09-0021

NEW ISSUE - FULL BOOK-ENTRY **RATINGS:**
Standard & Poor's: "AA+"

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

$15,000,000
CITY OF MARTINEZ
General Obligation Bonds
Election of 2008, Series A
(Bank-Qualified)

Dated: Date of Delivery **Due February 1, 2011, August 1 in the years 2011 through 2038 and February 1, 2039, as shown on inside front cover**

Issuance. The general obligation bonds captioned above (the "Bonds") are being issued by the City of Martinez (the "City") under provisions of California Government Code and under a Resolution adopted by the City Council of the City (the "City Council") on April 1, 2009. The Bonds were authorized at an election of the registered voters of the City held on November 4, 2008, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed $30,000,000 principal amount of general obligation bonds. The Bonds are the first series of bonds to be sold and issued under this authorization. See "THE BONDS - Authority for Issuance."

Purpose. The Bonds are being issued to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements in the City. See "PLAN OF FINANCE - Purpose of Issue."

Security. The Bonds are general obligations of the City, payable solely from ad valorem property taxes levied by the City and collected by Contra Costa County (the "County"). The City Council is empowered and is obligated to levy ad valorem taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "SECURITY FOR THE BONDS."

Book-Entry Only. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds are issuable as fully registered securities in denominations of $5,000 or any integral multiple of $5,000. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds. See "THE BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Payments. Interest on the Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2010. Payments of principal and interest on the Bonds will be paid by U.S. Bank National Association, as Paying Agent, to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS - Description of the Bonds."

***Redemption.* The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See "THE BONDS - Redemption."**

Maturity Schedule
(See inside cover)

Cover Page. This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds were sold at a competitive sale held on May 5, 2009, as set forth in the Official Notice of Sale. The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the City, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the City. Certain legal matters are being passed upon for the City by the City Attorney. It is anticipated that the Bonds, in book entry form, will be available for delivery by DTC in New York, New York, on or about May 20, 2009.

The date of this Official Statement is May 5, 2009.

MATURITY SCHEDULE
(Base CUSIP:† 573394)

$5,105,000 Serial Bonds

Maturity Date	Principal Amount	Interest Rate	Yield	Price	CUSIP†
February 1, 2011	$340,000	5.000%	1.250%	106.276%	AA1
August 1, 2011	360,000	5.000	1.350	107.873	AB9
August 1, 2012	160,000	4.750	1.750	109.286	AC7
August 1, 2013	5,000	4.000	2.250	106.968	AD5
August 1, 2014	45,000	4.000	2.500	107.265	AE3
August 1, 2015	65,000	4.000	2.800	106.780	AF0
August 1, 2016	85,000	4.000	3.000	106.426	AG8
August 1, 2017	110,000	4.000	3.300	104.987	AH6
August 1, 2018	135,000	4.000	3.600	103.104	AJ2
August 1, 2019	165,000	4.000	3.750	102.097	AK9
August 1, 2020	195,000	4.000	3.900	100.830 C	AL7
August 1, 2021	225,000	4.000	4.100	99.042	AM5
August 1, 2022	255,000	4.250	4.300	99.495	AN3
August 1, 2023	290,000	4.375	4.500	98.693	AP8
August 1, 2024	330,000	4.500	4.600	98.909	AQ6
August 1, 2025	370,000	4.625	4.700	99.149	AR4
August 1, 2026	415,000	4.750	4.800	99.412	AS2
August 1, 2027	465,000	4.750	4.900	98.200	AT0
August 1, 2028	515,000	5.000	5.000	100.000	AU7
August 1, 2029	575,000	5.000	5.050	99.364	AV5

$3,860,000 5.000% Term Bond due August 1, 2034, Yield: 5.150%, Price: 97.888%
CUSIP† No. 573394 AW3

$6,035,000 5.875% Term Bond due February 1, 2039, Yield: 5.000%, Price: 106.915% C
CUSIP† No. 573394 AX1

C = priced to the optional call date of August 1, 2019.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the City or the Underwriter. This Official Statement and the information contained herein are subject to completion or amendment without notice.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Estimates and Projections. 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" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by the City.

Document Summaries. All summaries of the Paying Agent Agreement or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, or the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

CITY OF MARTINEZ

City Council

Rob Schroder, *Mayor*
Michael Menesini, *Vice Mayor*
Lara DeLaney, *Councilmember*
Janet Kennedy, *Councilmember*
Mark Ross, *Councilmember*

Other Elected Officials

Carolyn Robinson, *City Treasurer*
Gary Hernandez, *City Clerk*

City Staff

Philip A. Vince, *City Manager*
Lianne Marshall, *Assistant City Manager-Administrative Services*
Karen L. Majors, *Assistant City Manager-Community & Economic Development*
Cathy Heater, *Finance Manager*
Jeff Walter, *City Attorney*

PROFESSIONAL SERVICES

Bond and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Financial Advisor

Public Financial Management, Inc.
San Francisco, California

Bond Registrar, Transfer Agent, and Paying Agent

U.S. Bank National Association
San Francisco, California

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OFFICIAL STATEMENT

$15,000,000
CITY OF MARTINEZ
General Obligation Bonds
Election of 2008, Series A

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the bonds captioned above (the "**Bonds**") by the City of Martinez (the "**City**"). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Paying Agent Agreement (as defined below).

INTRODUCTION

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

The City. The City is located in Contra Costa County (the "**County**"), California (the "**State**"), approximately 30 miles northeast of San Francisco, and encompasses an area of approximately 12.5 square miles. The City was established in 1876 and is a general law city with a population as of January 1, 2008, of 36,144 persons.

See "APPENDIX A - GENERAL DEMOGRAPHIC INFORMATION REGARDING THE CITY OF MARTINEZ AND CONTRA COSTA COUNTY," "APPENDIX B - CITY FINANCIAL INFORMATION" and "APPENDIX C - FISCAL YEAR 2007-08 COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE CITY," for demographic and financial information regarding the City

Authority for Issuance. The Bonds represent a sale of bonds approved by more than two-thirds of the qualified voters in the City, voting at a municipal election on November 4, 2008 approving the issuance of up to $30,000,000 of general obligation bonds.

The Bonds are being issued under Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code; under a Resolution adopted by the City Council of the City (the "**City Council**") on April 1, 2009 (the "**Bond Resolution**"); and under a Paying Agent Agreement (the "**Paying Agent Agreement**") dated as of May 1, 2009, by and between the City and U.S. Bank National Association, as paying agent (the "**Paying Agent**"). The Bonds are the first series of bonds to be sold and issued under this authorization. See "THE BONDS - Authority for Issuance."

Purpose for Issuance. The Bonds are being issued to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements within the City. "PLAN OF FINANCE - Purpose of Issue."

Security and Sources of Payment for the Bonds. The Bonds are general obligations of the City payable solely from *ad valorem* property taxes levied by the City and collected by the County. The City Council is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See "SECURITY FOR THE BONDS."

Payment and Registration of the Bonds. The Bonds will be dated their date of original issuance and delivery (the "**Dated Date**") and will be issued as fully registered bonds, without coupons, in the denominations of $5,000 or any integral multiple of $5,000, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**DTC**"), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described below. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "THE BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Interest on the Bonds accrues from the Dated Date and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2010. See "THE BONDS - Description of the Bonds."

Early Redemption. The Bonds are subject to optional and mandatory sinking fund redemption prior to their maturity as described in "THE BONDS - Redemption."

Other Information. This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to in this Official Statement and information concerning the Bonds are available from the City of Martinez City Clerk, 525 Henrietta Street, Martinez, California 94553, (925) 372-3500. The City may impose a charge for copying, mailing and handling.

PLAN OF FINANCE

Purpose of Issue

The net proceeds of the Bonds will be used to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements within the City.

Sources and Uses of Funds

The estimated sources and uses of funds with respect to the Bonds will be applied as follows:

Sources of Funds	
Principal Amount of Bonds	$15,000,000.00
Plus: Net Original Issue Premium	400,127.50
Total Sources	$15,400,127.50
Uses of Funds	
Deposit to Debt Service Fund	$ 160,000.00
Deposit to Project Fund	15,000,000.00
Costs of Issuance Account[(1)]	140,000.00
Underwriter's Discount	100,127.50
Total Uses	$15,400,127.50

(1) Includes Bond Counsel and Disclosure Counsel fees, financial advisor fees, rating fees, printing expenses, Underwriter's discount, and other costs of issuance with respect to the Bonds.

THE BONDS

Authority for Issuance

The Bonds are issued under Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code (the "**Act**") and other applicable law; under a resolution adopted by the City Council on April 1, 2009; and under the Paying Agent Agreement.

The City received authorization at an election held on November 4, 2008, by an affirmative vote of 68.95% of the eligible voters within the City (the "**Authorization**") to issue $30,000,000 of general obligation bonds. The Bonds are the first series of bonds to be sold and issued under the Authorization.

Description of the Bonds

Book-Entry Form. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("**DTC**"). Purchasers of the Bonds (the "**Beneficial Owners**") will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds.

As long as DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the City, and the Underwriter of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

See "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Interest. Interest with respect to the Bonds is payable semiannually on February 1 and August 1 of each year (the "**Interest Payment Dates**"), commencing February 1, 2010.

Each Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is registered and authenticated prior to an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is registered and authenticated prior to a Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (iii) it is registered and authenticated prior to January 15, 2010, in which event it will bear interest from the date of original issuance and authentication of the Bonds; *provided*, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Denominations and Maturity. The Bonds will be issued in the denomination of $5,000 each or any integral multiple of $5,000. The Bonds mature on February 1, 2011, on August 1 in the years 2011 through 2038, and on February 1, 2039, in the amounts set forth on the inside cover page of this Official Statement. *See* the maturity schedule on the inside cover page hereof and "DEBT SERVICE SCHEDULE" below.

Payment

Interest on the Bonds (including the final interest payment upon maturity or early redemption) is payable by check of the Paying Agent mailed on the Interest Payment Date to the owner thereof at such owner's address as it appears on the Bond Register maintained by the Paying Agent at the close of business on the 15th day of the month preceding the Interest Payment Date, or at such other address as the owner may have filed with the Paying Agent for that purpose; *provided* that an owner of $1,000,000 or more aggregate principal amount of Bonds, or the owner of all of the Bonds at the time outstanding, will, at his or her option, receive payment of interest by wire transfer to an account in the United States of America designated by such owner to the Paying Agent no later than the 15th day of the month immediately preceding the applicable Interest Payment Date.

Principal of the Bonds is payable in lawful money of the United States of America at the principal office of the Paying Agent.

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 2019 are not subject to redemption prior to their fixed maturity dates. The Bonds maturing on or after August 1, 2020 are subject to redemption prior to their respective maturity dates as a whole on any date, as designated by the City and, absent any such designation, *pro rata* among maturities and by lot within a maturity, from money provided at the option of the City, in each case on and after August 1, 2019, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2034, are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 2030, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Term Bond Due August 1, 2034

Payment Date (August 1)	Payment Amount
2030	$635,000
2031	700,000
2032	765,000
2033	840,000
2034 *(maturity)*	920,000

The Bonds maturing on February 1, 2039, are subject to mandatory sinking fund redemption in part, by lot, prior to their stated maturity date, on each August 1 on and after August 1, 2035, until their maturity on February 1, 2039, at a redemption price equal to 100% of the principal amount thereof called for redemption, plus accrued interest to the redemption date, without premium, as follows:

Term Bond Due February 1, 2039

Payment Date	Payment Amount
August 1, 2035	$1,005,000
August 1, 2036	1,095,000
August 1, 2037	1,190,000
August 1, 2038	1,295,000
February 1, 2039 (maturity)	1,450,000

Redemption Procedure. The Paying Agent will cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the bond registration books maintained by the Paying Agent and to the Securities Depositories (as such term is defined in the Paying Agent Agreement); but such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Bonds.

The Paying Agent will not mail any notice of redemption until it has sufficient moneys on deposit to pay the redemption price of all Bonds to be redeemed; *provided*, however, that such restriction will not apply when the Bonds are redeemed with the proceeds of another obligation of the City; and provided further that in the event the Bonds are being redeemed with such proceeds, the City will have the right to cancel the notice of redemption by providing written notice of such cancellation to the Paying Agent at least seven business days prior to the date set for redemption.

Such notice will state the redemption date and the redemption price and, if less than all of the then outstanding Bonds are to be called for redemption, will designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and will require that such Bonds be then surrendered at the principal office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

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

Effect of Redemption. From and after the date fixed for redemption, if notice of such redemption has been duly given as provided in the Paying Agent Agreement and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption will has been duly provided, such Bonds so called will cease to be entitled to any benefit under the Paying Agent Agreement other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in such notice.

Registration, Transfer and Exchange of Bonds

If the book-entry system as described above and in Appendix F is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

Bond Register. The Paying Agent will keep or cause to be kept sufficient books for the registration and transfer of the Bonds (the "**Bond Register**"), which will at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Bonds.

Transfer. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept by the Paying Agent, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the principal office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent will require the payment by the owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Paying Agent will authenticate and deliver a new Bond or Bonds, for like aggregate principal amount.

No transfers of Bonds will be required to be made (a) 15 days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption (except with respect to the unredeemed portion thereof).

Exchange. Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Paying Agent will require the payment by the owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of Bonds will be required to be made (a) 15 days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption (except with respect to the unredeemed portion thereof).

Defeasance

The City has the option to pay and discharge the entire indebtedness on all or any portion of the outstanding Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, and interest and any premium on, such outstanding Bonds, as and when they become due and payable;

(b) by depositing with the Paying Agent, in trust, at or before maturity, money which, together with, in the event of a discharge of all of the Bonds, the amounts then on deposit in the funds and accounts provided for in the Paying Agent Agreement is fully sufficient to pay such outstanding Bonds, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Paying Agent or other agent designated by the City, in trust, cash and Federal Securities (as defined below) in such amount as the City will determine as confirmed by an independent certified public accountant will, together with the interest to accrue thereon and, in the event of a discharge of all of the Bonds, moneys then on deposit in the fund and accounts provided for in the Paying Agent Agreement, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City has taken any of the actions specified in (a), (b) or (c) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption will have been given as in the Paying Agent Agreement provided or provision satisfactory to the Paying Agent will have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds will not have been surrendered for payment, the pledge of the funds and moneys provided for in the Paying Agent Agreement and all other obligations of the City under the Paying Agent Agreement with respect to such outstanding Bonds will cease and terminate. Notice of such election will be filed with the Paying Agent. Notwithstanding the foregoing, the obligation of the City to pay or cause to be paid to the owners of the Bonds not so surrendered and paid all sums due thereon and all amounts owing to the Paying Agent pursuant to the Paying Agent Agreement will continue in any event.

Upon compliance by the City with the foregoing with respect to all bonds outstanding, any funds held by the Paying Agent after payment of all fees and expenses of the Paying Agent, which are not required for the purposes of the preceding paragraph, will be paid over to the City.

"**Federal Securities**" means Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions).

Year Ending August 1	Bonds Principal Payment	Bonds Interest Payment	Total Bonds Debt Service
2010	$ 0	$ 937,597.11	$ 937,597.11
2011	700,000	774,643.76	1,474,643.76
2012	160,000	748,143.76	908,143.76
2013	5,000	740,543.76	745,543.76
2014	45,000	740,343.76	785,343.76
2015	65,000	738,543.76	803,543.76
2016	85,000	735,943.76	820,943.76
2017	110,000	732,543.76	842,543.76
2018	135,000	728,143.76	863,143.76
2019	165,000	722,743.76	887,743.76
2020	195,000	716,143.76	911,143.76
2021	225,000	708,343.76	933,343.76
2022	255,000	699,343.76	954,343.76
2023	290,000	688,506.26	978,506.26
2024	330,000	675,818.76	1,005,818.76
2025	370,000	660,968.76	1,030,968.76
2026	415,000	643,856.26	1,058,856.26
2027	465,000	624,143.76	1,089,143.76
2028	515,000	602,056.26	1,117,056.26
2029	575,000	576,306.26	1,151,306.26
2030	635,000	547,556.26	1,182,556.26
2031	700,000	515,806.26	1,215,806.26
2032	765,000	480,806.26	1,245,806.26
2033	840,000	442,556.26	1,282,556.26
2034	920,000	400,556.26	1,320,556.26
2035	1,005,000	354,556.26	1,359,556.26
2036	1,095,000	295,512.50	1,390,512.50
2037	1,190,000	231,181.26	1,421,181.26
2038	1,295,000	161,268.76	1,456,268.76
2039	1,450,000	42,593.75	1,492,593.75
Total	$15,000,000	$17,667,072.38	$32,667,072.38

SECURITY FOR THE BONDS

Ad Valorem Taxes.

Bonds Payable from Ad Valorem Property Taxes. The Bonds are general obligations of the City, payable solely from *ad valorem* property taxes levied by the City and collected by the County. The City is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

Levy and Collection. The City will levy and the County will collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into a debt service fund for the Bonds, which is maintained by the City and which is irrevocably pledged for the payment of principal of and interest on the Bonds when due. If and to the extent the amount of such *ad valorem* taxes collected is insufficient to pay debt service on the Bonds, the City is obligated under the Paying Agent Agreement to use any other moneys lawfully available therefore to pay debt service on the Bonds.

City property taxes are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property.

Annual Tax Rates. The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the City may cause the annual tax rate to fluctuate.

Economic and other factors beyond the City's control, such as economic recession, deflation of land values, a relocation out of the City or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate.

Debt Service Fund

The City will establish the Debt Service Fund (the "**Debt Service Fund**"), which will be established as a separate fund to be maintained distinct from all other funds of the City. Into the Debt Service Fund will be deposited: (1) the proceeds of *ad valorem* taxes levied to pay debt service on the Bonds; and (2) if any, other moneys lawfully available to pay debt service on the Bonds as provided in the Paying Agent Agreement.

All moneys in the Debt Service Fund will be used and withdrawn by the City solely for the purpose of paying the principal of and interest on the Bonds as they become due and payable. At least five Business Days prior to each Interest Payment Date, commencing in January 2010, the City will transfer to the Paying Agent moneys on deposit in the Debt Service

Fund for application by the Paying Agent on the next succeeding Interest Payment Date to the payment of principal of and interest on the Bonds.

Bond Service Fund

The Paying Agent Agreement establishes, as a separate fund, the Bond Service Fund, to be held by the Paying Agent. All moneys received by the Paying Agent from the City from the Debt Service Fund will be deposited into the Bond Service Fund. The moneys on deposit in the Bond Service Fund will be used solely to pay principal and interest on the Bonds when due.

Limited Obligation

The Bonds are payable solely from the proceeds of an *ad valorem* tax levied by the City, and collected by the County, for the payment of principal and interest on the Bonds. Although the County is obligated to levy and collect the *ad valorem* tax for the payment of the Bonds, the Bonds are not a debt of the County.

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property which is subject to ad valorem taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state assessed public utilities' property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("**SBE**") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property", a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

Alternative Method of Tax Apportionment - Teeter Plan

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The Teeter Plan was effective beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to all tax levies on secured property for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections.

The *ad valorem* property tax to be levied to pay the interest on and principal of the Bonds will be subject to the Teeter Plan, beginning in the first year of such levy in fiscal year 2009-10. The City will receive 100% of the *ad valorem* property tax on secured property levied to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency.

Assessed Valuation

Assessed Valuation History. The table below shows a five-year history of the City's assessed valuation. Over the last five years, the City's assessed valuation has increased by 27.0%, representing an average annual compound growth rate of approximately 6.2% percent.

CITY OF MARTINEZ
Assessed Valuations of Taxable Property
Fiscal Years 2004-05 to 2008-09

Fiscal Year	Local Secured	Utility	Unsecured	Total Before Redevelopment Increment
2004-05	$3,444,627,895	$1,275,350	$158,892,616	$3,604,795,861
2005-06	3,734,280,945	1,207,049	154,169,708	3,889,657,702
2006-07	4,037,277,686	1,041,909	153,372,759	4,191,692,354
2007-08	4,339,782,741	100,000	164,185,518	4,504,068,259
2008-09	4,400,436,279	100,000	178,155,012	4,578,691,291

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table shows the land use of parcels in the City, according to assessed valuation. As shown, the majority of land in the City is used for residential purposes.

CITY OF MARTINEZ
Assessed Valuation and Parcels by Land Use
Fiscal Year 2008-09

Land Use	2008-09 Secured Assessed Valuation (1)	% of Total	No. of Parcels	% of Total
Non-Residential:				
Rural/Developed	$ 15,443,775	0.35%	25	0.19%
Commercial	271,892,511	6.18	266	2.03
Vacant Commercial	4,851,648	0.11	30	0.23
Industrial	425,243,421	9.66	74	0.57
Vacant Industrial	1,647,364	0.04	15	0.11
Recreational	3,251,167	0.07	3	0.02
Government/Social/Institutional	19,673,044	0.45	341	2.60
Subtotal Non-Residential	$742,002,930	16.86%	754	5.76%
Residential:				
Single Family Residence	$2,915,947,601	66.26%	9,674	73.88%
Condominium/Townhouse	471,045,149	10.7	1,964	15.00
2-4 Residential Units	87,311,182	1.98	299	2.28
5+ Residential Units/Apartments	161,659,036	3.67	70	0.53
Vacant Residential	22,470,381	0.51	334	2.55
Subtotal Residential	$3,658,433,349	83.14%	12,341	94.24%
Total	$4,400,436,279	100.00%	13,095	100.00%

(1) Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single Family Residential Parcels. The following table shows a break down of the assessed valuations of Single Family Residential parcels in the City, *according to assessed valuation*

CITY OF MARTINEZ
Per Parcel 2008-09 Assessed Valuation
of Single Family Homes

	No. of Parcels	2008-09 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	*9,674*	*$2,915,947,601*	*$301,421*	*$277,360*

2008-09 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	23	0.238%	0.238%	$ 462,337	0.016%	0.016%
$25,000 - $49,999	318	3.287	3.525	12,859,808	0.441	0.457
$50,000 - $74,999	717	7.412	10.937	45,336,490	1.555	2.012
$75,000 - $99,999	418	4.321	15.257	36,293,516	1.245	3.256
$100,000 - $124,999	370	3.825	19.082	41,776,074	1.433	4.689
$125,000 - $149,999	343	3.546	22.628	47,190,088	1.618	6.307
$150,000 - $174,999	348	3.597	26.225	56,517,871	1.938	8.246
$175,000 - $199,999	514	5.313	31.538	96,706,968	3.316	11.562
$200,000 - $224,999	533	5.510	37.048	113,099,205	3.879	15.441
$225,000 - $249,999	646	6.678	43.725	153,362,118	5.259	20.700
$250,000 - $274,999	555	5.737	49.462	145,434,229	4.988	25.688
$275,000 - $299,999	544	5.623	55.086	156,335,178	5.361	31.049
$300,000 - $324,999	472	4.879	59.965	147,283,659	5.051	36.100
$325,000 - $349,999	412	4.259	64.224	138,840,250	4.761	40.861
$350,000 - $374,999	371	3.835	68.059	134,334,754	4.607	45.468
$375,000 - $399,999	360	3.721	71.78	139,551,683	4.786	50.254
$400,000 - $424,999	384	3.969	75.749	158,446,203	5.434	55.688
$425,000 - $449,999	335	3.463	79.212	146,439,802	5.022	60.710
$450,000 - $474,999	330	3.411	82.624	152,700,826	5.237	65.947
$475,000 - $499,999	326	3.370	85.993	158,896,251	5.449	71.396
$500,000 and greater	1,355	14.007	100.000	834,080,291	28.604	100.000
Total	9,674	100.00%		$2,915,947,601	100.00%	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 5-000 for each $100 of assessed valuation during the fiscal years 2004-05 through 2008-09.

CITY OF MARTINEZ
Summary of Ad Valorem Tax Rates
$1 per $100 of Assessed Valuation
Fiscal Years 2004-05 to 2008-09
(Tax Rate Area 5-000)

Ad Valorem Tax	2004-05	2005-06	2006-07	2007-08	2008-09
General Tax Rate	1.0000	1.0000	1.0000	1.0000	1.0000
Bay Area Rapid Transit District	--	0.0048	0.0050	0.0076	0.0090
Contra Costa Community College District	0.0042	0.0047	0.0043	0.0108	0.0066
East Bay Regional Park District	0.0057	0.0057	0.0085	0.0080	0.0100
Martinez Unified School District	0.0923	0.0904	0.0794	0.0557	0.0597
Total All Property Tax Rate	1.1079	1.1106	1.1015	1.0860	1.0853
Total Land Only Tax Rate	0.0057	0.0050	00.043	0.0039	0.0041

Source: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

The following table is a five year summary of *ad valorem* property tax levies, dollars delinquent and delinquency rates on property within the City. Because the City currently participates in the Teeter Plan, the amount of *ad valorem* property taxes received by the City is equal to the amount levied rather than the amount collected by the County. See "- Alternative Method of Apportionment - Teeter Plan," above.

CITY OF MARTINEZ
Total Tax Levies and Delinquencies
(As of June 30)

Fiscal Year	Secured Tax Charge (1)	Amount Delinquent	% Delinquent
2003-04	$ 41,290,040.17	$ 458,649.11	1.11%
2004-05	43,666,168.16	502,869.08	1.15
2005-06	46,287,047.17	693,640.08	1.50
2006-07	50,770,527.35	1,249,048.89	2.46
2007-08	55,018,925.03	1,718,543.06	3.12

(1) All taxes collected by the County within the City.
Source: California Municipal Statistics, Inc.

Major Taxpayers

The following table shows the twenty largest taxpayers in the City as determined by their secured assessed valuations in 2008-09:

CITY OF MARTINEZ
Largest 2008-09 Local Secured Taxpayers

No.	Property Owner	Primary Land Use	*2008-09* Assessed Valuation	*% of* Total (1)
1	Equilon Enterprises LLC	Heavy Industrial	$150,161,274	3.41%
2	Pacific Atlantic Terminals LLC	Heavy Industrial	114,042,459	2.59
3	Stauffer Chemical Company	Heavy Industrial	28,765,120	0.65
4	KW Hidden Creek LLC	Apartments	21,930,000	0.50
5	Shell Chemical LP	Heavy Industrial	21,782,349	0.50
6	Kenneth H. & Martha Hofmann	Office Building	18,827,144	0.43
7	Wal-Mart Real Estate Business Trust	Commercial	18,794,378	0.43
8	Muir Station Center LLC	Shopping Center	18,571,134	0.42
9	Collier Village Oaks LLC	Shopping Center	18,506,511	0.42
10	Muirwood Square Investors	Apartments	18,101,943	0.41
11	Swan Lake Apartments	Apartments	17,340,000	0.39
12	Tesoro Refining & Marketing Co.	Heavy Industrial	17,290,042	0.39
13	The Center-Martinez	Light Industrial	12,116,685	0.28
14	David W. White	Light Industrial	11,340,360	0.26
15	Wickland Oil Company	Industrial Park	10,673,316	0.24
16	Muir Creek Investors	Apartments	9,915,175	0.23
17	BLAI LP	Apartments	9,858,024	0.22
18	Plum Tree	Apartments	9,671,704	0.22
19	Todd W. & Karen Sue Lockwood	Apartments	8,477,874	0.19
20	Cranbrook Realty Investment	Office Building	7,547,901	0.17
			$543,713,393	12.36%

(1) 2008-09 Local Secured Assessed Valuation: $4,400,436,279.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics,. Inc. and effective as of January 1, 2009. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column is the total dollar amount of obligations outstanding of each public agency identified in column 1; (3) the third column shows the percentage that the City's assessed valuation represents of the total assessed valuation of each public agency identified in column 1; and (4) the fourth column is an apportionment of the dollar amount of each public agency's outstanding debt to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 3.

CITY OF MARTINEZ
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
(As of January 1, 2009)

2008-09 Assessed Valuation: $4,578,691,291

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 1/1/09
Bay Area Rapid Transit District	1.039%	$4,585,730
East Bay Regional Park District	1.532	1,943,342
Contra Costa Community College District	3.318	5,841,339
Martinez Unified School District	49.375	11,954,674
Mount Diablo Unified School District	5.929	12,639,739
Mount Diablo Unified School District Community Facilities District #1	5.929	3,770,844
City of Martinez (1)	**100.000**	**-**
City of Martinez Special Assessment District 1915 Act Bonds	**100.000**	**850,000**
TOTAL DIRECT AND OVERLAPPING TAX ASSESSMENT DEBT		$41,585,668
OVERLAPPING GENERAL FUND OBLIGATION DEBT		
Contra Costa County Certificates of Participation	3.307%	$9,920,339
Contra Costa County Pension Obligations	3.307	16,303,014
Contra Costa Fire Protection District Pension Obligations	7.377	9,108,013
Contra Costa Community College District Certificates of Participation	3.318	36,830
City of Martinez Certificates of Participation	**100.000**	**1,185,000**
Mount Diablo Unified School District Certificates of Participation	5.929	336,174
TOTAL DIRECT OVERLAPPING GENERAL FUND OBLIGATION DEBT		$36,889,370
COMBINED TOTAL DEBT (2)		$78,475,038

Ratios to 2008-09 Assessed Valuation:

Combined Direct Debt....................0.03%
Total Direct and Overlapping Tax and Assessment Debt....................0.91%
Combined Total Debt....................1.71%

(1) Excludes Bonds to be sold.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

Principal of and interest on the Bonds are payable from the proceeds of an *ad valorem* tax levied by the City for the payment thereof. See "The Bonds - Security for the Bonds" above. Articles XIIIA, XIIIB, XIIIC and XIIID of the State Constitution, Propositions 62, 111, and 218 and 1A, and certain other provisions of law discussed below are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the City to levy taxes for payment of the Bonds. The tax levied by the City for payment of the Bonds was approved by the City's voters in compliance with Article XIIIA and all applicable laws.

Article XIIIA of the State Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIIIA to the State Constitution. Article XIIIA, as amended, limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service (i) on indebtedness approved by the voters prior to July 1, 1978, (ii) on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster, and in other minor or technical ways.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100 percent of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the State Constitution

In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIIIB which effectively limits the amount of such revenues those entities are permitted to spend. Article XIIIB, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds. Article XIIIB also does not limit appropriation of local revenues to pay debt service on Bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years.

If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

The City has never exceeded its appropriations limit.

Articles XIIIC and XIIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would have to be curtailed and/or the City's General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Proposition 218 or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

Article XIIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election and (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIIIA, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The City has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the motor vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

Possible Future Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID and Propositions 62, 111, 218 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

LEGAL MATTERS

Tax Exemption

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

The City has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, which provides an exception to the prohibition against the ability of a "financial institution" (as defined in the Internal Revenue Code of 1986) to deduct its interest expense allocable to tax-exempt interest, such that a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institution's interest expense allocable to interest payable on the Bonds.

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

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond 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 Bond 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 and original issue premium is disregarded. Owners of Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Bonds.

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

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

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX D.

Continuing Disclosure

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than nine months after the end of the City's fiscal year (which date would be the March 31 following the current end of the City's fiscal year on June 30), commencing March 31, 2010, with the report for the 2008-09 fiscal year (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE," attached to this Official Statement. These covenants have been made in order to assist the Underwriter (as defined below) in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**").

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.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to the purchasers at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to receive ad valorem taxes or to collect other revenues or contesting the City's ability to issue and repay the Bonds.

RATINGS

Upon issuance of the Bonds, Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**") will assign the Bonds a rating of "AA+."

This rating reflects only the view of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement).

There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. The City has not undertaken any responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of a rating, or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

FINANCIAL ADVISOR

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

UNDERWRITING

Under the terms of a competitive bid held on May 5, 2009, Wells Fargo Institutional Securities, L.L.C. (the "**Underwriter**") has agreed to purchase the Bonds at a price of $15,300,000 (which is equal to the aggregate principal amount of the Bonds, plus a net original issue premium of $400,127.50, less an Underwriter's discount of $100,127.50). The Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the "Official Notice of Sale," including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriter.

EXECUTION

The execution of this Official Statement and its delivery have been approved by the City Council.

CITY OF MARTINEZ

By: /s/ Philip A. Vince
Philip A. Vince,
City Manager

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APPENDIX A

GENERAL DEMOGRAPHIC INFORMATION REGARDING THE CITY OF MARTINEZ AND CONTRA COSTA COUNTY

The City

The City is located in Contra Costa County approximately 30 miles northeast of San Francisco, and encompasses an area of approximately 12.5 square miles. The City was established in 1876 and is a general law city pursuant to the California Government Code. The City also serves as the County seat for the County. The City has a Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff. The City Council consists of a Mayor and four other councilmembers. The City Treasurer and City Clerk are also elected positions.

Population

The State Department of Finance estimates the 2009 population of the City to be36,348. The following table summarizes the City's population in 1990, 2000 and from 2005 through 2009.

CITY OF MARTINEZ, CONTRA COSTA COUNTY AND STATE OF CALIFORNIA
Population Estimates
(As of January 1)

Year	City of Martinez	Contra Costa County	State of California
1990	31,810	797,600	29,758,213
2000	35,866	948,816	33,873,086
2005	36,770	1,019,101	36,728,196
2006	36,306	1,029,377	37,172,015
2007	36,018	1,037,580	37,559,440
2008	36,122	1,048,242	37,883,992
2009	36,348	1,060,435	38,292,687

Source: California Department of Finance.

Municipal Services

The City provides municipal services including police protection, community and economic development, recreation activities, parks and street maintenance, water utilities and general City administration. As of June 30, 2008, the City employed 170 total employees, including part-time and seasonal staff.

Fire protection and emergency medical services in the City are provided by the Contra Costa County Fire Protection District. The Contra Costa County Fire Protection District ranks among the fourteen largest metropolitan fire agencies in the State and provides services to nine cities and unincorporated areas in the County, serving a population of 600,000 across a 304 square-mile area with a total of 30 fire stations.

Education

The City is served by two public school districts. The Martinez Unified School District provides K-12 educational services in four elementary schools, one middle school and two high schools, while the Mount Diablo Unified School District provides educational services in one elementary school and one high school.

Health Services

Hospital services for residents of the City are provided by three medical facilities located in the City. The Contra Costa Regional Medical Center was remodeled and expanded in the 1990's and is a full service county hospital that offers a complete array of patient-centered health care services. The Kaiser Permanent Martinez Medical Center and the Veterans Affairs Medical Center are also located in the City and offer a wide variety of medical services.

Utilities

Natural gas and electricity are provided by Pacific Gas and Electric Company. Water service is provided by the City and Contra Costa Water District. Wastewater is collected and treated by the Central Contra Costa Sanitary District. Solid waste disposal services are provided in the City by Pleasant Hill Bayshore Disposal.

Major Employers

The following table lists the major employers within the City:

CITY OF MARTINEZ
Major Employers
Fiscal Year 2007-08

Employers	Number of Employees	% of Total City Employment
Contra Costa County [1]	10,000	45.2%
Kaiser Permanente	765	3.5
Shell Oil Refinery	725	3.3
Veterans Administration Medical Center	700	3.2
Martinez Unified School District	425	1.9
Wal-Mart Store	300	1.4
Contra Costa Electric	250	1.1
Safeway Stores	205	0.9
City of Martinez [2]	170	0.8
California Grand Casino	145	0.7
Total	13,685	61.9%

(1) Contra Costa County employee count represents the entire County Workforce.
(2) Includes seasonal employees
Source: City of Martinez, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

The following table lists the major employers within the County:

COUNTY OF CONTRA COSTA
Major Employers
(As of January 2008)

Employer Name	Location	Industry
ADP	San Ramon	Payroll Preparation Service
Bart	Richmond	Transit Lines
Berlex Biosciences	Richmond	Pharmaceutical Preparation (Mfrs)
Big Blow Tyre Barn	Crockett	Real Estate Loans
Chevron Corp	San Ramon	Oil Refiners (Manufacturers)
Chevron Global Downstream LLC	San Ramon	Service Stations-Gasoline & Oil
Concord Naval Weapons Station	Concord	Federal Government-National Security
Contra-Costa Regional Med Ctr	Martinez	Government Offices-County
Diablo Valley College	Pleasant Hill	Schools-Universities & Colleges Academic
Doctor's Medical Ctr	San Pablo	Hospitals
John Muir Physical Rehab	Concord	Rehabilitation Services
John Muir Physician Referral	Walnut Creek	Hospitals
Kaiser Permanente Medical Ctr	Walnut Creek	Hospitals
Kaiser Permanente Medical Ctr	Martinez	Health Plans
Martinez Refining Co	Martinez	Petroleum Products-Manufacturers
Muirlab	Walnut Creek	Laboratories-Medical
PMI Mortgage Insurance Co	Walnut Creek	Insurance-Mortgage
Richmond City Offices	Richmond	Government Offices-City, Village & Twp
San Ramon Regional Medical Ctr	San Ramon	Hospitals
Shell Oil Products Co	Martinez	Service Stations-Gasoline & Oil
St Mary's College-California	Moraga	Schools-Universities & Colleges Academic
Sutter Delta Medical Ctr	Antioch	Hospitals
Tesoro Refining & Marketing	Pacheco	Oil Refiners (Manufacturers)
US Veterans Medical Ctr	Martinez	Hospitals
USS-Posco Industries	Pittsburg	Steel Mills (Mfrs)

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

Employment and Industry

The unemployment rate in the Oakland-Fremont-Hayward MSA (which includes Contra Costa and Alameda Counties) was 7.1% in October 2008. This compares with an unadjusted unemployment rate of 7.1% for Alameda County, 7.0% for Contra Costa County, 8.0% for California and 6.5% for the nation during the same time period.

The following table summarizes the annual average civilian labor force, employment and unemployment in the County for the calendar years 2003 through 2007.

OAKLAND-FREMONT-HAYWARD METROPOLITAN STATISTICAL AREA
(CONTRA COSTA AND ALAMEDA COUNTIES)
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

	2003	2004	2005	2006	2007
Civilian Labor Force (1)	1,272,800	1,259,300	1,259,700	1,265,200	1,281,500
Employment	1,188,500	1,186,400	1,196,200	1,209,700	1,220,600
Unemployment	84,300	72,900	63,500	55,500	60,900
Unemployment Rate	6.6%	5.8%	5.0%	4.4%	4.8%
Wage and Salary Employment: (2)					
Agriculture	2,600	1,500	1,600	1,500	1,500
Natural Resources and Mining	900	1,200	1,100	1,200	1,200
Construction	67,100	69,800	72,800	73,300	72,400
Manufacturing	98,000	98,200	95,600	95,800	93,700
Wholesale Trade	50,600	49,200	48,600	48,800	48,800
Retail Trade	110,500	110,500	112,100	113,300	113,100
Transportation, Warehousing, Utilities	36,000	34,200	34,300	35,000	36,100
Information	32,600	31,300	30,700	30,100	29,400
Finance and Insurance	49,400	49,500	50,800	49,400	45,400
Real Estate and Rental and Leasing	18,200	18,100	18,700	18,200	16,900
Professional and Business Services	144,900	147,700	150,600	154,900	155,500
Educational and Health Services	117,000	117,200	118,500	121,800	124,700
Leisure and Hospitality	80,400	80,600	83,000	85,600	87,500
Other Services	37,500	36,600	35,600	35,900	36,200
Federal Government	18,600	17,600	17,300	17,300	17,100
State Government	48,800	47,000	46,200	45,800	46,400
Local Government	115,000	115,100	116,500	118,900	123,400
Total, All Industries (3)	1,028,200	1,025,200	1,033,700	1,046,900	1,049,100

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

Effective Buying Income

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

The following table summarizes the total effective buying income for the County, the State and the United States for the period 2004 through 2008.

Effective Buying Income
As of January 1, 2004 through 2008

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2004	Contra Costa County	$27,273,658	$56,165
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	Contra Costa County	$27,450,775	$56,979
	California	720,798,106	44,681
	United States	5,894,663,363	40,529
2006	Contra Costa County	$28,611,520	$58,497
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	Contra Costa County	$30,138,295	$61,123
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	Contra Costa County	$30,737,690	$61,903
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: Sales & Marketing Management Survey of Buying Power for 2004; Claritas Demographics for 2005 through 2008.

Construction Activity

Provided below are the building permits and valuations for the City of Martinez and Contra Costa County for calendar years 2003 through 2007.

CITY OF MARTINEZ
Total Building Permit Valuations
(Valuations in Thousands of Dollars)

	2003	2004	2005	2006	2007
Permit Valuation					
New Single-family	$2,773.9	$1,543.3	$7,455.5	$3,806.2	$7,087.7
New Multi-family	300.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	5,338.1	7,633.4	7,209.3	7,769.5	5,203.9
Total Residential	8,412.0	9,176.7	14,664.8	11,575.6	12,291.6
New Commercial	555.0	400.0	6,074.4	3,500.0	0.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	1,585.8	1,386.1	3,030.7	4,569.2	2,903.6
Com. Alterations/Additions	1,690.4	2,724.6	2,823.3	4,951.5	1,723.9
Total Nonresidential	$3,831.2	$4,510.7	$11,928.4	$13,020.7	$4,627.4
New Dwelling Units					
Single Family	10	7	25	11	32
Multiple Family	4	0	0	0	0
TOTAL	14	7	25	11	32

Source: Construction Industry Research Board, Building Permit Summary.

CONTRA COSTA COUNTY
Total Building Permit Valuations
(Valuation in Thousands of Dollars)

	2003	2004	2005	2006	2007
Permit Valuation					
New Single-family	$1,263,359.9	$1,113,572.4	$1,525,515.3	$986,694.1	$832,053.1
New Multi-family	190,449.4	123,332.9	106,511.5	157,971.5	94,504.9
Res. Alterations/Additions	230,427.8	233,108.3	293,394.4	307,152.6	290,107.5
Total Residential	1,684,237.2	1,470,013.6	1,925,421.2	1,451,818.2	1,216,665.5
New Commercial	128,738.0	102,549.3	87,900.5	101,785.9	148,838.2
New Industrial	33,047.1	17,421.4	21,155.9	14,529.4	17,504.1
New Other	53,034.2	68,104.1	122,625.7	122,628.4	95,442.0
Com. Alterations/Additions	197,298.8	187,108.9	161,187.6	173,556.4	229,530.2
Total Nonresidential	$412,118.0	$375,183.8	$392,869.7	$412,500.1	$491,314.5
New Dwelling Units					
Single Family	4,965	4,222	5,452	3,310	2,698
Multiple Family	1,930	1,261	860	1,178	909
TOTAL	6,895	5,483	6,312	4,488	3,607

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX B

CITY FINANCIAL INFORMATION

The information in this section concerning the operations of the City and the City's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the City. The Bonds are payable from the proceeds of an ad valorem tax levied by the City in an amount sufficient for the payment thereof. See "THE BONDS - Security for the Bonds" above.

Accounting Practices

The accounting practices of the City conform to GAAP. City accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the general fund which accounts for all financial resources not accounted for in any other fund. The City's fiscal year begins on July 1 and ends on June 30.

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balance for all major governmental funds and non-major funds aggregated. Financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. See "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF THE CITY - Note 1 - Summary of Significant Accounting Policies" for further description of the City's accounting methods.

Financial Statements

The City's general fund finances the legally authorized activities of the City for which restricted funds are not provided. General fund revenues are derived from such sources as taxes, fees, use of money and property, and aid from other governmental agencies. Audited financial statements for the City for the fiscal year ended June 30, 2008, and prior fiscal years are available for download on the City's website located at http://www.cityofmartinez.org/. *The citation to internet websites in this Official Statement are for reference and convenience only, the information contained within the websites is not incorporated herein by reference.*

The following table shows the statement of revenues, expenditures and changes in fund balances for the City for the 2005-06 through 2007-08 fiscal years. The audited financial statements for the year ended June 30, 2008 are attached as APPENDIX C to this Official Statement.

CITY OF MARTINEZ
Statement of Revenues, Expenditures and Changes in Fund Balances
As of June 30 For Fiscal Years 2005-06 through 2007-08

	2005-06	2006-07	2007-08
REVENUES			
Taxes	$14,994,265	$16,049,485	$16,244,064
Licenses, permits and fees	609,979	818,761	600,153
Intergovernmental	851,560	1,134,651	719,327
Charges for services	1,009,212	769,834	714,089
Fines and forfeits	276,466	287,997	352,119
Use of money and property	491,293	824,582	768,876
Miscellaneous	1,722,642	1,250,554	267,869
Total Revenues	19,955,417	21,135,864	19,666,497
EXPENDITURES			
Current:			
General government	1,253,927	1,249,523	1,055,630
Nondepartmental services	722,957	2,100,557	1,294,070
Administrative services	691,218	791,144	710,163
Public works	826,781	--	3,515,167
Building	--	904,338	--
Community & economic development	4,594,548	4,619,296	2,685,236
Police	8,324,721	8,835,590	9,669,079
Capital outlay	214,846	26,804	62,061
Total Expenditures	16,628,998	18,527,252	18,991,406
Excess (Deficiency) of Revenue over Expenditures	3,326,419	2,608,612	675,091
Other Financing Sources (Uses)			
Transfers in	135,450	131,267	79,870
Transfers out	(362,135)	(267,635)	(1,414,709)
Total Other Financing Sources (Uses)	(226,685)	(163,368)	(1,334,839)
Special Item:			
OPEB Funding	--	--	(4,000,000)
Net Change in Fund Balances	3,099,734	2,472,244	(4,659,748)
Beginning Fund Balances	9,747,335	12,847,069	15,319,313
Ending Fund Balances	$12,847,069	$15,319,313	$10,659,565

Source: City of Martinez, Comprehensive Annual Financial Reports for fiscal years 2005-06, 2006-07 and 2007-08.

Budget Process

The proposed budget includes estimated revenues and expenditures for operating and capital improvement projects for two full fiscal years on a basis consistent with GAAP. The data is presented to the City Manager for review and a public meeting is conducted to obtain public comments. The City Council adopts the budget by June 30th through passage of an adopting resolution.

The ongoing budget process includes the phases of development, proposal, adoption, and monitoring. The process begins with the preparation and distribution of budget instructions and guidelines by the City's Administrative Services Department in October of every other year. Departments are instructed to submit their budget requests to the City Manager by the following mid-January, and the City Manager meets with department heads in February to develop recommendations to present to the Budget Subcommittee. The City Council holds a public workshop to provide staff direction to finalize the proposed budget, thereafter, the City Council is presented with the proposed budget for its adoption.

The monitoring phase begins after the budget has been adopted. Department heads are instructed to maintain control over their respective funds and ensure adequate resources are available. A mid-year budget review is conducted in February of each year. The City conducts an annual budget review in June of the first year, and at that time makes any changes to update the second budget year. Any necessary adjustments to the budget will be enacted by City Council resolution.

The two-year budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within their respective departments. The City Manager is authorized to revise the budget so long as the total revisions in any single budget year do not exceed 5% of the budget, and provided that sufficient revenues are available to offset such revisions. City Council approval is required for additional appropriation from fund balances or new revenue sources. The legal level of budgetary control is at the department level.

General Fund Budget

The City's comparative budget for fiscal year 2007-08 and biennial general fund budget for fiscal year 2008-09 is set forth in the following table.

CITY OF MARTINEZ
Comparative Budgets
For Fiscal Years 2007-08 and 2008-09

	Final Budget 2007-08	Audited Actual 2007-08	Variance with Final 2007-08 Budget	Amended Budget 2008-09 (1)
REVENUES				
Taxes	$16,375,943	$16,244,064	($131,879)	$16,220,390
Licenses, permits, and fees	524,000	600,153	76,153	550,182
Intergovernmental	1,001,276	719,327	(281,949)	688,896
Charges for services	731,500	714,089	(17,411)	802,344
Fines and forfeits	303,000	352,119	49,119	345,300
Use of money and property	526,000	768,876	242,876	395,000
Miscellaneous	163,264	267,869	104,605	591,670
Total Revenues	19,624,983	19,666,497	41,514	19,593;782
EXPENDITURES				
Current:				
General government	1,104,182	1,055,630	48,552	1,125,056
Nondepartmental services	1,317,145	1,294,070	23,075	1,216,499
Administrative services	743,188	710,163	33,025	808,869
Public works	3,640,933	3,515,167	125,766	3,844,115
Community & economic development	2,937,503	2,685,236	252,267	2,803,710
Police	9,775,659	9,669,079	106,580	10,066,386
Capital outlay	62,061	62,061	--	--
Total Expenditures	19,580,671	18,991,406	589,265	19,864,635
Excess of Revenues Over Expenditures	44,312	675,091	630,779	(270,853)
Other Financing Sources (Uses)				
Transfers in	79,870	79,870	--	186,837
Transfers (out)	(1,414,709)	(1,414,709)	--	(1,004,195)
Total other financing sources (uses)	(1,334,839)	(1,334,839)	--	(817,358)
Special Item:				
OPEB Funding	(4,000,000)	(4,000,000)	--	--
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(5,290,527)	(4,659,748)	630,779	(1,088,211)
Beginning Fund Balances	15,319,313	15,319,313	1,191,329	10,659,565
Ending Fund Balances	$8,837,457	$10,659,565	$1,822,108	$9,571,354

(1) Reflects amendments made by the City on February 18, 2009 to the 2nd year of the two year budget.
Source: City of Martinez, Comprehensive Annual Financial Report for fiscal year 2007-08 and City of Martinez 2007-08 and 2008-09 Biennial Budget.

State Budgets

The State of California is currently facing enormous budget shortfalls, and is likely to continue to face significant budget issues for the foreseeable future. In connection with its approval of former budgets, the State Legislature enacted legislation that has a direct impact on the financial situation of cities and counties in the State.

The Budget Process. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted.

The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

The California State Treasurer's Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget and its impact on school districts.

The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget," includes the text of proposed and adopted State Budgets.

The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

2008-09 State Budget. On September 23, 2008, the Governor signed the 2008-09 State Budget into law (the "2008-09 Budget"). The 2008-09 Budget attempted to resolve the $24.3 billion budget deficit identified in the May (2008) Revision to the Governor's Proposed Budget. The 2008-09 Budget, as adopted, projected revenues of $103.027 billion in 2007-08 and $101.991 billion in 2008-09 (representing an increase of $1.837 billion in 2007-08 and a decrease of $996 million in 2008-09, compared with the May Revision), provided a modest reserve of $1.7 billion, but projected a deficit of $1.0 billion in 2009-10.

Special Session – Revisions to 2008-09 Budget; 2009-10 Adopted State Budget. Below is a summary of legislative actions from November 5, 2008 through February 20, 2009, on which date the Governor signed a budget package addressing the 2008-09 Budget deficit, and adopting the 2009-10 Budget.

November 5, 2008. The Governor called the State Legislature into special session to deal with a budget deficit of $11 billion which had arisen since the 2008-09 budget was adopted, principally because of a shortfall in revenues. This special session extended through February 19, 2009.

January 9, 2009. The Governor submitted his proposed 2009-10 Budget (the "2009-10 Proposed Budget") to the State Legislature. The 2009-10 Proposed Budget assumed that, without corrective action, the State will face a deficit of $39.6 billion at the end of 2009-10. Consequently, the 2009-10 Proposed Budget proposed $41.7 billion in budgetary solutions to close the gap and establish a $2.2 billion reserve, resulting from spending reductions, revenue increases, accounting changes and debt issuances. Included in the proposals were (i) issuance of $4.7 billion in revenue anticipation warrants, (ii) lowering the value of the dependent credit for income tax returns, (iii) capturing savings in K-14 education through spending reductions, accounting changes and cost deferrals, (iv) raising $5 billion in proceeds with the securitization of lottery revenues, (v) redirecting $500 million in revenues from Proposition 10 cigarette tax and Proposition 63 income tax surcharge, (vi) a temporary increase in the State sales tax rate of 1.5 cents per dollar, and (vii) an extension of the State sales and use tax to include additional services, as well as an increase of 5 cents on the alcohol excise tax. Many of these proposals will require voter approval to be implemented.

January 8, 2009. The LAO released its report on the 2009-10 Proposed Budget. The LAO states that the 2009-10 Proposed Budget is generally reasonable but will likely be subject to risks associated with continued deterioration of the economy and additional costs that the State is likely to incur but are not included in the 2009-10 Proposed Budget. In addition, the 2009-10 Proposed Budget relies heavily on State borrowing that is subject to voter approval, the favorable resolution of legal issues, and the State's access to credit markets.

January 14, 2009. The LAO released its report entitled "California's Cash Flow Crisis" stating that the State's cash flow has deteriorated steadily since the end of calendar year 2007 due to, among other things, sharply weakened General Fund revenues and limited access to credit markets. In addition, the report predicts that the State will have $3.2 billion in available cash by the end of January 2009, but warns that this amount will not be sufficient for normal cash flow operations with budgeted appropriations through the end of fiscal year 2008-09.

February 19, 2009. The California Legislature voted to approve a budget package (the "Budget Package") addressing the State's $42 billion deficit, which includes $15 billion in State spending reductions, $12.8 billion in temporary tax increases (including an increase in the vehicle license fee and an increase in State sales and income taxes), $11.4 billion in borrowing and a $1 billion reserve. The Budget Package includes revisions to the 2008-09 Budget (the "current year") and adoption of the 2009-10 Budget, covering a 17-month period ending July 1, 2010 (the "budget year"), addressing spending reductions, revenue increases, economic stimulus and increasing governmental efficiency. Certain measures will require voter approval at a special State-wide election to be held on May 19, 2009. Key provisions of the Budget Package are:

- Education Spending Reductions: Significant Proposition 98-related reductions, consisting of approximately $7.4 billion in reductions in Proposition 98 funding in 2008-09 compared to the adopted 2008-09 Budget Act, through $2.4 billion in program reductions and savings and $5 billion in Proposition 98 funding deferrals and fund swaps. The 2009-10 Budget provides for $400 million in fund swaps and a total Proposition 98 funding of $55.3 billion, which is $400 million less than the total amount proposed in 2008-09.

- Sales Tax Increase: A 1-cent increase in the State sales tax, generating approximately $5.9 billion (2 years).

- Vehicle License Fee Increase: Increasing the fee from 0.65 percent to 1.15 percent (2 years).

- State Personal Income Tax Increase: Imposing a 0.25 percent surcharge on personal income tax and reducing the dependent tax credit (2 years).

February 13, 2009. The U.S. House of Representatives and the Senate approved the American Recovery and Reinvestment Act, which commits a total of $787 billion nationwide. A report issued by the LAO entitled "Federal Economic Stimulus Package: Fiscal Effect on California" estimates that the State will receive over $31 billion in aid and billions more in competitive grants. The LAO estimates that about $8 billion of these funds will be available in 2008-09 and 2009-10 to relieve the State's budgetary problems. Of this amount, the State's health programs will receive the largest share (about $9 billion) and education-related programs will receive nearly $8 billion. Labor and workforce development and social services programs will receive about $6 billion and $3.5 billion, respectively. By April 1, 2009 the State Director of Finance and State Treasurer will re-calculate the $8 billion estimate. If the amount is less than $10 billion, then annual State program reductions of nearly $1 billion and revenue increases of about $1.8 billion adopted as part of the 2009-10 Budget will go into effect.

February 20, 2009. The Governor signed the Budget Package. The Governor used his line item veto authority in an attempt to achieve $1 billion more in State General Fund savings in the 2009-10 Budget. This includes at least a 10 percent reduction in expenditures for certain State offices through furlough days, elimination of positions, overtime reform and reducing paid State holidays, replacing State General Fund appropriations with respect to higher education with federal funds, and finding savings through reforms and cost-saving measures with the California Department of Corrections and Rehabilitation. The LAO's analysis of the 2009-10 Budget package has not been published.

May 19, 2009 Election. According to the LAO, the 2009-10 Budget depends on access to approximately $6 billion related to three propositions on the May 19, 2009 special election ballot: $5 billion from borrowing against future lottery profits (Proposition 1C), up to $608 million from redirecting dedicated childhood development funds to help the General Fund (Proposition 1D), and approximately $230 million from redirecting dedicated mental health funds to help the General Fund (Proposition 1E). If the voters reject these three measures, the 2009-10 Budget would not be in balance under current revenue forecasts. Consequently, the Legislature and the Governor probably would need to agree to billions of dollars of additional spending cuts, tax increases or other budgetary solutions to bring the budget back into balance.

Local Government. Additional detail on the impact to local governments by the 2009-10 Budget follows:

Local Mandate Payment – approves the Governor's proposal to defer annual payment to local governments for mandate costs incurred prior to 2004-05, resulting in general fund savings of $91 million (this is similar to the deferral adopted with the 2008 Budget).

Senior Citizens' Property Tax Deferral Program – approves the Governor's proposal to suspend this program, which paid property taxes for eligible seniors, resulting in general fund savings of $6.5 million in the current year and $32 million in the budget year.

Local Public Safety Programs – Modifies the Governor's proposal to eliminate general fund support to local law enforcement programs, resulting in savings of approximately $189 million in the current year and $503 million in the budget year. These cuts are mitigated by an increase of 0.15% in the Vehicle License Fee. Additional revenues from the increased in VLF are projected at $111 million in the current year and $508 million in the budget year.

Insurance and Self-Insurance Programs

The City participates in a joint powers agreement through the Municipal Pooling Authority of Northern California, ("**MPA**") which is a worker's compensation and general liability risk pool. The MPA was established in 1978 to provide and administer lines of coverage for liability, workers' compensation and property for 13 member cities in the County. Membership has grown from the original 13 member entities to the current count of 20 in 2006, and includes cities outside of the County, but within MPA's serviceable area.

The MPA's liability program provides coverage for bodily injury, property damage, personal injury, errors and omissions, and employment practices. Claims are administered in-house. The pooled coverage limit, per occurrence, is $1 million with excess coverage through a combination of pooling and reinsurance of up to $25 million. The City has a deductible of up to $5,000 per claim.

The MPA's workers' compensation program provides coverage for workers' compensation and employers liability claims. Claims are administered in-house and the pooled coverage limit is $500,000 with excess coverage available through a combination of pooling and reinsurance.

Labor Relations

The City has three recognized bargaining units which represent its employees. The Martinez Police Officers' Association represents sworn police officers. Its contract with the City expires on December 31, 2008, and is in effect until a new contract agreement is reached. The Martinez Police Non-Sworn Employee's Association represents other police staff of the City. Its contract with the City expires on June 30, 2011. The Laborers' 324 represents various miscellaneous classifications of City staff. Its contract with the City expires on December 31, 2010. The City's management and confidential employees are unrepresented and covered under the Management Compensation Plan, which expires on December 31, 2010.

Retirement System

Plan Description. The City contributes to the California Public Employees' Retirement System ("**CALPERS**"), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police), Miscellaneous (all other), and Miscellaneous Joint Facilities Agency Employee Plans. Benefit provisions under the Plans are established by State statute and City ordinance. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The City's labor contracts require it to pay employee contributions as well as its own.

Pension Plan Benefits: CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2008, 2007 and 2006 amounted to $1,808,824, $1,608,807, and $1,588,530 respectively.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the City's Safety, Miscellaneous and Miscellaneous Joint Facilities Agency Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by

CALPERS. In March 2007, the City paid off the unfunded liability of the Miscellaneous Plan. For the Safety and Miscellaneous Joint Facilities Agency Plan, the City will satisfy its Plans' unfunded liability by contributing to the Side Fund through an addition to its normal contribution rates over the next 14 years for Safety, and 9 years for the Miscellaneous Joint Facilities Agency Plans.

Other Post-Employment Benefits

Plan Description. The City provides health care benefits for retired employees and spouses through the City's health care premium reimbursement plan (the "**Reimbursement Plan**"). Substantially all of the City's employees may become eligible for the Reimbursement Plan if they reach the normal retirement age and have a minimum ten years of service while working for the City. Currently, 37 retirees meet the eligibility requirements and receive Reimbursement Plan benefits. The Reimbursement Plan benefits are accrued by employees as follows:

Years of Service with the City	% of Health Insurance To be Paid by City
0-10	0%
11-15	25
16-20	50
21-25	75
Over 25	100

Additionally, the City provides the option of postretirement health benefits to sworn Police Personnel through the Public Employees' Retirement System ("**PERS**") in lieu of the Reimbursement Plan. The City covers 100% of the cost for beneficiaries who retired prior to January 1, 2005. Those employees who retire after January 1, 2005 pay a percentage of the cost increase. Currently, 36 retirees meet the eligibility requirements and are either receiving Reimbursement Plan benefits or health benefits paid directly by the City to PERS.

For the year ending June 30, 2008, the City paid a total of $614,494 for the cost of retiree health care benefits.

Funding Policy. During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" ("**Statement No. 45**"). Statement No. 45 establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions ("**OPEB**"). The provisions of Statement No. 45 are applied prospectively and do not affect prior years' financial statements.

The City determined its annual required contribution ("**ARC**") as part of a March 10, 2008 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. In accordance with the City's budget, the ARC is to be funded through out the year as a percentage of payroll. Concurrent with implementing Statement No. 45, the City Council passed a resolution to participate in the California Employers Retirees Benefit Trust ("**CERBT**"), an irrevocable trust established to fund OPEB. CERBT is administrated by CALPERS, and is managed by an appointed board not under the control of City Council.

Funding Progress and Funded Status. Generally accepted accounting principles ("**GAAP**") permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2008, the City contributed the ARC amounting to $1,102,000 to CERBT which represented 11.5% of the $9,579,000 of covered payroll. The City also contributed $4,000,000 of additional funds to CERBT representing funds that had accumulated in prior years in the City's general fund.

Outstanding Debt

On March 11, 2003, the City issued Certificates of Participation in the amount of $7,795,000 (the "**COPs**") to refund and retire the City's outstanding "1992 City Hall Refurbishment Certificates of Participation" and the City water enterprise's "1993 Water System Improvements Certificates of Participation." Interest and principal payments on the COPs are partially payable from lease revenues on the City's city hall building and partially payable from net revenues derived from the operation of the City's water system. As of January 1, 2009, the outstanding principal portion of the COPs that is payable from the City's General Fund (the refunded portion of the 1992 City Hall Refurbishment Certificates of Participation) was $1,055,744. The final maturity of the COPs is December 1, 2013.

Other than the COPs, the City has no other general obligation debt outstanding.

SALES TAX

The City receives a portion of the sales and use tax levied by the State on retail sales occurring in the City. In 2007-08, revenues from the sales tax are estimated to amount to $2,910,391, representing about 16.0% of total general fund revenues and 10.2% of total City revenues.

A sales tax is imposed on retail sales or consumption of personal property. The tax rate is established by the State Legislature. Effective January 1, 2002, the aggregate tax rate in the State is 7.25%. Additionally, the State has many special taxing jurisdictions (districts), which are funded by a sales and use tax rate that in addition to the standard statewide rate. The County has two such districts which each add an additional 0.50% on taxable transactions within the City. The State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

CITY OF MARTINEZ
Sales Tax Rates

State (General Fund) [1]	6.00%
State (Local Revenue Fund)	0.50
State (Local Public Safety Fund)	0.50
State (Fiscal Recovery Fund)	0.25
City and County Operations	0.75
County Transportation Funds	0.25
Contra Costa Transportation Authority	0.50
Bay Area Rapid Transit District	0.50
Total	9.25%

[1] Effective April 1, 2009, the sales tax rate temporarily increased by 1.00%. See "State Budgets" above.
Source: California State Board of Equalization.

The State's actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

Commercial Activity

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2008.

CITY OF MARTINEZ
Taxable Transactions
(Dollars in Thousands)

	2003	2004	2005	2006	2007
Retail Stores					
Apparel Stores	$2,671	$2,873	$2,889	$2,852	$2,948
General Merchandise Stores	#	#	#	#	#
Food Stores	29,902	32,153	33,295	32,850	34,052
Eating and Drinking Places	27,853	29,190	29,203	30,572	31,152
Home Furnishings and Appliances	1,813	2,223	2,756	3,075	2,432
Bldg. Materials and Farm Implmnts.	47,050	52,709	52,110	38,913	52,951
Auto Dealers and Auto Supplies	4,484	3,851	3,124	5,790	7,459
Service Stations	20,654	20,991	31,102	36,083	40,960
Other Retail Stores	79,543 #	84,904 #	87,109 #	88,799 #	82,827 #
Retail Store Totals	213,970	228,894	241,588	238,934	254,781
All Other Outlets	104,551	133,979	153,926	136,165	139,252
TOTAL ALL OUTLETS	$318,521	$362,873	$395,514	$375,099	$394,033

Sales omitted because their publication would result in the disclosure of confidential information.
Source: State Board of Equalization.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2008.

CONTRA COSTA COUNTY
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
2003	11,575	$9,025,114	23,253	$12,223,295
2004	11,717	9,697,365	23,571	12,990,538
2005	11,776	10,072,084	23,692	13,480,075
2006	11,467	10,275,907	23,249	13,867,661
2007	11,131	10,109,704	23,181	14,086,295

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

APPENDIX C

FISCAL YEAR 2007-08 COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE CITY

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MAZE &
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INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

The Honorable Mayor and Members of the City Council
City of Martinez, California

We have audited the accompanying basic financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the City of Martinez, California, as of June 30, 2008 and for the year then ended, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the City of Martinez at June 30, 2008 and the respective changes in financial position and cash flows, where applicable there of, and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with principles generally accepted accounting in the United States of America.

As described in Notes 7 and 12, the City implemented the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze + Associates

September 12, 2008

A Professional Corporation

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Accounting Standards Board Statement 34, "Basic Financial Statements---and Management's Discussion & Analysis---for Local Governments" (GASB 34) requires the City to provide this overview of its financial activities for the fiscal year, and should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2008 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

City-wide Activities:

- The City's total net assets were $92,009,103 at June 30, 2008, up $6,501,088 from the prior year. Of this total, $52,431,887 were Governmental assets and $39,577,216 were Business-type assets.

- Total City revenues were $39,989,096 in Fiscal 2008. General Revenues, which result from both Governmental and Business-type Activities, totaled $18,729,779. Program Revenues from the Governmental Activities were $10,305,518, and Program Revenues from the Business-type Activities were $10,953,779.

- Total City expenses were $33,488,008 in Fiscal 2008. Program Expenses from the Governmental Activities were $22,230,302 and Program Expenses from the Business-type Activities were $11,257,706.

General Fund Activities:

- General Fund revenues of $19,666,497 in Fiscal 2008 represented a decrease of $1,469,367 from the prior year. General Fund expenditures of $18,991,406 in Fiscal 2008 represented an increase of $464,154 over the prior year expenditures.

- General Fund balance of $10,659,565 at June 30, 2008 was $4,659,748 lower than Fiscal 2007's fund balance of $15,319,313.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this part),
3) The Basic Financial Statements, which include the City-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Required Supplemental Information,
5) Combining Statements for Non-major Governmental Funds and Fiduciary Funds,
6) Statistical information.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position both long term and short term. The Fiduciary Funds are excluded from the Basic Financial Statements because the City cannot use these assets to finance its own operations.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City in its entirety, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the Change in Net Assets for the year.

The City-wide Financial Statements group all the City's activities into Governmental Activities and Business-type Activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the City-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities and fund balances; they exclude capital assets, long-term debt and other long-term obligation amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The City acts solely as a depository agent for various community groups and functions, as well as an Assessment District. The fiduciary statements provide information about the cash balances and activities of these functions. These statements are separate from, and their balances are excluded from, the City's financial statements.

The City-wide Financial Statements
The Statement of Net Assets and the Statement of Activities present information about the following:

- *Governmental Activities*—All of the City's basic services are considered to be governmental activities, including general government; community and economic development; public safety; public works; recreation, parks, and community services; public improvements; building inspection and code enforcement; planning and zoning; and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as mitigation/impact fees.

- *Business-type Activities*—The City's three enterprise activities, Parking Services, Water System, and Marina Services, are reported here. Unlike governmental services, these services are supported through charges paid by users based on the amount of the service they use.

Citywide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

Fund Financial Statements include governmental, enterprise and internal service funds as discussed in the following:

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

Since the City's Internal Service Funds are proprietary funds used by the City to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide Financial Statements and any related profits or losses are returned to the activities that created them, along with any residual net assets of the Internal Service Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major Funds that are Special Revenue Funds.

Fiduciary Statements

The City is the agent for one assessment district, the Alhambra Creek Special Assessment District, and is responsible for holding amounts collected from property owners that await transfer to the District's bond trustees. The City is also an agent for certain community organizations, for which it collects and disburses cash and maintains separate cash accounts. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds Statement of Changes in Assets and Liabilities. As previously mentioned, these activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities (Tables 1, 2 and 3) and Business-type Activities (Tables 4 and 5) presented in the City-wide Statement of Net Assets and Statement of Activities that follow.

Governmental Activities

Table 1
Governmental Net Assets at June 30, 2008

	Governmental Activities	
	2008	2007
Cash and investments	$20,955,844	$23,455,788
Other assets	6,633,253	2,827,702
Capital assets	30,445,551	26,055,821
Total Assets	**58,034,648**	**52,339,311**
Long-term debt outstanding	1,400,000	1,605,000
Other Liabilities	4,202,761	4,335,094
Total Liabilities	**5,602,761**	**5,940,094**
Net assets:		
Invested in capital assets, net of debt	29,045,551	24,450,822
Restricted	3,091,564	1,647,325
Unrestricted	20,294,772	20,301,070
Total Net Assets	**$52,431,887**	**$46,399,217**

The City's net assets from governmental activities increased $6,032,670 in Fiscal 2008 from $46,399,217 in Fiscal 2007. This increase is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below:

- Cash and investments decreased by $2,499,944 from Fiscal 2007 due primarily to funding Other Post Employment Benefits (OPEB) of $4,000,000, partially offset by $581,915 in Proposition 1B funds for street improvements and a reduction in accounts receivable of $316,060 over the prior year (indicative of collection of funds owed, particularly for capital projects).

- Other non-capital assets increased $3,805,551, primarily due to the OPEB funding.

- Capital assets increased $4,389,730, net of depreciation charges, due to work performed on capital projects in process.

- Long-term debt declined $205,000 as no new debt was issued in Fiscal 2008 and principal payments were made to reduce existing debt.

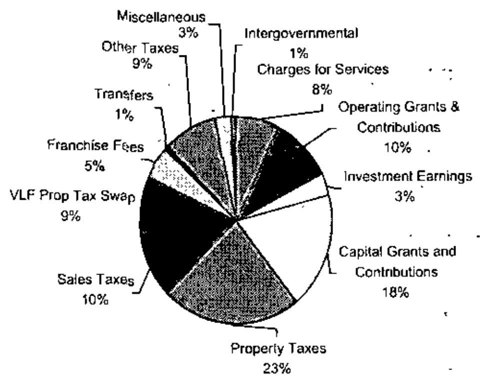
- Net assets invested in capital assets (net of related debt) increased $4,594,729 to $29,045,551 as discussed above.

- Restricted net assets increased by $1,444,239 and are composed of $2,013,203 in Capital Projects, $583,060 in Special Revenue Projects, and $495,301 in Debt Service.

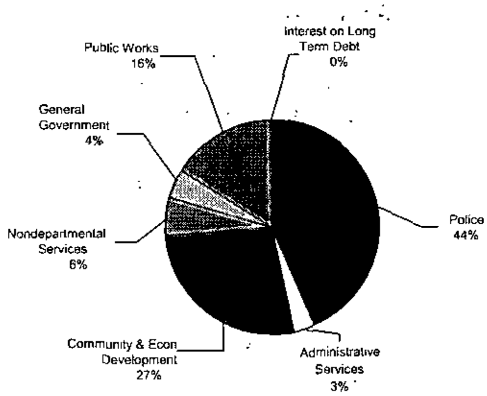
- Unrestricted net assets are normally the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. Unrestricted net assets were $20,294,772 at June 30, 2008.

Fiscal Year 2008 Government Activities (see Table 2)

Sources of Revenue



Functional Expense



As the Sources of Revenue Chart shows, $6,778,683 (or 23%) of the City's Fiscal 2008 Governmental Activities revenue came from Property Taxes; $2,910,391, or 10%, came from Sales Taxes; 2,502,998, or 9%, came from Other Taxes; $2,619,831, or 9%, came from VLF Property Tax Swap; and $1,432,161, or 5%, came from Franchise Fees. The remaining $12,018,908, or 43%, came primarily from Operating Grants and Contributions, and Charges for Services.

The Functional Expenses Chart includes only current year expenses, which are discussed in detail below. The largest expenses were in Police, which accounted for $9,660,925, or 44%, of the City's Fiscal 2008 Governmental Activities expenses, followed by Community and Economic Development with $6,000,157, or 27%, and Public Works with $3,515,810, or 16%. The remaining $3,053,410, or 13%, was spread fairly evenly among General Government, Non-departmental, and Administrative Services, with interest on long-term debt amounting to less than 1%.

Expenses do not include capital outlays, which are now added to the City's capital assets. In Fiscal 2008, the City's capital assets increased $4,389,730 as shown in detail in Table 7.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Assets as summarized below.

Table 2
Changes in Governmental Net Assets

	Governmental Activities	
	2008	2007
Expenses		
General government	$982,551	$1,275,521
Nondepartmental services	1,295,821	2,100,557
Administrative services	724,408	813,629
Public works	3,515,810	931,263
Community & Econ Development	6,000,157	7,640,086
Police	9,660,925	9,048,033
Interest on LTD	50,630	52,506
Total expenses	22,230,302	21,861,595
Revenues		
Program revenues:		
Charges for services	2,160,173	2,639,355
Operating contributions & grants	2,978,771	2,928,894
Capital grants	5,166,574	963,982
Total program revenues	10,305,518	6,532,231
General revenues:		
Property tax	6,778,683	6,749,316
Sales tax	2,910,391	2,845,391
VLF Property tax swap	2,619,831	2,438,135
Franchise Fees	1,432,161	1,377,064
Other taxes	2,502,998	2,639,579
Intergovernmental	231,037	281,669
Investment earnings	955,422	1,019,116
Miscellaneous	760,256	1,404,792
General revenues	18,190,779	18,755,062
Total revenues	28,496,297	25,287,293
Change in net assets before transfers	6,265,995	3,425,698
Transfers	(233,325)	138,832
Change in net assets	**$6,032,670**	**$3,564,530**

Table 2 shows that governmental expenses were $22,230,302 in Fiscal 2008, up $368,707 from the prior year. The increase in Public Works resulted from the City's reorganization of divisions in 2007. The Building Department assumed responsibility for all City maintenance and Water System functions from Community and Economic Development, and was renamed the Public Works Department. The decrease in Community and Economic Development expenses was due to the shift of maintenance and Water System responsibilities to Public Works, partially offset by an increase in capital improvements. Non-departmental expenses decreased significantly due to the payoff of a retirement liability in 2007.

Total government activities revenues before transfers of $28,496,297 were up by $3,209,004 in Fiscal 2008, with a decrease in general revenues of $564,283 and an increase of $3,773,287 in program revenues.

Table 3
Governmental Activities

	Net (Expense) Revenue From Services	
	2008	2007
Governmental Activities:		
Police	(8,695,101)	(7,785,164)
Community & Econ. Development	2,287,537	(3,581,010)
General government	(874,945)	(1,019,956)
Administrative services	(724,408)	(813,629)
Nondepartmental services	(1,295,821)	(2,100,557)
Public works	(2,571,416)	23,458
Interest on long term debt	(50,630)	(52,506)
Total Governmental Activities	**(11,924,784)**	**(15,329,364)**

Table 3 presents the net cost of each of the City's programs. Net expense is defined as total program cost less the revenues generated by those specific activities. In the City's case, the net expenses, (expenses less program revenues) of Community and Economic Development and Public Works varied significantly from the total expenses in Table 2. Overall, program revenues reduced program expenses by an average of 46% of total expenses. The City's program revenues include developer fees, plan check fees, building inspection, traffic fines, recreation fees, police fees, grants, assessment revenues, and other charges for services. Community and Economic Development, with a decrease of $5,868,547, and Public Works, with an increase of $2,594,874, experienced the largest variance in net expenses between Fiscal 2008 and 2007 due to reorganization of divisions between the two departments. Police expenses increased $909,937, mostly due to overtime costs associated with employees off of work due to on the job injuries and loss of personnel due to retirements. Non-departmental expenses decreased by $804,736 due to payoff of a retirement fund liability in 2007. General Government and Administrative Services decreased by $145,011 and $89,221, respectively.

Business-type Activities

Table 4
Business-type Net Assets at June 30, 2008

	Business-type Activities	
	2008	2007
Cash and investments	$11,766,903	$10,511,460
Other assets	$2,078,427	$2,108,654
Capital assets	40,639,284	41,963,566
Total Assets	**54,484,614**	**54,583,680**
Long-term debt outstanding	13,565,680	14,035,680
Other Liabilities	1,341,718	1,439,202
Total Liabilities	**14,907,398**	**15,474,882**
Net assets:		
Invested in capital assets, net of debt	27,073,604	29,680,363
Restricted	6,613,067	473,896
Unrestricted	5,890,545	8,954,539
Total Net Assets	**$39,577,216**	**$39,108,798**

Business-type activities net assets totaled $39,577,216 at June 30, 2008, an increase of $468,418 from the prior year.

Table 5
Changes in Business-type Net Assets

	Business-type Activities	
	2008	2007
Expenses		
Water System	$10,068,412	$10,221,974
Marina Services	797,453	441,823
Parking Services	391,841	375,634
Total expenses	11,257,706	11,039,431
Revenues		
Program revenues:		
Charges for services	10,523,456	10,378,429
Operating contributions & grants	0	0
Capital grants	430,343	0
Total program revenues	10,953,799	10,378,429
General revenues:		
Taxes	63,240	56,545
Investment earnings	475,760	507,764
Miscellaneous	0	0
General revenues	539,000	564,309
Total revenues	11,492,799	10,942,738
Change in net assets before transfers	235,093	(96,693)
Transfers	233,325	(138,832)
Change in net assets	**$468,418**	**($235,525)**

Table 5 shows that the Business-type activities expenses were $11,257,706 in Fiscal 2008, with most of the $218,275 increase from Fiscal 2007 in the Marina.

Total Business-type activities revenues of $11,492,799 before transfers were up $550,061 in Fiscal 2008, with an increase of $575,370 in program revenues and a decrease of $25,309 in general revenues. Most of the program revenue increase was due to an increase in water sales.

Table 6
Business-type Activities

	Net (Expense) Revenue From Services	
	2008	2007
Business-type Activities:		
Water System	($224,039)	($500,952)
Marina Services	(93,378)	(149,904)
Parking Services	13,510	(10,146)
Total Business-type Activities	**($303,907)**	**($661,002)**

THE CITY'S FUND FINANCIAL STATEMENTS

Governmental Funds

At June 30, 2008, the City's governmental funds reported a combined fund balance of $17,797,516, a decrease of $2,817,697, or 14%, compared to the prior year. The General Fund decreased by $4,659,748, due primarily to the $4,000,000 in OPEB funding and a $468,733 transfer of Public, Educational, and Government (PEG) funds to Non-major. Capital Improvements increased by $391,902. Non-major Funds increased by $1,450,149, due in large part to the PEG transfer in and Proposition 1B funding of $589,965.

Governmental Fund revenues increased by $3,487,463 to a total of $28,516,976. Non-major Fund revenues increased by $549,370; Capital Improvements revenues increased by $4,407,460; and General Fund revenues decreased by $1,469,367. Governmental Fund expenditures increased by $4,683,256 to a total of $26,963,567. General Fund expenses increased by $464,154; Capital Improvements expenses increased by $4,307,294; and Non-major Fund expenses decreased by $88,192. Other financing uses, comprised of Transfers In and Transfers Out, increased by $509,938.

ANALYSES OF MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund revenues decreased by $1,469,367 from Fiscal 2007 to a total of $19,666,497 in Fiscal 2008. Several revenue categories contributed to the decrease in 2008. Miscellaneous decreased $982,685 due to receipt of one-time grant funds of $606,514 and an insurance rebate of $391,141 in 2007. Intergovernmental decreased by $415,324, primarily due to a decrease of $273,370 in State Mandate reimbursements compared to Fiscal 2007. License Permits & Fees decreased by $218,608 due to the decline in building and home repairs. Charges for Services and Use of Money and Property declined marginally, by $55,745 and $55,706, respectively. These decreases were partially offset by an increase in taxes of $194,579 mostly in VLF Property Tax Swap; and a small increase of $64,122 in fines and forfeits, with most of the increase coming from parking citations. Actual revenues exceeded the adjusted budgeted amounts by $41,514 with Licenses, Permits and Fees accounting for $214,062 and Taxes comprising $172,498 of the increase. Transfers into the General Fund came in at $79,870, which was slightly less than the transfers in from 2007.

General Fund expenditures increased overall from Fiscal 2007, but were less than originally budgeted. Expenditures increased $464,154 in Fiscal 2008 to a total of $18,991,406. Transfers out of the General Fund increased $1,147,074 in Fiscal 2008 to $1,414,709 to fund various capital projects.

Final expenditures for the General Fund at year-end were $589,265 below budget; however, the fiscal year ended with encumbrances of $306,758. Budget amendments and supplemental appropriations of $98,763 were made during the year for unanticipated expenditures after adoption of the original budget. Total appropriations came in at $19,580,671.

At June 30, 2008, the General Fund balance was comprised of $1,041,261 in reserved balances (of which $306,758 were the encumbrances); $6,896,775 in unreserved, undesignated balances; and $2,721,529 in unreserved, designated balances which were designated by Council for certain purposes as referred to in Note 10C of the financial statements. Only the unreserved portion represents available liquid resources, since the reserved portion is represented by non-cash assets or by open purchase orders.

Capital Improvement Fund
The Capital Improvement Fund accounts for major City capital improvement projects. The Fund is budgeted on a project length basis and therefore is not comparable on an annual basis.

Revenue received in Fiscal 2008 included funding for projects from Contra Costa Transportation Authority in the amount of $5,240,750. Another $1,233,881 in funding came from transfers in from the General Fund, Gas Tax revenue, NPDES grants, and Measure C funds. The Fund also received $454,094 in mitigation fees, interest and other revenue. Total revenue received, including transfers in, was $6,928,725, an increase of $4,181,773 over the prior year. Expenditures, including transfers out, were up $4,357,869 from Fiscal 2007. Work was done on a major street project in Fiscal 2008 as well as on several capital projects, and various paving and landscape projects.

Other Governmental Funds
These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

Internal Service Funds
Internal Service Funds are proprietary funds used by the City to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's Internal Service Funds are the Equipment Replacement Fund and the Management Information System (MIS) Fund.

- *Equipment Replacement Fund*—Costs for the Equipment Replacement Fund are considered to be "direct costs" that are readily identifiable with a specific service. The Equipment Replacement Fund charges departments' equipment and vehicle rates based on value and overall maintenance costs.

- *Management Information System (MIS) Fund*—Costs for the MIS Fund are considered to be "indirect costs" that are not easily associated with a specific service. These costs are distributed by both number of workstations and overall use of technology.

Enterprise Funds
Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) which the City has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or

other purposes. The City's Enterprise Funds include Parking Services, Water System, and Marina Services and are described as follows:

- *Parking Services*—Parking Services Fund revenue is generated from parking meters and parking permits. Operating revenues increased slightly, by $39,863, in Fiscal 2008 to a total of $405,351. Operating expenses increased by $24,103 to $396,487. Non-operating revenues increased by $9,047 to $78,410. Net assets increased by $87,274 to $1,272,165. The Parking Services Fund's fiscal year end unrestricted Net Assets were $695,720.

- *Water System*— The Water System Fund is financed and operated in a manner similar to that of a private business. Net assets of the Water System Fund increased $135,463 in Fiscal 2008. Overall operating revenues increased by $123,351, and operating expenses decreased by $76,615. Non-operating expenses increased by $24,219, and non-operating revenues decreased by $23,930 due to lower investment earnings. As of June 30, 2008, the Fund's Net Assets were $40,536,129, with $28,289,342 invested in capital assets and $482,114 restricted for debt service. Only $5,633,720 of the Fund's Net Assets was unrestricted at the close of Fiscal 2008, with $6,130,953 set aside for capital projects. Due to the age of the Water System, significant investments will be required in future years to update water lines and equipment and enhance security.

- *Marina Services*—Marina Fund revenues include lease payments, charges for services, property taxes, and State grants for capital improvement projects. Operating revenues increased by $412,156 due to a grant received from BCDC of $430,343 to remove the old ferry pier. Operating expenses increased by $356,548 due to the removal of the ferry pier. The Fund's Net Assets increased by $213,762.

CAPITAL ASSETS

GASB 34 requires the City to record all of its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In accordance with GASB 34, the City began recording the cost of all its infrastructure assets and computing the amount of accumulated depreciation for these assets based on their original acquisition dates in Fiscal 2003.

At the end of Fiscal 2008, Governmental Activities and Business-type Activities had invested in a broad range of capital assets, net of depreciation, in the amounts of $30,445,551 and $40,639,284, respectively, as shown in Table 7 on the following page.

Table 7
Capital Assets at Year-end

	June 30, 2008	June 30, 2007
Governmental Activities		
Land	$4,978,951	$4,978,951
Construction in progress	6,630,589	1,997,953
Building and improvements	5,175,338	5,133,129
Equipment	4,672,385	4,328,446
Infrastructure	37,685,680	37,069,040
Less accumulated depreciation	(28,697,393)	(27,451,698)
Totals	**$30,445,550**	**$26,055,821**
Business-Type Activities		
Land	$1,665,154	$1,665,154
Construction in progress	1,202,950	1,191,667
Building and improvements	17,874,098	18,350,055
Equipment	1,811,777	1,816,199
Infrastructure	87,608,173	87,446,613
Less accumulated depreciation	(69,522,868)	(68,506,122)
Totals	**$40,639,284**	**$41,963,566**

The City depreciates all its capital assets over their estimated useful lives, as required by GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciation may be found in Note 6.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements.

Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs (other than those paid for by the Enterprise Funds). In March 2003, the City issued Certificates of Participation (COPs) in the amount of $2,200,000 to refund and retire the outstanding 1992 proceeds that were used to finance the rehabilitation and expansion of the Martinez City Hall.

The Water Fund has two outstanding debt issues. In 1999 and 2003, the City issued Certificates of Participation (COPs) in the amounts of $6,040,000 and $5,595,000, respectively. COP proceeds were used to finance improvements to the Water Plant.

The table on the following page represents the City's debt as of June 30, 2008.

Table 8
Outstanding Debt

	June 30, 2008	June 30, 2007
Governmental Activity Debt		
General Long-Term Debt		
2003 Certificates of Participation	$1,400,000	$1,605,000
Total governmental *activity debt*	**$1,400,000**	**$1,605,000**
Business-Type Activity Debt		
Water Fund Long-Term Debt		
1999 Water System Improvements	$5,165,000	$5,325,000
2003 Refinancing Project	4,100,000	4,410,000
Total principal	$9,265,000	$9,735,000
Marina Long-term Debt, including accrued interest		
1960 State of California	$2,483,527	$2,483,527
1973 State of California	301,523	301,523
1978 State of California	157,623	157,623
1982 State of California	370,071	370,071
1985 State of California	987,936	987,936
Total Marina Fund debt	$4,300,680	$4,300,680
Total business-type *activity debt*	**$13,565,680**	**$14,035,680**

SPECIAL ASSESSMENT DISTRICT DEBT

A special assessment district in the City has also issued debt to finance infrastructure and facilities construction for that district. No special assessment debt was issued in Fiscal 2008.

At June 30, 2008, a total of $905,000 in special assessment district debt was outstanding, issued by one special assessment district. This debt is secured only by special assessments on the real property in the district issuing the debt and is not the City's responsibility, although the City does act as the district's agent in the collection and remittance of assessments.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Administrative Services Department, at 525 Henrietta Street, Martinez, CA 94553.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the *full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when* cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets. The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds primarily, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City and the Martinez Public Improvement Corporation. The Corporation is legally separate but is a component unit of the City because it is controlled by the City, which is financially accountable for the activities of the Corporation.

CITY OF MARTINEZ
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3):			
Available for operations	$20,499,894	$11,284,789	$31,784,683
With fiscal agents	455,950	482,114	938,064
Receivables (net of allowance for uncollectible):			
Accounts and other	419,555	1,633,039	2,052,594
Intergovernmental	1,008,688		1,008,688
Interest	264,796		264,796
Loans receivable (Note 5)	324,910	22,920	347,830
Internal balances (Note 4)	604,636	(604,636)	
Prepaids and inventory (Note 1H)	10,668		10,668
Bond issuance costs, net of amortization		1,027,104	1,027,104
Net OPEB Asset (Note 12)	4,000,000		4,000,000
Capital assets (Note 6):			
Land and construction in progress	11,609,540	2,868,104	14,477,644
Depreciable assets, net	18,836,011	37,771,180	56,607,191
Total Assets	58,034,648	54,484,614	112,519,262
LIABILITIES			
Accounts payable	677,750	593,136	1,270,886
Accrued wages and benefits	711,482	58,997	770,479
Deposits	1,003,344	92,610	1,095,954
Unearned revenue	375,266	367,999	743,265
Claims payable due within one year (Note 15)	80,000		80,000
Accrued interest		34,507	34,507
Accrued compensated absences (Note 1G):			
Due within one year	150,000	30,500	180,500
Due in more than one year	1,204,919	163,969	1,368,888
Long-term debt (Notes 7 and 8):			
Due within one year	215,000	485,000	700,000
Due in more than one year	1,185,000	13,080,680	14,265,680
Total Liabilities	5,602,761	14,907,398	20,510,159
NET ASSETS (Note 10)			
Invested in capital assets, net of related debt	29,045,551	27,073,604	56,119,155
Restricted for:			
Capital projects	2,013,203		2,013,203
Debt service	495,301	482,114	977,415
Special revenue projects	583,060	6,130,953	6,714,013
Total Restricted Net Assets	3,091,564	6,613,067	9,704,631
Unrestricted	20,294,772	5,890,545	26,185,317
Total Net Assets	$52,431,887	$39,577,216	$92,009,103

See accompanying notes to financial statements

CITY OF MARTINEZ
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	$982,551	$48,383	$1,252	$57,971	($874,945)		($874,945)
Nondepartmental services	1,295,821				(1,295,821)		(1,295,821)
Administrative services	724,408				(724,408)		(724,408)
Public works	3,515,810	775,303	169,091		(2,571,416)		(2,571,416)
Community & economic developme	6,000,157	954,885	2,224,206	5,108,603	2,287,537		2,287,537
Police	9,660,925	381,602	584,222		(8,695,101)		(8,695,101)
Interest on long-term debt	50,630				(50,630)		(50,630)
Total Governmental Activities	22,230,302	2,160,173	2,978,771	5,166,574	(11,924,784)		(11,924,784)
Business-type Activities:							
Water system	10,068,412	9,844,373				($224,039)	(224,039)
Marina services	797,453	273,732		430,343		(93,378)	(93,378)
Parking services	391,841	405,351				13,510	13,510
Total Business-type Activities	11,257,706	10,523,456		430,343		(303,907)	(303,907)
Total	$33,488,008	$12,683,629	$2,978,771	$5,596,917	(11,924,784)	(303,907)	(12,228,691)
General revenues:							
Property taxes					6,778,683		6,778,683
Sales taxes					2,910,391		2,910,391
VLF Property Tax Swap					2,619,831		2,619,831
Franchise fees					1,432,161		1,432,161
Other taxes					2,502,998	63,240	2,566,238
Intergovernmental, unrestricted					231,037		231,037
Investment earnings					955,422	475,760	1,431,182
Miscellaneous					760,256		760,256
Transfers (Note 4A)					(233,325)	233,325	
Total general revenues and transfers					17,957,454	772,325	18,729,779
Change in Net Assets					6,032,670	468,418	6,501,088
Net Assets-Beginning					46,399,217	39,108,798	85,508,015
Net Assets-Ending					$52,431,887	$39,577,216	$92,009,103

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

MAJOR GOVERNMENTAL FUNDS

The funds described below are determined to be major funds by the City in Fiscal 2008. Individual non-major funds may be found in the Supplemental Section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of the City which are not accounted for in another fund.

CAPITAL IMPROVEMENTS

To account for the expenditures spent and revenue received for various capital projects within the City.

CITY OF MARTINEZ
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments (Note 3):				
Available for operations	$11,077,160	$4,207,247	$2,456,268	$17,740,675
With fiscal agents			455,950	455,950
Receivables:				
Accounts	405,248		14,307	419,555
Intergovernmental	616,689	101,230	290,769	1,008,688
Interest	264,796			264,796
Loans receivable (Note 5)	62,900	262,010		324,910
Prepaids and inventory	10,668			10,668
Advances to other funds (Note 4 B)	689,022			689,022
Total Assets	$13,126,483	$4,570,487	$3,217,294	$20,914,264
LIABILITIES				
Accounts payable	$387,288	$196,262	$50,067	$633,617
Accrued wages and benefits	697,108		2,994	700,102
Claims payable (Note 15)	80,000			80,000
Deposits	996,503		6,841	1,003,344
Advance to other funds			65,828	65,828
Deferred revenue (Note 5)	306,019	262,010	65,828	633,857
Total Liabilities	2,466,918	458,272	191,558	3,116,748
FUND BALANCES				
Fund balance (Note 10)				
Reserved for:				
Debt service			495,301	495,301
Prepaids and inventory	10,668			10,668
Special events	14,690			14,690
Police grants			125,723	125,723
Advances to other funds	689,022			689,022
Grants	20,123			20,123
Encumbrances	306,758	189,211	225,839	721,808
Unreserved:				
Designated	2,721,529	2,959,248	181,555	5,862,332
Undesignated:				
General Fund	6,896,775			6,896,775
Special Revenue Funds			1,832,552	1,832,552
Capital Projects Funds		963,756	164,766	1,128,522
Total Fund Balances	10,659,565	4,112,215	3,025,736	17,797,516
Total Liabilities and Fund Balances	$13,126,483	$4,570,487	$3,217,294	$20,914,264

See accompanying notes to financial statements

CITY OF MARTINEZ
Reconciliation of the
GOVERNMENTAL FUNDS -- FUND BALANCES
with the
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances reported on the governmental funds balance sheet	$17,797,516
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	29,481,015
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
Internal Service Funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.	
Cash and investments	2,759,219
Accounts and other	
Internal balances	(18,558)
Capital assets	964,536
Accounts payable	(44,133)
Accrued liabilities	(11,380)
Accrued compensated absences	(22,858)
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	258,591
LONG-TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(1,400,000)
Non-current portion of compensated absences	(1,332,061)
Net OPEB asset	4,000,000
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$52,431,887

See accompanying notes to financial statements

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CITY OF MARTINEZ
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$16,244,064			$16,244,064
Special assessments			$592,675	592,675
Licenses, permits, and fees	600,153	$296,351	5,000	901,504
Intergovernmental	719,327	5,240,750	1,894,277	7,854,354
Charges for services	714,089			714,089
Fines and forfeits	352,119		8,290	360,409
Use of money and property	768,876	53,131	85,553	907,560
Miscellaneous	267,869	104,612	569,840	942,321
Total Revenues	19,666,497	5,694,844	3,155,635	28,516,976
EXPENDITURES				
Current:				
General government	1,055,630			1,055,630
Nondepartmental services	1,294,070			1,294,070
Administrative services	710,163			710,163
Public works	3,515,167			3,515,167
Community & economic development	2,685,236	1,125,078	1,089,504	4,899,818
Police	9,669,079		75,281	9,744,360
Debt service (Note 7):				
Principal			205,000	205,000
Interest and fiscal charges			50,630	50,630
Capital outlay	62,061	5,356,750	69,918	5,488,729
Total Expenditures	18,991,406	6,481,828	1,490,333	26,963,567
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	675,091	(786,984)	1,665,302	1,553,409
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4A)	79,870	1,233,881	523,728	1,837,479
Transfers (out) (Note 4A)	(1,414,709)	(54,995)	(738,881)	(2,208,585)
Total Other Financing Sources (Uses)	(1,334,839)	1,178,886	(215,153)	(371,106)
SPECIAL ITEM:				
OPEB Funding (Note 12)	(4,000,000)			(4,000,000)
NET CHANGE IN FUND BALANCES	(4,659,748)	391,902	1,450,149	(2,817,697)
BEGINNING FUND BALANCES	15,319,313	3,720,313	1,575,587	20,615,213
ENDING FUND BALANCES	$10,659,565	$4,112,215	$3,025,736	$17,797,516

See accompanying notes to financial statements

CITY OF MARTINEZ
Reconciliation of the
NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the Change in
GOVERNMENTAL NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	($2,817,697)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balances	5,488,729
Depreciation expense is deducted from the fund balances (Depreciation expense is net of internal service fund depreciation of $337,234 which has already been allocated to serviced funds)	(1,112,192)
LONG-TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Repayment of debt principal is added back to fund balances	205,000
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Deferred revenue	(207,304)
Compensated absences	152,639
Net OPEB asset	4,000,000
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, and maintenance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	323,495
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$6,032,670

See accompanying notes to financial statements

CITY OF MARTINEZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
REVENUES:				
Taxes	$16,608,005	$16,375,943	$16,244,064	($131,879)
Licenses, permits, and fees	674,000	524,000	600,153	76,153
Intergovernmental	798,350	1,001,276	719,327	(281,949)
Charges for services	746,500	731,500	714,089	(17,411)
Fines and forfeits	303,000	303,000	352,119	49,119
Use of money and property	496,000	526,000	768,876	242,876
Miscellaneous	163,264	163,264	267,869	104,605
Total Revenues	19,789,119	19,624,983	19,666,497	41,514
EXPENDITURES:				
Current:				
General government	1,040,087	1,104,182	1,055,630	48,552
Nondepartmental services	1,333,845	1,317,145	1,294,070	23,075
Administrative services	747,187	743,188	710,163	33,025
Public works	3,688,195	3,640,933	3,515,167	125,766
Community & economic development	2,875,286	2,937,503	2,685,236	252,267
Police	9,797,308	9,775,659	9,669,079	106,580
Capital outlay		62,061	62,061	
Total Expenditures	19,481,908	19,580,671	18,991,406	589,265
EXCESS OF REVENUES OVER EXPENDITURES	307,211	44,312	675,091	630,779
OTHER FINANCING SOURCES (USES)				
Transfers in	79,870	79,870	79,870	
Transfers (out)	(910,976)	(1,414,709)	(1,414,709)	
Total other financing sources (uses)	(831,106)	(1,334,839)	(1,334,839)	
SPECIAL ITEM:				
OPEB Funding		(4,000,000)	(4,000,000)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(523,895)	(5,290,527)	(4,659,748)	630,779
BEGINNING FUND BALANCES	13,724,656	14,127,984	15,319,313	1,191,329
ENDING FUND BALANCES	$13,200,761	$8,837,457	$10,659,565	$1,822,108

See accompanying notes to financial statements

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MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified all of its Proprietary Funds as major funds in Fiscal 2008.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

WATER SYSTEM FUND

To account for the funds received from customers receiving water service provided by the City and the related expenditures for administration, system improvements, maintenance and repairs, and debt service for bond issues related to the provision of water to the customers.

MARINA SERVICES FUND

To account for the activities related to the operations at the municipal marina.

PARKING SERVICES FUND

To account for the activities related to the various parking lots in the downtown area, including parking meters and shuttle services.

CITY OF MARTINEZ
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
ASSETS					
Current Assets:					
Cash and investments (Note 3):					
Available for operations	$9,982,962	$597,683	$704,144	$11,284,789	$2,759,219
With fiscal agent	482,114			482,114	
Receivables:					
Accounts and other	1,616,534	16,505		1,633,039	
Total Current Assets	12,081,610	614,188	704,144	13,399,942	2,759,219
Capital Assets (Note 6):					
Land	630,912	800,165	234,077	1,665,154	
Buildings	15,522,928	282,821		15,805,749	
Improvements	150,584	1,672,643	245,122	2,068,349	
Equipment	1,297,203		514,574	1,811,777	3,301,316
Infrastructure	87,584,673		23,500	87,608,173	
Less: Accumulated depreciation	(68,833,772)	(248,268)	(440,828)	(69,522,868)	(2,336,780)
	36,352,528	2,507,361	576,445	39,436,334	964,536
Construction in progress (Note 6)	1,201,814	1,136		1,202,950	
Net Capital Assets	37,554,342	2,508,497	576,445	40,639,284	964,536
Other Non-Current Assets:					
Loan receivable (Note 5)	22,920			22,920	
Bond issuance costs, net	1,027,104			1,027,104	
Total Non-Current Assets	38,604,366	2,508,497	576,445	41,689,308	964,536
Total Assets	50,685,976	3,122,685	1,280,589	55,089,250	3,723,755
LIABILITIES					
Current liabilities:					
Accounts payable	554,146	33,581	5,409	593,136	44,133
Accrued liabilities	56,558		2,439	58,997	11,380
Deferred revenue		367,999		367,999	
Deposits	45,743	46,867		92,610	
Accrued interest	34,507			34,507	
Current portion of compensated absences (Note 1G)	30,500			30,500	
Current portion of long-term debt (Note 7)	485,000			485,000	
Total Current Liabilities	1,206,454	448,447	7,848	1,662,749	55,513
Noncurrent Liabilities:					
Accrued compensated absences (Note 1G)	163,393		576	163,969	22,858
Advance from other funds (Note 4B)		623,194		623,194	
Long-term debt (Note 7)	8,780,000			8,780,000	
Loans payable (Note 8)		4,300,680		4,300,680	
Total Liabilities	10,149,847	5,372,321	8,424	15,530,592	78,371
NET ASSETS (Note 10)					
Invested in capital assets, net of related debt	28,289,342	(1,792,183)	576,445	27,073,604	964,536
Restricted for debt service	482,114			482,114	
Restricted for capital projects	6,130,953			6,130,953	
Unrestricted	5,633,720	(457,453)	695,720	5,871,987	2,680,848
Total Net Assets (Deficit)	$40,536,129	($2,249,636)	$1,272,165	39,558,658	$3,645,384

Some amounts reported for *business-type activities* in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities.	18,558
Net assets business-type activities	$39,577,216

See accompanying notes to financial statements

CITY OF MARTINEZ
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
OPERATING REVENUES					
Water sales	$9,523,618			$9,523,618	
Rents and leases		$265,631		265,631	
Charges for services	296,209		$405,351	701,560	$1,589,664
Other fees	2,859	8,101		10,960	8,960
Refunds and rebates					471
Intergovernmental		430,343		430,343	
Rents and leases	21,687			21,687	
Total Operating Revenues	9,844,373	704,075	405,351	10,953,799	1,599,095
OPERATING EXPENSES					
Filtration plant	4,514,635			4,514,635	
Maintenance, repairs, and distribution	1,639,969	458,100	1,041	2,099,110	1,155,696
Administration	1,552,394	195,518	323,615	2,071,527	
Depreciation and amortization	1,980,578	40,844	71,831	2,093,253	337,234
Total Operating Expenses	9,687,576	694,462	396,487	10,778,525	1,492,930
Operating Income	156,797	9,613	8,864	175,274	106,165
NONOPERATING REVENUES (EXPENSES)					
Interest income	443,450	5,866	26,444	475,760	105,914
Interest (expense)	(408,109)	(102,991)		(511,100)	
Gain on disposal of equipment					5,554
Taxes		11,274	51,966	63,240	
Total Nonoperating Revenues (Expenses)	35,341	(85,851)	78,410	27,900	111,468
Income (Loss) Before Transfers	192,138	(76,238)	87,274	203,174	217,633
Transfers in (Note 4A)	23,195	290,000		313,195	137,781
Transfers (out) (Note 4A)	(79,870)			(79,870)	
Net transfers	(56,675)	290,000		233,325	137,781
Change in net assets	135,463	213,762	87,274	436,499	355,414
BEGINNING NET ASSETS (DEFICIT)	40,400,666	(2,463,398)	1,184,891		3,289,970
ENDING NET ASSETS (DEFICIT)	$40,536,129	($2,249,636)	$1,272,165		$3,645,384
Some amounts reported for *business-type activities* in the Statement of Activities are different because the portion of the net income of certain internal service funds is reported with the business-type activities which those funds service				31,919	
Change in net assets of business-type activities				$468,418	

See accompanying notes to financial statements

CITY OF MARTINEZ
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

	Business-type Activities-Enterprise Funds				Governmental Activities-Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$9,702,795	$697,778	$405,351	$10,805,924	$1,600,751
Payments to suppliers	(6,092,486)	(650,893)	(260,838)	(7,004,217)	(941,834)
Payments to employees	(1,694,326)		(63,249)	(1,757,575)	(300,064)
Rent and lease payments received	21,687			21,687	
Cash Flows from Operating Activities	1,937,670	46,885	81,264	2,065,819	358,853
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Taxes received		11,274	51,966	63,240	
Interfund receipt	(56,675)			(56,675)	137,781
Cash Flows from Noncapital Financing Activities	(56,675)	11,274	51,966	6,565	137,781
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Advances from other funds		90,785		90,785	
Received from other governments		290,000		290,000	
Acquisition of capital assets	(655,150)	(1,137)	(23,500)	(679,787)	(350,427)
Proceeds from sale of equipment	52,994			52,994	5,554
Principal payments on capital debt	(470,000)			(470,000)	
Interest paid	(473,702)	(102,991)		(576,693)	
Cash Flows from Capital and Related Financing Activities	(1,545,858)	276,657	(23,500)	(1,292,701)	(344,873)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	443,450	5,866	26,444	475,760	105,914
Cash Flows from Investing Activities	443,450	5,866	26,444	475,760	105,914
Net Cash Flows	778,587	340,682	136,174	1,255,443	257,675
Cash and investments at beginning of period	9,686,489	257,001	567,970	10,511,460	2,501,544
Cash and investments at end of period	$10,465,076	$597,683	$704,144	$11,766,903	$2,759,219
Reconciliation of Operating Income to Cash Flows from Operating Activities:					
Operating income	$156,797	$9,613	$8,864	$175,274	$106,165
Adjustments to reconcile operating income to cash flows from operating activities:					
Depreciation and amortization	1,980,578	40,844	71,831	2,093,253	337,234
Change in assets and liabilities:					
Accounts receivable	(119,891)	2,067		(117,824)	1,656
Accounts payable and other liabilities	(99,194)	2,725	707	(95,762)	(82,167)
Deposits	(3,953)			(3,953)	
Accrued vacation and other fringe benefits	23,333		(138)	23,195	6,062
Accrued wages and benefits					(10,097)
Deferred revenue		(8,364)		(8,364)	
Cash Flows from Operating Activities	$1,937,670	$46,885	$81,264	$2,065,819	$358,853

See accompanying notes to financial statements

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the City as an agent or in trust for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF MARTINEZ
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

	Agency Funds	Trust Fund
ASSETS		
Restricted cash and investments (Note 3)	$395,957	$119,001
Total Assets	$395,957	$119,001
LIABILITIES		
Accounts payable	$5,501	
Due to bondholders	217,154	
Due to members	173,302	
Total Liabilities	$395,957	
NET ASSETS		
Reserved for private purpose activities		$119,001
Total Net Assets		$119,001

See accompanying notes to financial statements

CITY OF MARTINEZ
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Trust Funds
ADDITIONS:	
Donations	$11,142
Interest	3,390
Total Additions	14,532
DEDUCTIONS:	
Supplies	6,987
Beneficiary payments	5,802
Total Deductions	*12,789*
CHANGE IN NET ASSETS	1,743
NET ASSETS, BEGINNING OF YEAR	117,258
NET ASSETS, END OF YEAR	$119,001

See accompanying notes to financial statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Martinez was incorporated in 1876 and operates under an elected Mayor/Council form of government. The City's major operations include public safety, water system, marina, parking, community and economic development, public works, recreation and parks, and general administrative services.

A. *Reporting Entity*

The financial statements of the City of Martinez include the financial activities of the City as well as the Martinez Public Improvement Corporation which is controlled by and dependent on the City. While the Corporation is a separate legal entity, the City Council serves in a separate session as its governing body and the financial activities of the Corporation are integral to those of the City. Corporation financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements.

The **Martinez Public Improvement Corporation** is a nonprofit public benefit corporation organized and existing under the Nonprofit Public Benefit Corporation Law of the State of California. The purposes for which the Corporation was formed include, among others, (i) rendering financial assistance to the City by financing, refinancing, acquiring, constructing, improving, leasing and selling of buildings, building improvements, equipment, electrical, water, sewer, road and other public improvements, lands and any other real or personal property for the benefits of the City and surrounding areas; (ii) acquiring by lease, purchase or otherwise, real or personal property or any interest therein; and (iii) constructing, reconstructing, modifying, adding to, improving or otherwise acquiring or equipping buildings, structures or improvements and (by sale, lease, sublease, leaseback, gift or otherwise) making any part or all of any such real or personal property available to or for the benefit of the residents of the City. The Corporation is reported as part of the City's operations because of its purpose to provide financing for the City.

The **Pleasant Hill/Martinez Joint Facilities Agency** is established for the purpose of providing cost-effective services for employees participating in the Miscellaneous CALPERS retirement plan. The Agency is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Agency.

Separate financial statements for the Martinez Public Improvement Corporation and the Pleasant Hill/Martinez Joint Facilities Agency are not issued.

B. *Basis of Presentation*

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.
Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities, except for interfund services provided and used. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. Major governmental and business-type funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of the City which are not accounted for in another fund.

Capital Improvements Fund - To account for the funds spent and revenue received for various capital projects within the City.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water System Fund - To account for the funds received from customers receiving water service provided by the City and the related expenditures for administration, system improvements, maintenance and repairs, and debt service for bond issues related to the provision of water to the customers.

Marina Services Fund - To account for the activities related to the operations at the municipal marina.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Parking Services Fund - To account for the activities related to the various parking lots in the downtown area, including parking meters and shuttle services.

The City also reports the following fund types:

Internal Service Funds - To account for equipment replacement and management information Services; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds - The City maintains two types of Fiduciary Funds - Trust Funds and Agency Funds. Trust Funds account for activities of individual private trust funds for the benefit of the Alhambra Cemetery. Agency Funds are used to account for assets held by the City as an agent for the Alhambra Creek Assessment District, the Senior Center Club, and several private- purpose trusts. The financial activities of these funds are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred,* regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, special assessments and interest revenue. Fines, permits, licenses and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows those Financial Accounting Standards Board Statements issued before November 30, 1989 unless they conflict with Governmental Accounting Standards Board Statements.

E. *Revenue Recognition for Water System Enterprise Fund*

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of the year are accrued.

F. *Property Taxes and Special Assessment Revenue*

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Contra Costa levies, bills and collects property taxes for the City; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the personal property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above.

G. *Compensated Absences*

Compensated absences comprise unused vacation leave, vested sick pay and other employee benefits which are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be permanently liquidated are recorded as fund liabilities; the remaining portion is recorded in the Statement of Net Assets.

The changes of the compensated absences during the fiscal year ended June 30, 2008 were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$1,501,496	$171,274	$1,672,770
Additions	1,335,665	160,420	1,496,085
Payments	(1,482,242)	(137,225)	(1,619,467)
Ending Balance	$1,354,919	$194,469	$1,549,388
Current Portion	$150,000	$30,500	$180,500

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Prepaids and Inventory

Prepaid items in governmental funds are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Inventories are valued at cost (on the first-in, first-out basis). Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual inventory items are consumed. Reported General Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

I. New Funds

During the fiscal year the City opened the following new funds:

Housing In-Lieu Special Revenue Fund:
As part of a development project, a developer may be required to pay a fee in lieu of affordable housing. This fund accounts for these deposit in-lieu fees from developers. The funds are to be used at the City's discretion for the provision of affordable housing to low and moderate income households.

Proposition 1B Special Revenue Fund:
This fund accounts for the 2006 voter approved Proposition 1B funds to be used for street improvements, including pavement rehabilitation projects.

PEG Access Special Revenue Fund:
This fund accounts for the payments received by the City's cable provider to be used for public, educational and governmental capital support as provided by the City's franchise agreement.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

The City adopts a biennial budget for the General Fund and all Special Revenue Funds, except for the Traffic Congestion Relief Special Revenue Fund, the Housing In-Lieu Special Revenue Fund, the PEG Access Special Revenue Fund and the Proposition 1B Special Revenue Fund, on or before June 30 of even-numbered years for each of the ensuing two fiscal years. The operating budget takes the form of a two-year budget, which is adopted in its entirety by the City Council by resolution. This budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). All annual appropriations lapse at fiscal year-end. Capital Projects Funds are budgeted on a project-length basis.

On or before the last day in March of each year, all departments of the City submit requests for appropriations to the City Manager so that a budget may be prepared on or by May 1, for even-numbered years. The proposed budget is presented to the City's Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than June 30.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. The City Manager is authorized to revise the budget so long as the total revisions in any single budget year do not exceed 5% of the budget, and provided that sufficient revenues are available to offset such revisions. Council approval is required for additional appropriation from fund balances or new revenue sources. The legal level of budgetary control is at the departmental level.

The budget is revised in February to take into consideration information available during the fiscal year. Budget amounts presented in the accompanying financial statements reflect original appropriations modified by supplemental amendments discussed above which were not material.

The COPS Grant Special Revenue Fund incurred expenditures in excess of its budget in the amount of $70,199 as the result of unanticipated disbursements for the year ended June 30, 2008. Sufficient funds were available to fund these expenditures.

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except Cash and Investments held by Trustees, so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements.

Cash and investments available for operations	$31,784,683
Cash and investments with fiscal agents	938,064
Total Primary Government cash and investments	32,722,747
Restricted cash and investments	
in Fiduciary Funds (separate statement)	514,958
Total cash and investments	$33,237,705

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

C. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed
Shares of Beneficial Interest	N/A	Top rating category	20%
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	No limit
U.S. Treasury Obligations	5 Years	N/A	No limit
U.S. Agency Securities and U.S. Government Sponsored Enterprise Obligations	5 Years	N/A	No limit

D. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

NOTE 3 - CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Repurchase Agreements	6 months	Top Four Rating Categories
U.S. Treasury Obligations	N/A	N/A
U.S. Agency Securities and U.S. Government Sponsored Enterprise	N/A	N/A
State Obligations	N/A	A
Commercial Paper	270 days	Top Rating Category
Negotiable Certificates of Deposit	365 days	Top Rating Category
Time Certificates of Deposit	365 days	Top Rating Category
Guaranteed Investment Contract	N/A	Not lower than the bond rating of certain bonds of the City of Martinez
Shares of Beneficial Interest	N/A	Top Rating Category
Money Market Funds	N/A	Aaam or AAAm-G
Bankers' Acceptances	365 days	Top Rating Category
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A
California Asset Management Program (CAMP)	Upon Demand	N/A

E. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	$31,678,283	$31,678,283
Money Market Funds	1,088,049	1,088,049
Total Investments	$32,766,332	32,766,332
Cash in banks and on hand		471,373
Total Cash and Investments		$33,237,705

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City is a 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 City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2008, these investments have an average maturity of 212 days.

F. *Credit Risk*

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. Presented below is the actual rating as of June 30, 2008 for each investment type as provided by Standard and Poor's.

Investment Type	AAAm	Total
Money Market Funds	$1,088,049	$1,088,049
Totals	$1,088,049	1,088,049
Not rated:		
California Local Agency Investment Fund		31,678,283
Cash in banks and on hand		471,373
Total Cash and Investments		$33,237,705

NOTE 4 – INTERFUND TRANSACTIONS

A. *Transfers Between Funds*

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2008 were as follows:

Fund Receiving Transfers	*Fund Making Transfers*	Amount Transferred
General Fund	Water System Fund	$79,870 **A**
Capital Improvements Fund	General Fund	495,000 **B**
	Non-Major Governmental Funds	738,881 **B**
Non-Major Governmental Funds	General Fund	468,733 **B**
	Capital Improvements Fund	54,995 **B**
Water System Fund	General Fund	23,195 **A**
Marina Services Fund	General Fund	290,000 **B**
Management Information System Fund	General Fund	137,781 **B**
	Total Interfund Transfers	$2,288,455

A: To fund operations
B: To fund capital projects

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

B. Long-Term Interfund Advances

In fiscal year 2004-2005 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of $225,000, to be repaid monthly until 2018. Annual interest at 4.96% is accrued on the unpaid balance. As of June 30, 2008, the balance was $174,018.

In fiscal year 2005-2006 the General Fund made two additional advances to the Marina Services Enterprise Fund in the amount of $82,000 and $275,000. The $82,000 advance is to be repaid at the same repayment terms as the original $225,000 advance discussed above. As of June 30, 2008 its balance was $68,193. The second advance for $275,000 is to be repaid over the next 45 years. Annual interest at 4.53% is accrued on the unpaid balance. As of June 30, 2008 its balance was $270,983.

In fiscal year 2007-08 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of $110,000, to be repaid monthly until 2023. Annual interest at 3.11% is accrued on the unpaid balance. Since the funds were not transferred until June 30, 2008 the balance remaining is $110,000.

In fiscal year 2007-08 the General Fund made an advance to the Alhambra Creek Improvements Capital Projects Fund in the amount of $65,828, to be repaid in annual installments. The advance bears no interest. As of June 30, 2008, the balance was $65,828.

C. Internal Balances

Internal balances are presented in the Entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 – LOAN RECEIVABLE AND DEFERRED REVENUE

The City made a loan to Riverhouse Associates, which was used to rehabilitate the Riverhouse Hotel, an affordable housing project. The loan is secured by a deed of trust, bears no interest, and is due August 14, 2021. At June 30, 2008 the loan balance was $284,930 of which $22,920 was owed to the Water System Enterprise Fund.

On February 25, 2008 the City made a construction loan to the Willows Theatre Company in the amount of $75,000 for the renovation of the Campell Theater. The loan bears no interest and is due December 1, 2010. As of June 30, 2008 the Willows Theater Company had drawn down $62,900 of the $75,000 available funds.

NOTE 6 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City capitalizes all capital assets with values greater than $5,000.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Buildings	30-50 years
Improvements	40-50 years
Equipment	3-25 years
Infrastructure	10-67 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

NOTE 6 - CAPITAL ASSETS (Continued)

A. *Capital Asset Additions and Retirements*

Capital asset activities for the year ended June 30, 2008 comprise:

	June 30, 2007	Additions	Retirements	Transfers	June 30, 2008
Governmental activities					
Capital assets not being depreciated:					
Land	$4,978,951				$4,978,951
Construction in progress	1,997,953	$5,226,797		($594,161)	6,630,589
Total capital assets not being depreciated	6,976,904	5,226,797		(594,161)	11,609,540
Capital assets being depreciated:					
Buildings	5,133,129	42,210			5,175,339
Equipment	4,328,446	502,102	($242,081)	83,918	4,672,385
Infrastructure	37,069,040	106,397		510,243	37,685,680
Total capital assets being depreciated	46,530,615	650,709	(242,081)	594,161	47,533,404
Less accumulated depreciation:					
Buildings	(2,583,124)	(104,209)			(2,687,333)
Equipment	(2,532,519)	(422,119)	203,731		(2,750,907)
Infrastructure	(22,336,055)	(923,098)			(23,259,153)
Total accumulated depreciation	(27,451,698)	(1,449,426)	203,731		(28,697,393)
Net capital assets being depreciated	19,078,917	(798,717)	(38,350)	594,161	18,836,011
Governmental activities capital assets, net	$26,055,821	$4,428,080	($38,350)		$30,445,551
Business-type activities					
Capital assets, not being depreciated:					
Land	$1,665,154				$1,665,154
Construction in progress	1,191,667	$656,285	($1,429)	($643,573)	1,202,950
Total capital assets not being depreciated	2,856,821	656,285	(1,429)	(643,573)	2,868,104
Capital assets being depreciated:					
Buildings	15,618,721			187,028	15,805,749
Improvements	2,731,334		(799,640)	136,655	2,068,349
Equipment	1,816,199		(4,422)		1,811,777
Infrastructure	87,446,613	23,500	(181,830)	319,890	87,608,173
Net capital assets being depreciated	107,612,867	23,500	(985,892)	643,573	107,294,048
Less accumulated depreciation for:					
Buildings	(6,806,394)	(399,005)			(7,205,399)
Improvements	(1,001,062)	(46,029)	799,641		(247,450)
Equipment	(1,213,923)	(98,484)	4,421		(1,307,986)
Infrastructure	(59,484,743)	(1,407,558)	130,268		(60,762,033)
Total accumulated depreciation	(68,506,122)	(1,951,076)	934,330		(69,522,868)
Net capital assets being depreciated	39,106,745	(1,927,576)	(51,562)	643,573	37,771,180
Business-type activities capital assets, net	$41,963,566	($1,271,291)	($52,991)		$40,639,284

NOTE 6 - CAPITAL ASSETS (Continued)

B. Capital Asset Contributions

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

C. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities	
Community Development	$1,020,073
Police	67,873
General Government	22,495
Nondepartmental	1,751
Capital assets held by the City's Internal Service Funds	337,234
Total Governmental Activities	$1,449,426
Business-Type Activities	
Water System	$1,838,401
Marina Services	40,844
Parking Services	71,831
Total Business-Type Activities	$1,951,076

NOTE 7 – LONG-TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

Proprietary Fund (Enterprise and Internal Service) long-term debt is accounted for in the proprietary funds which will repay the debt because these funds are accounted for on the full-accrual basis in a similar manner to commercial operations.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the period of issuance. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

NOTE 7 – LONG TERM DEBT (Continued)

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

A. *Current Year Transactions and Balances*

	Original Issue Amount	Balance at June 30, 2007	Retirements	Balance at June 30, 2008	Current Portion
Governmental Activity Debt					
General Long-Term Debt					
2003 Certificates of Participation					
Refinancing Project, 2-4%, due 12/01/13	$2,200,000	$1,605,000	$205,000	$1,400,000	$215,000
Total governmental activity debt		$1,605,000	$205,000	$1,400,000	$215,000
Business-Type Activity Debt					
Enterprise Long-Term Debt					
Certificates of Participation:					
1999 Water System Improvements, 4.2-5.375%, due 12/1/26	$6,040,000	$5,325,000	$160,000	$5,165,000	$170,000
2003 Refinancing Project, 2-4%, due 12/01/18	5,595,000	4,410,000	310,000	4,100,000	315,000
Total business-type activity debt		$9,735,000	$470,000	$9,265,000	$485,000

B. *2003 Certificates of Participation*

On March 11, 2003, the City issued Certificates of Participation (COPs) in the amount of $7,795,000 to refund and retire the outstanding 1992 City Hall Refurbishment Certificates of Participation and the 1993 Water System Improvements Certificates of Participation. Interest payments on the 2003 COPs are due semi annually on June 1 and December 1, and annual principal payments are due on December 1. Interest and principal payments are payable from lease revenues on City Hall and net revenues derived from the operation of the water system.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the Installment Agreement portion of the Certificates of Participation through 2019. Annual principal and interest payments on the bonds are expected to require less than 12.01 percent and 5.75 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is $5,070,938. The Water Fund's principal and interest paid for the current year and total customer net revenues were $458,320 and $2,580,825, respectively. The City is in compliance with its' debt covenants for the year ended June 30, 2008.

C. *1999 Certificates of Participation*

On August 1, 1999, the City issued Certificates of Participation (COPs) in the amount of $6,040,000 to fund and retire the construction of various improvements to the City's existing municipal water system. Semi-annual interest payments are due on June 1 and December 1 of each year, and annual principal payments are due on December 1. Interest and principal payments are payable from net revenues derived from the operation of the water system.

NOTE 7 – LONG TERM DEBT (Continued)

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the Certificates of Participation through 2027. Annual principal and interest payments on the bonds are expected to require less than 6.20 percent and 10.55 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is $8,182,816. The Water Fund's principal and interest paid for the current year and total customer net revenues were $432,297 and $2,580,825, respectively. The City is in compliance with its' debt covenants for the year ended June 30, 2008.

D. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2009	$215,000	$42,519	$485,000	$406,326
2010	220,000	36,532	500,000	389,643
2011	230,000	29,638	520,000	371,092
2012	235,000	21,931	540,000	350,698
2013	245,000	13,531	555,000	328,769
2014-2018	255,000	4,622	3,165,000	1,264,126
2019-2023			1,960,000	634,548
2024-2027			1,540,000	170,944
Total	$1,400,000	$148,773	$9,265,000	$3,916,146

E. Authorized but Unissued Debt

The City has previously issued Water Revenue Bonds authorized by the electorate at a bond election held on June 7, 1966. Series A, B, and C Bonds in the amount of $3,250,000 were previously issued and have been fully retired. $1,400,000 remains authorized but unissued.

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA

At June 30, 2008, the Marina Services Fund owed $4,300,680 in loans to the State. The City made an interest payment of $78,144 in fiscal 2008 to cover current year interest accrued on the unpaid loan balances. Principal payments were not made in fiscal year 2008.

In January of 1960, the City entered into an agreement with the State of California, whereby a loan of $1,300,000 was granted to the City for the construction of a Marina. At June 30, 2008, the amount payable to the State including interest amounted to $2,483,527.

The agreement was modified in 1964 with the following conditions:

Net income from the operations of the Marina is distributable as follows:

- Pro rata reimbursement to contributors of initial development costs as described in the agreement.
- 80% of the annual net income to the State, until the sum of $1,300,000 is paid; the remaining 20% to be paid to the City.

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA (Continued)

- After the principal portion of the loan is repaid to the State, 80% of the annual net income shall be paid to the City; the remaining 20% shall be paid to the State until the State has been paid 3% interest per annum on the unpaid principal of the loan for each year starting with January 1, 1961. The agreement will terminate upon completion of the foregoing payments.

On December 20, 1973, the City entered into another agreement with the State of California, whereby a loan of $450,000 was granted to the City to complete the Martinez Small Craft Harbor (MSCH). At June 30, 2008, the amount payable to the State was $301,523 including accrued interest. The terms are as follows:

- The loan is payable from the gross revenues from operations of the facilities located or erected within the MSCH Project, prior to any other expenditures from such revenues.

Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2004. During fiscal year 2005 the State amended the agreement to allow the City to make interest only annual payments until August 2008, at which time the City and State will renegotiate the terms of the loan.

- Any retained earnings arising from the operation of the MSCH Project after deductions for repayments of the State loan, operating and maintenance expenses and reserve funds provided for by the State, shall be invested in reasonably liquid assets. No transfer of such funds, other than for advance repayment of the State loan, shall be made so long as any principal or interest remains unpaid.

- Whenever the retained earnings exceeds two years of MSCH Project operating and loan repayment expenses, such excess may be required by the State for advance repayment of the loan.

On January 30, 1978, the City entered into another agreement with the State of California, whereby a loan of $175,000 was granted to the City for construction of Marina Improvements. At June 30, 2008 the amount payable to the State was $157,623 including accrued interest. The terms are as follows:

- The loan is payable from the gross revenues from operation of the facilities located or erected within the Project Area.

- Payments of principal and interest at 4.5% in equal annual installments shall be payable on August 1 of each year with a final payment due August 1, 2008.

On November 1, 1982, the City entered into another agreement with the State of California, whereby a loan of $300,000 was granted to the City for the construction of new berthings and improvements to the Marina. The loan was to be based on stages of completion. At June 30, 2008, the amount payable to the State was $370,071 including accrued interest. The loan terms are as follows:

- The loan is payable from the gross revenues originating from the operations of the Marina. These gross revenues constitute sole security for the loan.

- The loan shall bear compound interest at 4.5% per annum on the unpaid balance.

- Repayment of the loan shall be in equal annual installments on August 1 of each year with final payment due August 1, 2014.

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA (Continued)

On January 14, 1985 the City entered into another agreement with the State of California, whereby a loan of $770,425 was granted to the City for twelve capital improvement projects at the Marina. At June 30, 2008, the amount payable to the State was $987,936 including accrued interest. The loan terms are as follows:

- The loan is payable from the gross revenues from the operation of the facilities located within the project area.
- The loan shall bear compound interest at 4.5% per annum on the unpaid balance.
- Repayment of the loan shall be in equal annual installments on August 1 of each year with a final payment due on August 1, 2017.
- Berthing rates may not average less than $3.75 per foot of boat or berth length and are subject to annual adjustments based on the consumer price index.
- A survey of berthing charges in the same market as the Marina shall be conducted on an annual basis.

The above loan agreements, except for the 1960 loan which has no specified repayment terms, require the Marina to remit approximately $170,000 per year in each of the subsequent five years for debt service, and additional amounts thereafter. However, the Marina did not make any principal or interest payments on the above loans between fiscal 1996 and fiscal 2004. In June 2005, the State of California approved an extension which permitted the City to postpone principal payments on the above loans until fiscal year 2009. In fiscal year 2006-07, the State further agreed to allow the City to make interest-only annual payments until August 2008, at which time the City and State will renegotiate the terms of the loan. During the fiscal year ended June 30, 2008, interest payments of $78,144 were made to the State.

The City has a commitment to borrow an additional $2.93 and an application for an additional $3.75 million from the State to finance certain Marina improvements. As of June 30, 2008, the City was still in negotiations with the State for the term of this loan.

NOTE 9 – DEBT WITHOUT CITY COMMITMENT

A. Special Assessment Bonds

The Alhambra Creek Assessment District issued Assessment Bonds of 1999, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included as debt of the City. At June 30, 2008, the District's outstanding debt amounted to $905,000.

B. Home Mortgage Revenue Bonds

Home mortgage revenue bonds have been issued to finance secured mortgage loans for low-income housing projects. The bonds do not constitute indebtedness to which the good faith and credit of the City is pledged. The City is not obligated to pay the principal, interest or other payments associated with the bonds. The payments on the bonds are payable solely from monies received from mortgage loans, security agreements or insurance. Accordingly, the bonds have not been recorded in the basic financial statements of the City. The total amount of mortgage revenue bonds outstanding as June 30, 2008 was $2,690,000.

NOTE 10 – NET ASSETS AND FUND BALANCES

A. *Net Assets*

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include capital projects, debt service requirements, and special revenue programs restricted to special revenue purposes such as transportation grants and revenues, stormwater and COPs grants.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. *Fund Equity*

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or net assets which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and may never be legally authorized or result in expenditures.

C. *Designation*

The City has designated portions of Fund Balance for certain purposes. These designations may be changed by the City. Details are as follows:

	General	Capital Improvements	Other Governmental Funds
Designated for:			
General liability	$1,453,874		
Improvements	289,300	$2,959,248	
Petty cash	1,500		
Pollution elimination			$181,555
Catastrophe	300,000		
Contingencies	100,000		
Deferred maintenance	76,855		
Legal	500,000		
Total	2,721,529	2,959,248	181,555
Undesignated	6,896,775	963,756	1,997,318
Total Unreserved	$9,618,304	$3,923,004	$2,178,873

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

D. Fund Balance and Net Assets Deficits

At June 30, 2008 the Alhambra Creek Improvements Capital Projects Fund had a deficit fund balance of $65,828. Future revenues are expected to offset this fund deficit.

The Marina Services Enterprise Fund has an accumulated net deficit of $2,249,636 as of June 30, 2008 made up primarily of state loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operation of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina, by entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State of California approved an extension which permitted the City to postpone principal payments on the loans until fiscal year 2008-09. Contained in the loan agreements with the State is a provision which allows the State to take over the Marina with a 90 day notice. As of June 30, 2008, the City had not received such notice.

NOTE 11 – EMPLOYEES' RETIREMENT SYSTEM

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police), Miscellaneous (all other), and Miscellaneous Joint Facilities Agency Employee Plans. Benefit provisions under the Plans are established by State statute and City ordinance. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The City's labor contracts require it to pay employee contributions as well as its own. The Plans' provisions and benefits in effect at June 30, 2008, are summarized as follows:

	Safety	Miscellaneous	Miscellaneous Joint Facilities Agency
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50	50
Monthly benefits, as a % of annual salary	3%	1.426% - 2.418%	1.426% - 2.418%
Required employee contribution rates	9%	7%	7%
Required employer contribution rates	36.483%	10.095%	10.127%

*Rates include amortization of side fund

NOTE 11 – EMPLOYEES' RETIREMENT SYSTEM (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2008, 2007 and 2006 amounted to $1,808,824, $1,608,807, and $1,588,530 respectively.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the City's Safety, Miscellaneous and Miscellaneous Joint Facilities Agency Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. In March 2007, the City paid off the unfunded liability of the Miscellaneous Plan. For the Safety and Miscellaneous Joint Facilities Agency Plan, the City will satisfy its Plans' unfunded liability by contributing to the Side Fund through an addition to its normal contribution rates over the next 14 years for Safety, and 9 years for the Miscellaneous Joint Facilities Agency Plans.

The required contributions and related rates for the year ended June 30 were as follows:

	Safety Contributions		Miscellaneous Contributions		Miscellaneous Joint Facilities Agency Contributions	
	Amount	Rate	Amount	Rate	Amount	Rate
2006	$405,804	11.945%	$262,052	211.696%	$101,694	1.635%
2007	418,993	11.129%	1,502,476	182.700%	104,999	1.523%
2008	432,610	11.551%	0	0	108,412	1.499%

NOTE 11 – EMPLOYEES' RETIREMENT SYSTEM (Continued)

The latest available actuarial values of the above State-wide pools (which differs from market value) and funding progress were set forth as follows. The information presented below relates to State-wide pools as a whole, of which the City is one participating employer.

Safety Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2004	$5,383,921,942	$4,424,586,846	$959,335,096	82.2%	$575,296,434	166.8%
2005	6,367,049,264	5,295,150,375	1,071,898,889	83.2%	664,147,796	161.4%
2006	7,278,049,834	6,102,615,567	1,175,434,267	83.8%	754,730,438	155.7%

Miscellaneous Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2004	$2,746,095,668	$2,460,944,656	$285,151,012	89.6%	$743,691,970	38.3%
2005	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%
2006	2,754,396,608	2,492,226,176	262,170,432	90.5%	699,897,835	37.5%

Miscellaneous Joint Facilities Agency Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2004	$2,746,095,668	$2,460,944,656	$285,151,012	89.6%	$743,691,970	38.3%
2005	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%
2006	2,754,396,608	2,492,226,176	262,170,432	90.5%	699,897,835	37.5%

Audited annual financial statements and ten-year statistical information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 12 – POST-EMPLOYMENT BENEFITS

The City provides health care benefits for retired employees and spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement age and have a minimum ten years of service while working for the City. The premium reimbursement benefits are as follows: 0-10 years of service = 0%; 11-15 years of service = 25%; 16-20 years of service = 50%; 21-25 years of service = 75%; 26 years or more of service = 100%. Currently, 37 retirees meet the eligibility requirements and receive reimbursements.

Additionally, the City provides the option of postretirement health benefits to sworn Police Personnel through the Public Employees' Retirement System (PERS) in lieu of the reimbursement plan, in accordance with the MOU for that represented group. The City covers 100% of the Kaiser cost for retirees prior to January 1, 2005. Those employees who retire after January 1, 2005 pay a percentage of the cost increase. Currently, 36 retirees meet the eligibility requirements and are either receiving reimbursements or health benefits paid directly by the City to PERS.

NOTE 12 – POST-EMPLOYMENT BENEFITS (Continued)

The cost of retiree health care benefits is recognized as an expenditure when health care premiums are paid. For the year ending June 30, 2008, those costs totaled $614,494.

During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior years' financial statements. Required disclosures are presented below.

By Council resolution and through agreements with its labor units, the City provides certain health care benefits for retired employees (spouses and dependents are not included) under third-party insurance plans. A summary of eligibility and retiree contribution requirements are shown below by bargaining unit:

Martinez Police Officers' Association

Health Benefits - Employees represented by the Association who retire for service or disability on PERS shall receive retirement health benefits in accordance with the PERS Health Plan provisions. The City shall pay one hundred percent of the premium cost at the Kaiser North premium level. Employees selecting plans other than Kaiser North shall receive the same dollar contribution as for Kaiser.

Effective January 1, 2005, the City shall pay eighty-five percent of the increase in the Kaiser premium.

Effective January 1st of each successive year of the Memorandum of Understanding when the premiums are increased by the carrier, the City will pay eighty percent of any increase in the Kaiser premium.

Dental Benefits – The City agrees to pay ten dollars per month to Police Officers who retire after July 1, 1991 toward the retirement dental benefit. Such payment will be discontinued for employees who retire after January 1, 2006.

Non-Sworn Employees; Management Association; and Public Employees' Union Local #324 (formerly Local One)

Health Benefits – Employees represented by the Association and by PEU, Local #1 who retire from service or disability on PERS shall receive retirement health benefits in accordance with the following:

Benefits shall be paid at the retirement health benefit rate for the least costly of the health benefit insurances. At the present time the least costly of the plans offered is Kaiser. For those hired prior to January 1, 2007, the City shall pay one hundred percent of the premium prorated based on the percentages shown below.

For those employees who were hired on or after January 1, 2007, the retiree shall be reimbursed the amount of the Kaiser premium in effect on January 1, 2007 plus eighty-five percent of each increase in the premium, prorated based on the percentages shown below.

NOTE 12 – POST-EMPLOYMENT BENEFITS (Continued)

Years of Service with the City	Percent of Health Insurance To be Paid by City
0 through 10 years	0%
11 through 15 years	25%
16 through 20 years	50%
21 through 25 years	75%
Over 25 years	100%

For employees hired before January 1, 2006, the City will also pay for the cost of Medicare Part B. The above percentages also apply to the payment of Medicare Part B.

As of June 30, 2008, approximately 72 active employees were eligible to receive retirement health care benefits.

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a March 10, 2008 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% discount rate; (b) 3.25% projected annual salary increase, and (c) 5% health inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period.

In accordance with the City's budget, the annual required contribution (ARC) is to be funded through out the year as a percentage of payroll. Concurrent with implementing Statement No. 45, the City Council passed a resolution to participate the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CALPERS, and is managed by an appointed board not under the control of City Council. This Trust is not considered a component unit by the City and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 12 – POST-EMPLOYMENT BENEFITS (Continued)

Funding Progress and Funded Status

Generally accepted accounting principles permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2008, the City contributed the ARC amounting to $1,102,000 to the Plan which represented 11.5% of the $9,579,000 of covered payroll. The City also contributed additional funds to CERBT representing funds accumulated in prior years in the City's General Fund. As a result, the City has recorded the Net OPEB Asset, representing the difference between the ARC, the amortization of the Net OPEB Asset and actual contributions, as presented below:

Annual required contribution (ARC) and Annual OPEB cost	$1,102,000
Contributions made:	
City portion of current year premiums paid	614,494
Additional contributions to CERBT	4,487,506
Total contributions	5,102,000
Contributions in excess of the ARC	4,000,000
Net OPEB Asset at June 30, 2007	
Net OPEB Asset at June 30, 2008	$4,000,000

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2007 and revised March 10, 2008, amounted to $14,010,000 and was unfunded since no assets had been transferred into CERBT as of that date. However, as of June 30, 2008, the City transferred additional contributions to CERBT which totaled $4,487,506 and reduced the unfunded actuarial accrued liability to $10,010,000.

NOTE 13 – SOCIAL SECURITY

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employers existing system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal, and temporary employees are covered under Social Security, which requires these employees and the City to each contribute 6.2% of the employees' pay. Total contributions to Social Security during the year ended June 30, 2008 amounted to $76,006 of which the City paid half.

NOTE 14 – DEFERRED COMPENSATION PLAN

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

NOTE 15 – RISK MANAGEMENT

A. Municipal Pooling Authority

The City is a member of the Municipal Pooling Authority. The Authority provides coverage against the following types of loss risks under the terms of a joint-powers agreement with the City and several other cities and governmental agencies as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability ($5,000)	$25,000,000
Employment Risk Management Authority ($50,000)	1,000,000
Vehicle - Physical Damage ($3,000 for police vehicles, $2,000 for all others)	250,000
Workers' Compensation (no deductible)	300,000,000
All Risk Fire & Property ($5,000) *	1,000,000,000
Earthquake ($100,000)	40,000,000
Flood ($100,000)	25,000,000
Boiler & Machinery ($5,000)	100,000,000

*The Authority's all risk fire, property, earthquake and flood coverage was increased to $1 billion for fiscal year ended June 30, 2008 from $350 million for the year ended June 30, 2007.

The Authority is governed by a Board consisting of representatives from member municipalities. The Board controls the operations of the Authority, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

NOTE 15 – RISK MANAGEMENT (Continued)

The City's deposits with the Authority are in accordance with formulas established by the Authority. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Audited financial statements for the Authority are available from Municipal Pooling Authority, 1911 San Miguel Drive, Suite 200, Walnut Creek, CA 94596.

B. *Liability for Uninsured Claims*

The City provides for the uninsured portion of claims and judgments, including a provision for claims incurred but not reported, when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

The City's liability for uninsured claims at June 30 was estimated by management based on claims experience reported by Municipal Pooling Authority and was computed as follows:

	2008	2007
Beginning balance	$80,000	$80,000
Liability for current fiscal year claims	38,722	31,334
Increase (decrease) in liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(29,442)	(22,112)
Claims paid	(9,280)	(9,222)
Ending balance	$80,000	$80,000

NOTE 16 - COMMITMENTS AND CONTINGENCIES

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no presently filed litigation which is likely to have a material adverse effect on the financial position of the City.

NOTE 17 – SUBSEQUENT EVENT

On August 15, 2008, the City entered into a real estate purchase and sale agreement to acquire approximately six acres of land within the City limits. The City intends to acquire the property for public improvements, including the provision of parking and other support areas for the intermodal transportation facility. The purchase price of the property is $10,900,000.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Gas Tax Funds
To account for the funds received from the State of California under code 2105, 2106, and 2107 to use for street and highway related projects.

NPDES Stormwater Fund
To account for the revenues and expenditures from assessments levied on all real property in the City in compliance with the provisions of the National Pollutant Discharge Elimination System for prevention of stormwater and flood related damage.

Measure C Fund
This fund receives voter-approved, half cent countywide sales taxes levied to fund transportation improvements and disburses these funds to pay for local street improvements.

COPS Grant Fund
To account for the funds received from the federal government and State of California to be used specifically for public safety equipment and personnel.

Traffic Congestion Relief
To account for the revenues received from the State of California under AB2928. The allocations must be spent on local streets and roads maintenance, rehabilitation and reconstruction projects according to the State's Traffic Congestion Relief Plan.

Housing In-Lieu Fund
As part of a development project, a developer may be required to pay a fee in lieu of affordable housing. This fund accounts for these deposit in-lieu fees from developers. The funds are to be used at the City's discretion for the provision of affordable housing to low and moderate income households.

Proposition 1B Fund
This fund accounts for the 2006 voter approved Proposition 1B funds to be used for street improvements, including pavement rehabilitation projects.

PEG Access Fund
This fund accounts for the payments received by the City's cable provider to be used for public, educational and governmental capital support as provided by the City's franchise agreement.

DEBT SERVICE FUND

To account for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs (other than those paid for by Proprietary Funds).

CAPITAL PROJECTS FUNDS

Alhambra Creek Improvements
To account for the funds spent on the Alhambra Creek channel improvements in an effort to curb flooding and related damage to property within the special assessment district.

Lighting and Landscaping Fund
To account for the installation, maintenance and improvement of subdivision landscape and lighting within the special districts. Monies are collected through an annual levy on the property owners within each district.

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2008

	SPECIAL REVENUE FUNDS				
	Gas Tax Funds	NPDES Stormwater Fund	Measure C Fund	COPS Grant Fund	Traffic Congestion Relief
ASSETS					
Cash and investments					
Available for operations	$139,006	$216,879	$537,699	$167,902	
With fiscal agents					
Receivables:					
Accounts receivables (net of allowance for uncollectibles)					
Intergovernmental	219,941			5,000	
Total Assets	$358,947	$216,879	$537,699	$172,902	
LIABILITIES					
Accounts payable	$5,121	$31,310			
Accrued wages and benefits		2,994			
Deposits		1,020		$5,821	
Advance from other funds					
Deferred revenue					
Total Liabilities	5,121	35,324		5,821	
FUND EQUITY					
Fund balances					
Reserved for:					
Debt service					
Grants				125,723	
Encumbrances				41,358	
Unreserved:					
Designated		181,555			
Undesignated:					
Special Revenue Funds	353,826		$537,699		
Capital Projects Funds					
Total Fund Balances (Deficit)	353,826	181,555	537,699	167,081	
Total Liabilities and Fund Balances	$358,947	$216,879	$537,699	$172,902	

				CAPITAL PROJECTS FUNDS		
Housing In-Lieu	Proposition 1B	PEG Access	DEBT SERVICE FUND	Alhambra Creek Improvements	Lighting and Landscaping Fund	Total Nonmajor Governmental Funds
$5,008	$589,965	$512,398	$39,351		$248,060	$2,456,268
			455,950			455,950
		14,307				14,307
				$65,828		290,769
$5,008	$589,965	$526,705	$495,301	$65,828	$248,060	$3,217,294
					$13,636	$50,067
						2,994
						6,841
				$65,828		65,828
				65,828		65,828
				131,656	13,636	191,558
			$495,301			495,301
						125,723
		$180,651			3,830	225,839
						181,555
$5,008	$589,965	346,054				1,832,552
				(65,828)	230,594	164,766
5,008	589,965	526,705	495,301	(65,828)	234,424	3,025,736
$5,008	$589,965	$526,705	$495,301	$65,828	$248,060	$3,217,294

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	SPECIAL REVENUE FUNDS				
	Gas Tax Funds	NPDES Stormwater Fund	Measure C Fund	COPS Grant Fund	Traffic Congestion Relief
REVENUES					
Special assessments		$472,659			
Licenses, permits, and fees					
Intergovernmental	$658,928		$502,895	$150,539	
Fines and forfeits				8,290	
Use of money and property	7,942	3,914	21,285	4,817	$4,244
Miscellaneous		2,810	250,700	4,102	
Total Revenues	666,870	479,383	774,880	167,748	4,244
EXPENDITURES					
Current:					
Community & economic development	441,080	431,960	76,792		
Police				75,281	
Debt Service:					
Principal					
Interest and fiscal charges					
Capital outlay				69,918	
Total Expenditures	441,080	431,960	76,792	145,199	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	225,790	47,423	698,088	22,549	4,244
OTHER FINANCING SOURCES (USES)					
Transfers in	54,995				
Transfers (out)	(200,000)	(75,000)	(450,000)		(13,881)
Total Other Financing Sources (Uses)	(145,005)	(75,000)	(450,000)		(13,881)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	80,785	(27,577)	248,088	22,549	(9,637)
BEGINNING FUND BALANCES (DEFICITS)	273,041	209,132	289,611	144,532	9,637
ENDING FUND BALANCES (DEFICITS)	$353,826	$181,555	$537,699	$167,081	

					CAPITAL PROJECTS FUNDS		
	Housing In-Lieu	Proposition 1B	PEG Access	DEBT SERVICE FUND	Alhambra Creek Improvements	Lighting and Landscaping Fund	Total Nonmajor Governmental Funds
					$5,910	$114,106	$592,675
	$5,000						5,000
		$581,915					1,894,277
							8,290
	8	8,050		$25,205		10,088	85,553
			$57,972	254,256			569,840
	5,008	589,965	57,972	279,461	5,910	124,194	3,155,635
						139,672	1,089,504
							75,281
				205,000			205,000
				50,630			50,630
							69,918
				255,630		139,672	1,490,333
	5,008	589,965	57,972	23,831	5,910	(15,478)	1,665,302
			468,733				523,728
							(738,881)
			468,733				(215,153)
	5,008	589,965	526,705	23,831	5,910	(15,478)	1,450,149
				471,470	(71,738)	249,902	1,575,587
	$5,008	$589,965	$526,705	$495,301	($65,828)	$234,424	$3,025,736

CITY OF MARTINEZ
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	GAS TAX FUNDS			NPDES STORMWATER FUND		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Special assessments				$544,000	$472,659	($71,341)
Intergovernmental	$716,000	$658,928	($57,072)			
Fines and forfeits						
Use of money and property	8,500	7,942	(558)	1,000	3,914	2,914
Miscellaneous					2,810	2,810
Total Revenues	724,500	666,870	(57,630)	545,000	479,383	(65,617)
EXPENDITURES						
Current:						
Community development	501,667	441,080	60,587	452,210	431,960	20,250
Police						
Capital outlay						
Total Expenditures	501,667	441,080	60,587	452,210	431,960	20,250
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	222,833	225,790	2,957	92,790	47,423	(45,367)
OTHER FINANCING SOURCES (USES)						
Transfers in		54,995	54,995			
Transfers (out)	(200,000)	(200,000)		(75,000)	(75,000)	
Total Other Financing Sources (Uses)	(200,000)	(145,005)	54,995	(75,000)	(75,000)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	$22,833	80,785	$57,952	$17,790	(27,577)	($45,367)
BEGINNING FUND BALANCES		273,041			209,132	
ENDING FUND BALANCES		$353,826			$181,555	

MEASURE C FUND			COPS GRANT FUND		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
	$502,895	$502,895	$177,014	$150,539	($26,475)
			1,571	8,290	6,719
$2,000	21,285	19,285	1,404	4,817	3,413
	250,700	250,700	1,265	4,102	2,837
2,000	774,880	772,880	181,254	167,748	(13,506)
188,791	76,792	111,999			
			75,000	75,281	(281)
				69,918	(69,918)
188,791	76,792	111,999	75,000	145,199	(70,199)
(186,791)	698,088	884,879	106,254	22,549	(83,705)
(450,000)	(450,000)				
(450,000)	(450,000)				
($636,791)	248,088	$884,879	$106,254	22,549	($83,705)
	289,611			144,532	
	$537,699			$167,081	

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds introduced by GASB Statement 34 does not extend to Internal Service Funds because they do not do business with outside parties. GASB Statement 34 requires that for the Statement of Activities, the net revenues or expenses of each internal service fund be eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, Internal Service Funds are still presented separately in the Fund financial statements, including the funds below.

Equipment Replacement
To account for the accumulation of funds for equipment replacement and the subsequent replacement and maintenance of the equipment under City control.

Management Information System
To account for the services rendered to all City departments for management of the City's hardware and software needs.

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2008

	Equipment Replacement	Management Information System	Total
ASSETS			
Current Assets:			
Cash and investments available for operations	$2,090,030	$669,189	$2,759,219
Total Current Assets	2,090,030	669,189	2,759,219
Capital Assets:			
Equipment	2,934,720	366,596	3,301,316
Accumulated depreciation	(2,038,010)	(298,770)	(2,336,780)
Net Capital Assets	896,710	67,826	964,536
Total Assets	2,986,740	737,015	3,723,755
LIABILITIES			
Current Liabilities:			
Accounts payable	41,804	2,329	44,133
Accrued liabilities	6,652	4,728	11,380
Accrued vacation and other fringe benefits	16,509	6,349	22,858
Total Liabilities	64,965	13,406	78,371
NET ASSETS			
Invested in capital assets	896,710	67,826	964,536
Unrestricted	2,025,065	655,783	2,680,848
Total Net Assets	$2,921,775	$723,609	$3,645,384

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Equipment Replacement	Management Information System	Total
OPERATING REVENUES			
Charges for services	$1,120,788	$468,876	$1,589,664
Other fees		8,960	8,960
Refunds and rebate	471		471
Total Operating Revenues	1,121,259	477,836	1,599,095
OPERATING EXPENSES			
Maintenance and repairs	735,234	420,462	1,155,696
Depreciation	267,029	70,205	337,234
Total Operating Expenses	1,002,263	490,667	1,492,930
Operating Income (Loss)	118,996	(12,831)	106,165
NONOPERATING REVENUES			
Interest income	79,216	26,698	105,914
Gain on disposal of equipment	5,554		5,554
Total Nonoperating Revenues	84,770	26,698	111,468
Income Before Transfers	203,766	13,867	217,633
Transfers in		137,781	137,781
Change in Net Assets	203,766	151,648	355,414
BEGINNING NET ASSETS	2,718,009	571,961	3,289,970
ENDING NET ASSETS	$2,921,775	$723,609	$3,645,384

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

	Equipment Replacement	Management Information System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$1,122,915	$477,836	$1,600,751
Payments to suppliers	(642,043)	(299,791)	(941,834)
Payments to employees	(165,029)	(135,035)	(300,064)
Cash Flows from Operating Activities	315,843	43,010	358,853
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund receipt		137,781	137,781
Cash Flows from Noncapital Financing Activities		137,781	137,781
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(301,959)	(48,468)	(350,427)
Proceeds from sale of equipment	5,554		5,554
Cash Flows from Capital and Related Financing Activities	(296,405)	(48,468)	(344,873)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	79,216	26,698	105,914
Cash Flows from Investing Activities	79,216	26,698	105,914
Net Cash Flows	98,654	159,021	257,675
Cash and investments at beginning of period	1,991,376	510,168	2,501,544
Cash and investments at end of period	$2,090,030	$669,189	$2,759,219
Reconciliation of operating loss to net cash flows from operating activities:			
Operating income (loss)	$118,996	($12,831)	$106,165
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	267,029	70,205	337,234
Change in assets and liabilities:			
Other receivables	1,656		1,656
Accounts payable	(67,028)	(15,139)	(82,167)
Accrued wages and benefits	(10,665)	568	(10,097)
Accrued vacation and other fringe benefits	5,855	207	6,062
Cash Flows from Operating Activities	$315,843	$43,010	$358,853

FIDUCIARY FUNDS

Agency Funds account for assets held by the City as agent for individuals, governmental entities, and non-public organizations. These funds include the following:

Alhambra Creek Assessment District
To account for the special assessment district funds received from property owners within the district to repay the debt issued for the Alhambra Creek Channel improvements.

Senior Center Club
To account for the assets held for the Senior Center Club usage.

CITY OF MARTINEZ
AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
Alhambra Creek Assessment District				
Assets				
Restricted cash and investments	$203,956	$119,687	$106,289	$217,354
Total assets	$203,956	$119,687	$106,289	$217,354
Liabilities				
Accounts payable		$200		$200
Due to bondholders	$203,956	119,487	$106,289	217,154
Total liabilities	$203,956	$119,687	$106,289	$217,354
Senior Center Club				
Assets				
Restricted cash and investments	$206,561	$118,491	$146,449	$178,603
Total assets	$206,561	$118,491	$146,449	$178,603
Liabilities				
Accounts payable	$4,661	$5,301	$4,661	$5,301
Deposits in trust	201,900	113,190	141,788	173,302
Total liabilities	$206,561	$118,491	$146,449	$178,603
Total Agency Funds				
Assets				
Restricted cash and investments	$410,517	$238,178	$252,738	$395,957
Total assets	$410,517	$238,178	$252,738	$395,957
Liabilities				
Accounts payable	$4,661	$5,501	$4,661	$5,501
Due to bondholders	203,956	119,487	106,289	217,154
Due to members	201,900	113,190	141,788	173,302
Total liabilities	$410,517	$238,178	$252,738	$395,957

APPENDIX D
PROPOSED FORM OF OPINION OF BOND COUNSEL

May 20, 2009

City Council
City of Martinez
525 Henrietta Street
Martinez, California 94553

OPINION: $15,000,000 City of Martinez General Obligation Bonds, Election of 2008, Series A

Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Martinez (the "City") of its general obligation bonds captioned above, dated May 20, 2009 (the "Bonds"). The Bonds have been issued by the City pursuant to the Constitution and laws of the State of California, a resolution adopted by the City Council of the City on April 1, 2009 (the "Resolution") and a Paying Agent Agreement dated as of May 1, 2009 (the "Paying Agent Agreement") between the City and U.S. Bank National Association, as paying agent. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The City is duly organized and validly existing as a general law city and municipal corporation under the Constitution and laws of the State of California, with the power to adopt the Resolution, to execute and deliver the Paying Agent Agreement and to perform the agreements on its part contained therein, and to issue the Bonds.

2. The Paying Agent Agreement constitutes a valid and binding obligation of the City, enforceable against the City in accordance with its terms.

3. The Bonds have been duly authorized, executed and delivered by the City, and are valid and binding general obligations of the City.

4. The City has the power, is obligated, and in the Paying Agent Agreement has covenanted, to levy ad valorem taxes upon all property within the City which is subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxed at limited rates), for the payment of the Bonds and the interest thereon.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code"), and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Tax Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest payable with respect to the Bonds. 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 issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$15,000,000
CITY OF MARTINEZ
General Obligation Bonds
Election of 2008, Series A

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Martinez (the "City") in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered pursuant to a Paying Agent Agreement dated as of May 1, 2009 (the "Agreement") by and between the City and U.S. Bank National Association, as paying agent (the "Paying Agent").

The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Agreement, .which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, 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.

"*Annual Report Date*" means the date that is nine months after the end of the City's fiscal year (currently March 31 based on the City's fiscal year end of June 30).

"*Dissemination Agent*" means U.S. Bank National Association or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Paying Agent a written acceptance of such designation.

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

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Official Statement*" means the final official statement executed by the City in connection with the issuance of the Bonds.

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

"*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.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2010 with the report for the 2008-09 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. 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 Annual Report Date, 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). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; 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, and stating the date it was provided.

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

(a) The City's 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 Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the Official Statement:

(i) Assessed value of taxable property within the jurisdiction of the City;

(ii) Summary of property tax rates for all taxing entities within the City expressed as a percentage of assessed valuation;

(iii) Top ten property tax assessees for current fiscal year, taxable value and percentage of total assessed value in substantially the form of the Official Statement;

(iv) Property tax collection delinquencies for the City if the City is no longer a participant in Contra Costa County's Teeter Plan in substantially the form of in the Official Statement;

(v) Amount of all general obligation debt of the City outstanding, and total scheduled debt service on such general obligation debt;

(vi) Any change to Contra Costa County's investment pool which would affect the City's receipt of property tax revenues used to pay debt service on the Bonds; and

(vii) Any changes in the operation of Contra Costa County's Teeter Plan affecting the City's receipt of property tax revenues used to pay debt service on the Bonds.

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

(d) 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 are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. <u>Reporting of Significant Events</u>.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(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, or shall cause the Dissemination Agent (if not the City) to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Agreement.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Paying Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Agreement for amendments to the Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions 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 filed in the same manner as for a Listed Event under Section 5(c).

Section 10. 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 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the 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 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) 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 they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer:	City of Martinez 525 Henrietta Street Martinez, California 94553 (925) 372-3500
To the Dissemination Agent:	U.S. Bank National Association One California Street, Suite 2100 San Francisco, California 94111 Fax No.: (415) 273-4591 Attention: Myrna Presto-Choroski

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. 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 Bonds, and shall create no rights in any other person or entity.

Section 15. **Counterparts**. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: May 20, 2009

CITY OF MARTINEZ

By: ______________________________

Name: ______________________________

Title: ______________________________

AGREED AND ACCEPTED:
U.S. Bank National Association,
as Dissemination Agent

By: ______________________________

Name: ______________________________

Title: ______________________________

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of Martinez (the "City")
Name of Bond Issue:	City of Martinez General Obligation Bonds, Election of 2008, Series A
Date of Issuance:	May 20, 2009

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Paying Agent Agreement, dated as of May 1, 2009, by and between the City and U.S. Bank National Association, as paying agent. The City anticipates that the Annual Report will be filed by ____________.

Dated: ___________

DISSEMINATION AGENT:

By: ________________________

Its: ________________________

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

Neither the City nor the Paying 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 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company, New York, NY, will act as securities depository for the securities (the "**Bonds**"). The Bonds 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 Bond certificate will be issued for the Bonds, 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 depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing

Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying 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 nor its nominee, the Paying Agent, or the City, 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 the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

10. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond 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 the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.