notes payable	2,164	-	2,164
Deposits	34,150	-	34,150
Total Liabilities Payable from Restricted Assets	38,478	-	38,478
Noncurrent liabilities			
Accrued vacation	505	1,243	1,748
Advances from other funds	110,325	92,504	202,829
Leases payable	-	11,790	11,790
Notes payable, net of current portion	31,043	-	31,043
Total Noncurrent Liabilities	141,873	105,537	247,410
TOTAL LIABILITIES	197,428	123,795	321,223
NET ASSETS (DEFICIT)			
Invested in capital assets - net of related debt	331,430	1,648,189	1,979,619
Unrestricted (deficit)	(95,126)	(12,211)	(107,337)
Total Net Assets	\$ 236,304	\$ 1,635,978	\$ 1,872,282

The accompanying notes are an integral part of these financial statements.

CITY OF SAN JUAN BAUTISTA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Totals
OPERATING REVENUES			
Charges for services	\$ 354,764	\$ 632,577	\$ 987,341
Miscellaneous	12,894	(67)	12,827
Total operating revenues	367,658	632,510	1,000,168
OPERATING EXPENSES			
General and administration	116,837	136,337	253,174
Public works	148,363	322,204	470,567
Depreciation	34,649	83,305	117,954
Total operating expenses	299,849	541,846	841,695
INCOME FROM OPERATIONS	67,809	90,664	158,473
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	22,872	39	22,911
Interest expense	(2,458)	(3,089)	(5,547)
Total nonoperating revenues (expenses)	20,414	(3,050)	17,364
CHANGE IN NET ASSETS	88,223	87,614	175,837
NET ASSETS, BEGINNING OF YEAR	148,081	1,548,364	1,696,445
NET ASSETS, END OF YEAR	\$ 236,304	\$ 1,635,978	\$ 1,872,282

The accompanying notes are an integral part of these financial statements.

CITY OF SAN JUAN BAUTISTA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Business Type Activities - Enterprise Funds		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 344,709	\$ 634,728	\$ 979,437
Cash payments to other funds	(78,424)	(124,834)	(203,258)
Cash payments to suppliers for goods and services	(151,202)	(352,754)	(503,956)
Cash payments to employees for services	(117,678)	(138,466)	(256,144)
Net Cash provided (used) by operating activities	(2,595)	18,674	16,079
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(16,048)	(2,409)	(18,457)
Payments of capital leases - net	-	(11,702)	(11,702)
Payments of capital debt	(2,061)	-	(2,061)
Interest paid on bonds, notes and leases	(1,068)	(3,089)	(4,157)
Net cash used in capital and related financing activities	(19,177)	(17,200)	(36,377)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	22,872	39	22,911
Net cash provided by investing activities	22,872	39	22,911
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,100	1,513	2,613
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	25,787	779	26,566
CASH AND EQUIVALENTS - END OF YEAR	\$ 26,887	\$ 2,292	\$ 29,179
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS			
Current assets - cash and cash equivalents	\$ 23,063	\$ 2,292	\$ 25,355
Restricted assets - cash and cash equivalents	3,824	-	3,824
Total cash and cash equivalents	\$ 26,887	\$ 2,292	\$ 29,179

The accompanying notes are an integral part of these financial statements.

CITY OF SAN JUAN BAUTISTA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

**RECONCILIATION OF INCOME FROM OPERATIONS
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	Business Type Activities - Enterprise Funds		
	Water	Sewer	Totals
Income from operations	\$ 67,809	\$ 90,664	\$ 158,473
Adjustments to reconcile income from operations to net cash provided			
In operating activities			
Depreciation	34,649	83,305	117,954
(Increase) decrease in:			
Accounts receivables	(24,604)	2,218	(22,386)
Deferred charge	(3,262)	(3,449)	(6,711)
Increase (decrease) in:			
Account payables	1,118	(27,101)	(25,983)
Other liabilities	(841)	(2,129)	(2,970)
Deposits	1,655	-	1,655
Due to other funds	(78,424)	(124,834)	(203,258)
Accrued interest	(695)	-	(695)
Total adjustments	(70,404)	(71,990)	(142,394)
Net cash provided (used) by operating activities	\$ (2,595)	\$ 18,674	\$ 16,079

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The City of San Juan Bautista (City) was incorporated in 1869. The City operates under a Council-Manager form of government and provides the following services: public safety, development, public health and welfare, water and sewer, culture and recreation.

The accounting and reporting policies of the City relating to the funds included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board (GASB) pronouncements. As allowed in Section P80 of GASB's *Codification of Governmental/Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989.

The more significant accounting policies of the City are described below.

Financial Reporting Entity

The City's financial statements include the accounts of all City operations. The criteria for including other entities/organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, *The Financial Reporting Entity* include whether:

- The elected officials of the City are financially accountable
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's governing body and is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of San Juan Bautista has no component units.

Basis of Presentation

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these governmental activities, which normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included with program revenue are reported instead as *general revenue*.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for the City's enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following funds:

General Fund

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Roads and Restrooms Fund

This fund uses 2% of TOT funds which are set aside for roads and restrooms improvements.

Historic Preservation Fund

These are Certified Local Government grant funds and their local match purposed to update the historic inventory for the City of San Juan Bautista.

COPS-Frontline Law Enforcement Fund

AB 1913 provides \$100,000 for front-line law enforcement services.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gas Tax Fund

Revenues are provided through distributions of State gas tax revenues under the purview of the California Streets and Highways Code for the purpose of construction and maintenance of city streets.

Valle Vista Lighting/Landscape Fund

The purpose of the Fund is to maintain and operate all public landscaping, irrigation and street lighting within the Valle Vista subdivision. Currently, the City has no responsibility to do anything in the Fund, as the council has not formally accepted the improvements.

2002-2009 Water/Sewer Project Fund

This fund is used to track the funds associated with the building of a new water treatment facility, a new reservoir, and various associated infrastructure improvements to the water and sewer funds. The project will be substantially funded through an EDA grant, a Caltrans STIP fund grant, an infrastructure investment from the San Benito County Water District, and private placement financing.

Measurement Focus Basis of Accounting and Financial Statements Presentation:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for 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 both 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 to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus Basis of Accounting and Financial Statements Presentation (Continued)

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service interest income and intergovernmental revenues. Sales taxes collected and held by the county at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Budgetary Information

The City Council adopts an annual operating budget for the governmental and proprietary funds which includes capital outlay.

The City budget may be amended and appropriations may be altered in cases of public necessity, as declared by the City Council. The City Manager has the ability to reallocate funds from one line item to another within the various budget categories within the same department (i.e., personnel services, other charges, contracted services, etc.), but City Council approval is required for budget adjustments between departments.

The budget ordinance states that expenditures should not exceed the budget in the various departments (administration, personnel, finance, etc.) within an individual fund. The City's appropriation ordinance approves items as detailed in the approved budget. Budgeted amounts reported are based on the budget ordinance originally adopted and as amended by the City Council throughout the year. Formal budgetary accounting is employed for all funds of the City, excluding certain special revenue funds.

Assets Liabilities and Net Assets or Equity

A. Cash and Investments

Cash and investments of all funds are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash account has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash and investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements negative balances incurred in pooled cash at year-end are treated as interfund receivables of the General Fund and interfund payables of the deficit fund.

All investments are recorded at fair value. Fair value is the amount at which financial instruments could be exchanged in a current transaction between willing parties. The City's cash and cash equivalents are considered to be cash on hand, certificates of deposit, investment securities with a maturity of three months or less at date of purchase, and money market accounts.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Receivables and Payables

Activity between funds that are representative of lending borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

C. Prepaid Expenses.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide financial statements and fund financial statements.

D. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (i.e., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost, if purchased or constructed. Donated assets are valued at their fair market value on the date donated.

Repairs and maintenance are recorded as expenses. Renewals and improvements are capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2007.

Capitalized asset, not including infrastructure assets, have an original cost of \$2,000 or more and a minimum of three years of useful life. Infrastructure assets capitalized have an original cost of \$10,000 or more. Property, plant and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	1-30
Equipment	3-10
Infrastructure	10-40

E. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. No liability is reported for accumulating sick leave because sick leave does not vest.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

F. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

H. Property Taxes

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 Valuations** - are established by the Assessor of the County of San Benito 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 (Proposition 13 adopted by the voters on June 6, 1978) properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change of ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Property Taxes (Continued)

- **Tax Levies** - are limited to 1 % of full market value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition .13 tax rates for voter-approved indebtedness are excluded from this limitation.
- **Tax Levy Dates** - are attached annually on January 1 proceeding, the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Subsequent renewal or change in ownership relieves liens against real estate, as well as the tax on personal property. Tax Collection - is the responsibility of the county tax collector.
- **Tax Collection** - is the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 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 made in one installment, which is delinquent if not paid by August 31 of the fiscal year. The county imposes significant penalties for late payments.

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported in the government-wide financial statements are different from those reported in the fund financial statements due to differences in measurement focus, basis of accounting and composition. The governmental fund balance sheet includes reconciliation between fund balance total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. Also, the governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

CITY OF SAN JUAN BAUTISTA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

3. DEPOSITS AND INVESTMENTS

The City's dependence on property tax receipts requires it to maintain significant cash reserves to finance operations during certain portions of the year. The City pools cash from all sources so that it can safely invest at maximum yields, while individual funds can make expenditures at any time.

All investments are carried at fair value. Investment income is allocated quarterly among funds on the basis of average fund balance in funds that maintain positive average cash balances.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in the pool is reported in the accompanying financial statement at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, and is recorded on the amortized cost basis.

Summary of Deposits and Investments

Cash and cash equivalents as of June 30, 2007, consist of the following:

Cash on hand	\$	700
Deposits with financial institutions		587,229
Investments		155,712
Total Deposits and Investments	\$	<u>743,641</u>

Cash and cash equivalents as of June 30, 2007, are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and cash equivalents	\$	739,817
Restricted cash and cash equivalents		3,824
Total Deposits and Investments	\$	<u>743,641</u>

Policies and Practices

The City is authorized under California Government Code and the City's investment policy to make direct investments in U.S. Treasury instruments and securities of the U.S. Government, the Local Agency Investment Fund (LAIF), and federally insured deposits in commercial banks and savings and loan associations in the local area.

The City's investments were in compliance with the above provisions as of and for the year ended June 30, 2007.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages its exposure to interest rate risk by purchasing only short-term investments as necessary to provide the cash flow and liquidity needed for operations. At June 30, 2007 the only investment the City had was LAIF, which had an average maturity of 165 days.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

3. DEPOSITS AND INVESTMENTS (Continued)

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The state investment pool is not rated.

Custodial risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2007, the City's bank balance of \$776,719, with a reported balance of \$587,229, is either insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 consist of the following:

	Governmental Activities	Business-Type Activities
Accounts	\$ 179,602	\$ -
User fees	-	197,399
Other governmental	39,205	-
	<u>218,807</u>	<u>197,399</u>
Less allowances for doubtful accounts	24,851	48,235
	<u><u>\$ 193,956</u></u>	<u><u>\$ 149,164</u></u>

CITY OF SAN JUAN BAUTISTA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

5. DUE TO/FROM OTHER FUNDS

Due to/from other funds at June 30, 2007 is as follows:

Due From	Due To
	General Fund
Governmental Activities:	
Historical Preservation Grant	\$ 22,183
2002-2009 Water/Sewer Project	772,710
	794,893
Business Type Activities	
Water Fund	110,325
Sewer Fund	92,504
	202,829
Total due from business type activities	202,829
Total due from	\$ 997,722

CITY OF SAN JUAN BAUTISTA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 22,610	\$ -	\$ -	\$ -	\$ 22,610
Construction in Progress	57,113	450,457	-	-	507,570
Total capital assets not being depreciated	79,723	450,457	-	-	530,180
Capital assets, being depreciated:					
Buildings	584,418	2,250	-	-	586,668
Equipment	273,158	-	-	-	273,158
Vehicles	456,965	-	-	-	456,965
Infrastructure	85,883	-	-	-	85,883
Total capital assets being depreciated	1,400,424	2,250	-	-	1,402,674
Total accumulated depreciation	980,322	110,910	-	-	1,091,232
Governmental activities capital assets, net	\$ 499,825	\$ 341,797	\$ -	\$ -	\$ 841,622
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 69,783	\$ -	\$ -	\$ -	\$ 69,783
Capital assets, being depreciated:					
Buildings	1,583,153	-	-	(1,317,307)	265,846
Equipment	219,735	2,409	-	-	222,144
Vehicles	7,266	-	-	-	7,266
Infrastructure	1,711,903	16,046	-	1,317,307	3,045,256
Total capital assets being depreciated	3,522,057	18,455	-	-	3,540,512
Total accumulated depreciation	1,483,892	117,954	-	-	1,601,846
Business-type activities capital assets, net	\$ 2,107,948	\$ (99,499)	\$ -	\$ -	\$ 2,008,449

CITY OF SAN JUAN BAUTISTA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

6. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General government and administration	\$	41,046
Public works		21,414
Public safety		37,043
Library		11,407

Total depreciation expense -

Government Activities	\$	110,910
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Business-type Activities

Water	\$	34,649
Sewer		83,305

Total depreciation expense -

Business-type Activities	\$	117,954
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Note: In accordance with GASB Statement No. 34, the City has elected not to report information assets acquired, donated or constructed prior to June 30, 1980.

7. LONG-TERM OBLIGATIONS

Enterprise Fund – Water

At June 30, 2007, long-term obligations consist of the following:

Note payable – GMAC, dated September 1, 1998, bearing interest at 5%, due September 1, 2017 was \$33,207.

The annual aggregate maturities are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 2,164	\$ 1,660	\$ 3,824
2009	2,272	1,552	3,824
2010	2,385	1,439	3,824
2011	2,505	1,319	3,824
2012	2,630	1,194	3,824
2013-2017	15,259	3,861	19,120
2018	5,992	300	6,292
	\$ 33,207	\$ 11,325	\$ 44,532

CITY OF SAN JUAN BAUTISTA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

8. INTERFUND LOANS

In previous years, the City's General Fund subsidized the operations of the Enterprise Funds. It was the intent of the City to repay the loan from the General Fund through increased rates and increased customers in the Water and Sewer Funds. The interfund loans are non-interest bearing.

9. LEASES

Capital Lease

The City acquired various equipment through a lease-purchase agreement.

Future minimum lease payments are as follows:

Year Ended June 30		
2008	\$	27,165
2009		13,353
		<u>40,518</u>
Less interest amount		2,125
	<u>\$</u>	<u>38,393</u>

10. NOTES PAYABLE

The City has entered into an agreement with Pacific Capital Bank for a revolving line of credit up to \$500,000 with a rate of 5.5% on June 27, 2007. The outstanding balance at June 30, 2007 was \$289,101. The line of credit is not collateralized. Agreement is valid until June 27, 2012. This line of credit is obtained to cover some of pre-construction costs associated with the water system improvement project.

Pursuant to revolving line of credit agreement the City is required to furnish financial statements to Pacific Capital Bank within 150 days after the close of each fiscal year. This requirement was not met for fiscal year ended June 30, 2007.

Year Ended June 30	Principal	Interest	Total
2008	\$ 51,656	\$ 14,611	\$ 66,267
2009	54,568	11,698	66,266
2010	57,646	8,620	66,266
2011	60,898	5,368	66,266
2012	64,333	1,933	66,266
	<u>\$ 289,101</u>	<u>\$ 42,230</u>	<u>\$ 331,331</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

11. DEFERRED COMPENSATION PLAN

On October 1, 1999, the City established a deferred compensation plan for its employees which provides them an opportunity to save for retirement. The plan meets the requirements of Internal Revenue Code Section 457. Under the plan, employees make tax deferred contributions up to the limits established by the Internal Revenue Service. The contributions made to the plan may be withdrawn only upon retirement separation from service, death or unforeseeable emergency. Employees are 100% vested in their contributions from the first date of participation. The plan provides for varying matching contributions.

The plan is administered by the City. The participants are offered a choice of investment options and make their own investment decisions. The City has a fiduciary obligation for due care in the administration of the plan, but is not responsible for the investments or performance results of the investment products offered under the plan, therefore, the City is not required to report these funds on the City's financial statements.

12. NET ASSETS – ENTERPRISE FUND

Unrestricted - Deficit

It is the intent of the City to recover the deficit (\$76,294) through increased rates and an increase in the customer base.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

13. FUND BALANCES

Fund balances (deficit) consist of the following:

	GENERAL FUND	SPECIAL REVENUE FUNDS
Reserved		
Future expenditures	\$ 2,000	\$ -
Advances to other funds	202,829	-
Library Literacy	-	-
COPS Frontline Funds	-	203,399
Total Reserved	204,829	203,399
Unreserved (Deficit)		
Undesignated-General	1,103,986	-
Undesignated (Deficit) Special Revenue	-	-
Streets and highways	-	260,875
Restrooms	-	14,133
Historical Preservation Grant	-	(22,183)
Valle Vista Lighting/Landscape Fund	-	37,779
Public Parking	-	31,720
Econ. Dev. Authority Construction Grant	-	(820,910)
Total Unreserved (Deficit)	1,103,986	(498,586)
TOTAL FUND BALANCES	\$ 1,308,815	\$ (295,187)

The City intends to fund deficit fund balances through future grants, increased fees, (developers, etc.) and transfers from the General Fund as required.

14. RISK MANAGEMENT

The City of San Juan Bautista is insured under the Public Agency Risk Sharing Authority of California (PARSAC) liability program. Protection is afforded for "bodily injury, property damage, personal injury and public officials' errors and omissions, subject to certain limitations".

Limit of protection - \$995,000 ultimate net loss as the result of any one occurrence because of bodily injury, property damage, personal injury or public officials' errors and omissions or any combination thereof in excess of the retained limit.

Retained limit - \$5,000 ultimate net loss as the result of any one occurrence because of bodily injury, property damage, personal injury or public officials' errors and omissions or any combination thereof.

CITY OF SAN JUAN BAUTISTA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

15. COMMITMENTS AND CONTINGENCIES

The City is in the planning stages of a project to construct a water treatment facility. The estimated cost of the project is approximately 9.6 million dollars. It is anticipated that the cost of the project will be funded through a combination of (a) bank debt, (b) future grants and (c) private placement financing.

The City is involved in various legal proceedings. While it is not feasible to predict or determine the outcome in these cases, it is the opinion of the City that the outcome will have no materially adverse effect on the financial position of the City.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and Members of the City Council
City of San Juan Bautista
San Juan Bautista, California

We have audited the basic financial statements of the City of San Juan Bautista, as of and for the year ended June 30, 2007, and have issued our report thereon, dated March 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of San Juan Bautista's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor and City Council, the City's management, federal awarding agencies, pass-through entities and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
March 4, 2008

APPENDIX D
PROPOSED FORM OF FINAL OPINION

October 23, 2008

City Council
City of San Juan Bautista
311 2nd Street
San Juan Bautista, California 95045

OPINION: \$11,145,000 2008 Water and Wastewater Revenue Certificates of Participation, Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the City of San Juan Bautista to the Public Property Financing Corporation of California

Members of the City Council:

We have acted as special counsel in connection with the delivery by the City of San Juan Bautista (the "City"), of the Installment Sale Agreement dated as of October 1, 2008 (the "Installment Sale Agreement") between the Public Property Financing Corporation of California (the "Corporation") as seller and the City as purchaser. Under the Trust Agreement dated as of October 1, 2008 (the "Trust Agreement") among the City, the Corporation and Wells Fargo Bank National Association, as trustee thereunder (the "Trustee"), the Trustee has executed and delivered \$11,145,000 aggregate principal amount of 2008 Water and Wastewater Revenue Certificates of Participation (the "Certificates") evidencing the direct, undivided fractional interests of the owners thereof in installment payments to be made by the City under the Installment Sale Agreement (the "Installment Payments"), which have been assigned by the Corporation to the Trustee under the Trust Agreement. 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 Installment Sale Agreement and the Trust Agreement, and in certified proceedings and other 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 a municipal corporation duly organized and validly existing under the laws of the State of California with the full power to enter into the Installment Sale Agreement and the Trust Agreement and to perform the agreements on its part contained therein.
2. The Installment Sale Agreement and the Trust Agreement have been duly approved by the City and constitute valid and binding obligations of the City enforceable against the City in accordance with their respective terms.

3. The Certificates have been validly executed and delivered by the Trustee under the Trust Agreement and, by virtue of the assignment made under the Trust Agreement, the owners of the Certificates are entitled to the benefits of the Installment Sale Agreement.

4. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates 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 such corporations (as defined for federal income tax purposes), such interest is required to be taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Installment Sale Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Installment Sale Agreement and the Trust Agreement and other instruments relating to the Certificates to comply with each of such requirements. 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 delivery of the Installment Sale Agreement. We express no opinion regarding other federal tax consequences arising with respect to the Installment Sale Agreement and the Certificates.

5. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Certificates and the enforceability of the Installment Sale Agreement and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of San Juan Bautista (the "City") in connection with the execution and delivery of \$11,145,000 aggregate principal amount of 2008 Water and Wastewater Revenue Certificates of Participation (the "Certificates"). The Certificates evidence the direct, undivided fractional interests of the owners thereof in installment payments to be made by the City under an Installment Sale Agreement dated as of October 1, 2008 (the "Installment Sale Agreement") between the Public Property Financing Corporation of California (the "Corporation") as seller and the City as purchaser. The Certificates will be delivered under and subject to the terms and provisions of a Trust Agreement dated as of October 1, 2008 (the "Trust Agreement") among the City, the Corporation and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Certificates and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" means the City or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. As of the date of this Disclosure Certificates, no Dissemination Agent has been appointed.

"*Internet Filing Service*" means the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the Securities and Exchange Commission.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"*Participating Underwriter*" means any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"*Repository*" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently would be the first day of April), commencing April 1, 2009 with the report for the 2007-08 fiscal year, provide to each Repository (or, in lieu of providing to each Repository, transmit to the Internet Filing Service) an Annual Report which is consistent with the requirements of Section 4. Not later than 15 Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) 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) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing the following:

- (i) a schedule of water and wastewater rates in effect as of the close of the preceding fiscal year, by classification of customer;
- (ii) total Net Revenues received by the City during the preceding fiscal year and the amount by which such Net Revenues provide coverage for the payments of debt service coming due in such fiscal year with respect to the Installment Payments and any other Parity Debt; and
- (iii) for each customer whose total billings in the preceding fiscal year represent 10% or more the Gross Revenues of the Water System or the Wastewater System, (1) the total amount of Gross Revenues derived from such customer and (2) the percent of total Gross Revenues represented by such customer for such fiscal year.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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 City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.

- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates pursuant to the Trust Agreement. In lieu of filing the notice of Listed Event with each Repository in accordance with this paragraph, the City or the Dissemination Agent may file such notice of a Listed Event with the Internet Filing Service.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Certificates, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Certificates in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Certificates.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its 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 negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial

owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Dated: October 23, 2008

CITY OF SAN JUAN BAUTISTA

By: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of San Juan Bautista

Name of Issue: \$11,145,000 2008 Water and Wastewater Revenue Certificates of Participation

Date of Issuance: October 23, 2008

NOTICE IS HEREBY GIVEN that the City of San Juan Bautista (the "City") has not provided an Annual Report with respect to the above-named Certificates as required by Section 9.05 of the Trust Agreement dated as of October 1, 2008 among the Public Property Financing Corporation of California, the City and Wells Fargo Bank, National Association, as trustee. The City anticipates that the Annual Report will be filed by _____.

Dated:

CITY OF SAN JUAN BAUTISTA

By _____
Name:
Title:

APPENDIX F

BOOK ENTRY PROVISIONS

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

Neither the issuer of the Certificates (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Certificates (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information contained on this Internet site is not incorporated herein by reference.

3. 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 purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities 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 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or 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 Direct and Indirect Participants.

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

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.