

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$8,025,000
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

Dated: Date of Delivery

Due: December 1, as shown on inside cover

Authority for Execution and Delivery. The Certificates of Participation captioned above (the "Certificates") are being executed and delivered under a Trust Agreement dated as of February 1, 2012 (the "Trust Agreement") by and among the City of Martinez (the "City"), the Martinez Public Improvement Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Trustee"). See "THE CERTIFICATES – Authority for Execution and Delivery."

Purposes. The Certificates are being executed and delivered to (i) prepay and defease certain outstanding certificates of participation executed and delivered in 1999 in order to finance improvements to the City's system for the transportation, treatment and distribution of water (the "Water System"), (ii) finance the acquisition and construction of improvements to the Water System, (iii) provide a debt service reserve fund for the Certificates, and (iv) to pay certain costs of executing and delivering the Certificates. See "FINANCING PLAN."

Security for the Certificates. The Certificates evidence and represent direct, undivided fractional interests in certain Installment Payments (the "Installment Payments"), to be made by the City under an Installment Sale Agreement dated as of February 1, 2012 (the "Installment Sale Agreement"), between the City and the Corporation. The Corporation, for the benefit of the Owners of the Certificates, has assigned, among other things, its right to receive Installment Payments to the Trustee. The payment of Installment Payments is secured by a pledge of the Net Revenues of the Water System. See "SECURITY FOR THE CERTIFICATES."

Parity Obligations. The City's pledge of Net Revenues to the Installment Payments is on a parity with the City's pledge of Net Revenues to the payment of installment payments (the "2003 Installment Payments") securing a portion of the City's Certificates of Participation (2003 Refinancing Project) executed and delivered in 2003. See "SECURITY FOR THE CERTIFICATES – Outstanding Parity Debt." In addition, the Installment Sale Agreement authorizes the City to incur additional obligations in the future secured by a pledge of Net Revenues on a parity with the Installment Payments and the 2003 Installment Payments. See "SECURITY FOR THE CERTIFICATES – Limitations on Parity Debt."

Terms of the Certificates. The Certificates will be executed and delivered in denominations of \$5,000 principal amount or integral multiples thereof. Interest with respect to the Certificates accrues from their date of delivery and is payable semiannually on December 1 and June 1 of each year, commencing June 1, 2012 (each, an "Interest Payment Date"). See "THE CERTIFICATES – General."

Book-Entry Only. The Certificates will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive physical certificates representing their interest in the Certificates. The principal and premium (if any) on and interest with respect to the Certificates will be payable by the Trustee to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the Certificates. See "THE CERTIFICATES – Book-Entry System."

Prepayment. The Certificates are subject to optional prepayment prior to their scheduled payment dates as described in this Official Statement. See "THE CERTIFICATES – Prepayment of the Certificates."

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

MATURITY SCHEDULE

See inside front cover

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

The Certificates are offered when, as and if sold, executed and delivered, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Jones Hall is also serving as Disclosure Counsel to the City. Certain legal matters will be passed upon for the Corporation and the City by Walter & Pistole, Sonoma, California, City Attorney. It is anticipated that the Certificates in book-entry form, will be available for delivery to DTC in New York, New York, on or about February 23, 2012.



MATURITY SCHEDULE

\$8,025,000
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

(Base CUSIP[†]: 57339H)

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP [†]
2012	\$440,000	2.000%	0.350%	101.271%	EB6
2013	450,000	2.000	0.580	102.499	EC4
2014	455,000	2.000	0.750	103.422	ED2
2015	460,000	2.000	1.000	103.692	EE0
2016	475,000	3.000	1.150	108.565	EF7
2017	490,000	3.000	1.300	109.422	EG5
2018	505,000	3.000	1.600	108.950	EH3
2019	520,000	3.000	1.850	108.287	EJ9
2020	535,000	3.000	2.090	107.257	EK6
2021	555,000	4.000	2.300	114.799	EL4
2022	580,000	4.000	2.460	113.301 C	EM2
2023	600,000	4.000	2.570	112.285 C	EN0
2024	630,000	4.000	2.690	111.188 C	EP5
2025	655,000	4.000	2.790	110.283 C	EQ3
2026	675,000	4.000	2.900	109.298 C	ER1

C = priced to the optional par redemption date of December 1, 2021.

[†] Copyright 2012, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

CITY OF MARTINEZ, CALIFORNIA

City Council

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

Elected Officials

Carolyn L. Robinson, *City Treasurer*
Richard G. Hernandez, *City Clerk*

City Staff

Philip Vince, *City Manager*
Alan Shear, *Assistant City Manager*
Dave Scola, *Director of Public Works*
Don Salts, *Deputy Director Public Works*
Timothy Tucker, *City Engineer*

City Attorney

Walter & Pistole
Sonoma, California

Special Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement since the date hereof.

Limit of Offering. 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 herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Limited Scope of Information. The City has obtained certain information set forth herein from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Installment Sale Agreement and the Trust Agreement. The City maintains a website, but the information presented on the website is not a part this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

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

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

NO REGISTRATION. THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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OFFICIAL STATEMENT

\$8,025,000
CITY OF MARTINEZ
2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

The purpose of this Official Statement (which includes the cover page and the attached Appendices) is to provide information concerning the execution and delivery of the certificates of participation captioned above (the “**Certificates**”), evidencing and representing direct, undivided fractional interests of the registered owners thereof in certain Installment Payments (described herein) to be made by the City of Martinez (the “**City**”) to the Martinez Public Improvement Corporation (the “**Corporation**”).

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

Capitalized terms used but not defined in this Official Statement have the meanings set forth in APPENDIX A.

INTRODUCTION

Authority for Execution and Delivery. The Certificates are being executed and delivered under a Trust Agreement dated as of February 1, 2012 (the “**Trust Agreement**”), among the City, the Corporation and U.S. Bank National Association, as trustee (the “**Trustee**”). The Certificates evidence and represent direct, undivided fractional interests of the registered owners thereof (the “**Owners**”) in certain Installment Payments (the “**Installment Payments**”) to be made by the City under an Installment Sale Agreement, dated as of February 1, 2012 (the “**Installment Sale Agreement**”), between the City and the Corporation. See “THE CERTIFICATES – Authority for Execution and Delivery.”

Purposes. The Certificates are being executed and delivered to:

(i) prepay and defease certain outstanding certificates of participation executed and delivered in 1999 in order to finance improvements to the City’s system for the transportation, treatment and distribution of water (the “**Water System**”),

(ii) finance the acquisition and construction of improvements to the Water System,

(iii) provide a debt service reserve fund for the Certificates, and

(iv) to pay certain costs of executing and delivering the Certificates.

See "FINANCING PLAN."

Security for the Certificates. The Certificates evidence and represent direct, undivided fractional interests of the Owners in the Installment Payments to be made by the City pursuant to the Installment Sale Agreement. The payment of Installment Payments is secured by a pledge of the Net Revenues (as defined in this Official Statement) of the Water System. See "SECURITY FOR THE CERTIFICATES" and "REVENUES AND DEBT SERVICE COVERAGE - Pro Forma Statement of Revenues and Expenses."

Under the Trust Agreement, the Corporation will transfer, convey and assign to the Trustee, for the benefit of the Owners, substantially all of the Corporation's rights under the Installment Sale Agreement, including the right to receive Installment Payments from the City and the right to exercise any remedies provided therein in the event of a default by the City thereunder. See "SECURITY FOR THE CERTIFICATES"

Under the Installment Sale Agreement, the City will covenant to fix, prescribe and collect certain rates and charges for service provided by the Water System. See "SECURITY FOR THE CERTIFICATES – Rate Covenants."

Outstanding Parity Obligations. The City's pledge of Net Revenues to the Installment Payments is on a parity with the City's pledge of Net Revenues to the payment of installment payments (the "2003 Installment Payments") securing a portion of a series of certificates of participation captioned "\$7,795,000 Certificates of Participation (2003 Refinancing Project)" (the "2003 Certificates") executed and delivered in March 2003 under a Trust Agreement dated as of March 1, 2003, among the City, the Corporation and the Trustee. The 2003 Certificates evidence the right to receive installment payments payable by the City under an Installment Sale Agreement dated as of March 1, 2003, between the City and the Corporation, as well as the right to receive lease payments under a lease agreement between the City and the Corporation. See "SECURITY FOR THE CERTIFICATES – Outstanding Parity Debt."

Additional Parity Debt. The Installment Sale Agreement provides that the City may incur additional obligations secured by a pledge of Net Revenues on a parity basis with the 2003 Installment Payments and the Installment Payments only upon the satisfaction of certain conditions. See "SECURITY FOR THE CERTIFICATES – Limitations on Parity Debt."

Prepayment. The Certificates are subject to optional prepayment as described in this Official Statement. See "THE CERTIFICATES – Prepayment of the Certificates."

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

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

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

The City and the Corporation. The City is located northeast of San Francisco in Contra Costa County. For other selected information concerning the City, see “APPENDIX B - GENERAL INFORMATION ABOUT THE CITY OF MARTINEZ AND THE COUNTY OF CONTRA COSTA”.

The Corporation is a nonprofit public benefit corporation formed by the City in 1988. See “THE CORPORATION.”

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

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

FINANCING PLAN

The 2012 Project

A portion of the proceeds of the Certificates will be used to finance the acquisition and construction of certain improvements to the Water System (the “**2012 Project**”), which is defined in the Installment Sale Agreement as follows:

- major electrical projects at the Water Treatment Plant,
- structural reinforcement projects at the Water Treatment Plant,
- replacement of the Harbor View Reservoir, and
- any other capital improvement projects benefiting the Water System.

See “THE WATER SYSTEM – Projected Maintenance and Capital Improvements.”

Prepayment Plan

The City caused the execution and delivery of certain certificates of participation in the principal amount of \$6,040,000 on August 17, 1999 (the “**1999 Certificates**”), the proceeds of which were applied to finance improvements to the Water System (the “**1999 Project**”). The 1999 Certificates are secured by and payable from installment payments made by the City under an Installment Sale Agreement dated as of August 1, 1999 (the “**1999 Installment Sale Agreement**”), by and between the City and U.S. Bank National Association, as successor trustee for the 1999 Certificates.

The 1999 Certificates are currently outstanding in the aggregate principal amount of \$4,440,000, all of which will be defeased and prepaid, on a current basis, with a portion of the proceeds of the Certificates through the prepayment of all of the installment payments remaining due under the 1999 Installment Sale Agreement. The outstanding 1999 Certificates will be prepaid in full on March 26, 2012, at a prepayment price equal to the principal amount thereof, together with interest coming due and payable on the prepayment date, without premium.

In order to accomplish the prepayment plan, a portion of the proceeds of the Certificates will be deposited in an escrow fund to be established and held by the Trustee under the Trust Agreement (the “**Escrow Fund**”). The Trustee will hold all amounts in the Escrow Fund uninvested. The amount to be deposited in the Escrow Fund is sized to be sufficient to prepay the 1999 Certificates in full on March 26, 2012.

Estimated Sources and Uses of Funds

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

SOURCES:	
Principal Amount of Certificates	\$8,025,000.00
<i>Plus</i> Original Issue Premium	696,947.40
<i>Less</i> Underwriter’s Discount	<u>(52,162.50)</u>
TOTAL SOURCES	<u>\$8,669,784.90</u>
USES:	
Deposit into Project Fund	\$3,327,605.19
Deposit into Reserve Fund [1]	708,400.00
Deposit into Escrow Fund [2]	4,515,031.11
Costs of Issuance [3]	<u>118,748.60</u>
TOTAL USES	<u>\$8,669,784.90</u>

[1] See “SECURITY FOR THE CERTIFICATES – Reserve Fund” below.
 [2] To be used to defease and prepay the 1999 Certificates. See “–Prepayment Plan” above.
 [3] Includes fees of Special Counsel, Disclosure Counsel and Trustee, and other costs of executing and delivering the Certificates.

THE CERTIFICATES

This section provides summaries of the Certificates and certain provisions of the Trust Agreement. See "APPENDIX A – Summary of Principal Legal Documents" for a more complete summary of the Trust Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Authority for Execution and Delivery

The Certificates are being executed and delivered under the Trust Agreement, a resolution of the City Council adopted on December 21, 2011, and a resolution of the Board of the Corporation adopted on December 21, 2011. Under these resolutions, the Certificates may be executed and delivered in a maximum principal amount of \$9,000,000.

General Certificate Terms

Certificate Terms. The Certificates will be dated as of the date of original delivery, will bear interest at the rates per annum and will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement. The Certificates will be executed and delivered in fully registered form without coupons in denominations of \$5,000 principal amount or any integral multiple of \$5,000.

Book-Entry Only System. The Certificates, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("**DTC**"). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Certificates, all payments with respect to the Certificates will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. See "Book-Entry System" below.

Payments of Interest and Principal. The Trustee will pay interest represented by any Certificate, on any Interest Payment Date, to the person appearing on the Registration Books as the Owner thereof as of the close of business on the Record Date immediately preceding such Interest Payment Date or maturity date, as applicable, by check mailed on the applicable Interest Payment Date to such Owner by first class mail postage prepaid at such Owner's address as it appears on the Registration Books. However, at the written request of the Owner of Certificates in an aggregate principal amount or Denominational Amount of at least \$1,000,000, which written request is on file with the Trustee as of the Record Date preceding any Interest Payment Date, the Trustee will pay interest represented by such Certificates coming due on such Interest Payment Date or maturity date, as applicable, by wire transfer in immediately available funds to such account in the United States as specified in such written request.

The principal and prepayment price represented by any Certificate at maturity or upon prior prepayment is payable in lawful money of the United States of America upon surrender of such Certificate at the Trust Office of the Trustee.

Notwithstanding the foregoing, while the Certificates are held in the book-entry only system of DTC, all such payments of principal, premium (if any) of, and interest with respect to, the Certificates will be made to Cede & Co. as the registered owner of the Certificates, for subsequent disbursement to Participant and beneficial owners. See "APPENDIX F - BOOK ENTRY PROVISIONS."

Prepayment of the Certificates

Optional Prepayment. The Certificates maturing on or after December 1, 2022, are subject to optional prepayment in whole or in part on any date on or after December 1, 2021, from prepayments of the Installment Payments made at the option of the City under the Installment Sale Agreement. The Certificates are subject to optional prepayment at a prepayment price equal to the principal amount of Certificates or portions thereof to be prepaid, plus accrued interest represented thereby to the prepayment date, without premium.

Selection of Certificates for Prepayment. Whenever less than all Outstanding Certificates of any one maturity are called for prepayment, the Trustee will select Certificates for prepayment within such maturity by lot in any manner deemed fair by the Trustee. For the purposes of such selection, Certificates will be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid. The Trustee shall promptly notify the City and the Corporation in writing of the Certificates or portions thereof so selected for prepayment. The selection by the Trustee of any Certificates for prepayment is final and conclusive.

Notice of Prepayment. The Trustee will mail prepayment notice by first class mail, with postage prepaid, to (a) one or more of the Information Services, and (b) the Owners of Certificates designated for prepayment at their respective addresses appearing on the Registration Books. The Trustee shall mail such notice at least 30 days but not more than 60 days prior to the prepayment date. Neither the failure to receive any notice so mailed nor any defect in any notice so mailed affects the sufficiency of the proceedings for the prepayment of such Certificates or the cessation of accrual of interest represented thereby from and after the date fixed for prepayment.

However, while the Certificates are subject to DTC's book-entry system, the Trustee will be required to give notice of prepayment only to DTC as provided in the letter of representations executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such prepayment notice to the beneficial owners of the Certificates to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect, will not affect the validity of the notice of prepayment, or alter the effect of prepayment set forth in the Trust Agreement.

Rescission of Prepayment. The Corporation and the City have the right to rescind any optional prepayment by written notice to the Trustee on or prior to the date fixed for prepayment. Any such notice of optional prepayment will be canceled and annulled if for any reason funds are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation will not constitute an Event of Default under the Trust Agreement. The Trustee will mail notice of rescission of prepayment in the same manner notice of prepayment was originally provided.

Effect of Notice of Prepayment. If moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates have been set aside in the Installment Payment Fund, the Certificates will become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Trust Office of the Trustee, those Certificates will be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus any applicable premium and plus interest accrued and unpaid to the date of prepayment.

If, on the date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest represented thereby to the date of prepayment, are held by the Trustee so as to be available therefor on such date of prepayment, then, from and after the date of prepayment, interest represented by the Certificates will cease to accrue and become payable. All moneys held by the Trustee for the prepayment of Certificates will be held in trust for the account of the Owners of the Certificates so to be prepaid.

Book-Entry System

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

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

SCHEDULE OF INSTALLMENT PAYMENTS

The table below shows the annual Installment Payments and 2003 Installment Payments, which correspond to the payments of principal and interest with respect to the Certificates and the 2003 Certificates.

Bond Year Ending (Dec. 1)	2003 Certificates Total Debt Service	2012 Certificates Principal	2012 Certificates Interest	2012 Certificates Total Debt Service	Total Parity Debt Service
2012	\$460,051.26	\$440,000	\$200,507.50	\$640,507.50	\$1,100,558.76
2013	462,626.26	450,000	250,850.00	700,850.00	1,163,476.26
2014	459,213.76	455,000	241,850.00	696,850.00	1,156,063.76
2015	460,153.76	460,000	232,750.00	692,750.00	1,152,903.76
2016	465,143.76	475,000	223,550.00	698,550.00	1,163,693.76
2017	464,062.50	490,000	209,300.00	699,300.00	1,163,362.50
2018	452,400.00	505,000	194,600.00	699,600.00	1,152,000.00
2019	--	520,000	179,450.00	699,450.00	699,450.00
2020	--	535,000	163,850.00	698,850.00	698,850.00
2021	--	555,000	147,800.00	702,800.00	702,800.00
2022	--	580,000	125,600.00	705,600.00	705,600.00
2023	--	600,000	102,400.00	702,400.00	702,400.00
2024	--	630,000	78,400.00	708,400.00	708,400.00
2025	--	655,000	53,200.00	708,200.00	708,200.00
2026	--	675,000	27,000.00	702,000.00	702,000.00
TOTAL	\$3,223,651.30	\$8,025,000	\$2,431,107.50	\$10,456,107.50	\$13,679,758.80

SECURITY FOR THE CERTIFICATES

This section provides summaries of the security and sources of payment for the Certificates and certain provisions of the Trust Agreement and Installment Sale Agreement. See "APPENDIX A – Summary of Principal Legal Documents" for a more complete summary of the Trust Agreement and Installment Sale Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

General

Installment Payments. Each Certificate evidences and represents a direct, undivided fractional interest of the Owner thereof in the Installment Payments to be made by the City under the Installment Sale Agreement.

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

Installment Payments

The Installment Sale Agreement requires the City to make semi-annual payments of Installment Payments three Business Days before each Interest Payment Date (each, an "**Installment Payment Date**"), in amounts as specified in the Installment Sale Agreement. As a result of the assignment by the Corporation to the Trustee, the City will pay the Installment Payments directly to the Trustee

Under the Installment Sale Agreement, the City will pledge all "Net Revenues" of the Water System, and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Trust Agreement, to the punctual payment of the Installment Payments. This pledge constitutes a security interest in and lien on the Net Revenues and such other moneys for the payment of the Installment Payments, on a parity with the pledge and lien which secures the 2003 Installment Payments and any Parity Debt.

"**Net Revenues**" is defined, for any period, as an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

"**Gross Revenues**" is defined, for any period of computation, as all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Water System or otherwise arising from the Water System during such period, including but not limited to

- (a) all Charges received by the City for use of the Water System,
- (b) all receipts derived from the investment of funds held by the City or the Trustee under the Trust Agreement,
- (c) transfers from (but exclusive of any transfers to) any rate stabilization reserve accounts, and

(d) all moneys received by the City from other public entities whose inhabitants are served by the Water System pursuant to contracts with the City.

“Maintenance and Operation Costs” is defined as the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with sound accounting principles, and all reasonable and necessary expenses of management and repair and other expenses to maintain and preserve the Water System in good repair and working order, and including all costs of purchasing water, costs of reasonable and necessary administrative costs of the City attributable to the Water System and the Water Revenue Obligations, such as salaries and wages and the necessary contribution to retirement of employees, overhead, insurance, taxes (if any), expenses, compensation and indemnification of the Trustee, and fees of auditors, accountants, attorneys or engineers, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Water Revenue Obligations or this Trust Agreement, but excluding depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Unconditional Obligations to Pay Installment Payments. The obligations of the City to make the Installment Payments from the Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Corporation or the Trustee of any obligation to the City or otherwise with respect to the Water System, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Corporation or the Trustee.

Until all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable under the Installment Sale Agreement have been fully paid or prepaid, the City

(a) will not suspend or discontinue payment of any Installment Payments, Additional Payments or such other amounts,

(b) will perform and observe all other agreements contained in the Installment Sale Agreement, and

(c) will not terminate the Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water System, failure to complete the acquisition and construction of the 2012 Project by the estimated completion date thereof, sale of the Water System, the taking by eminent domain of title to or temporary use of any component of the Water System, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State of California or any political subdivision of either thereof, or any failure of the Corporation or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Trust Agreement or the Installment Sale Agreement.

Application of Revenues

In order to effectuate the pledge and lien of Net Revenues to payment of the Installment Payments and any Parity Debt, under the Installment Sale Agreement the City will covenant and agree that all Gross Revenues, when and as received, will be received and held by the City in trust and will be deposited by the City in its Water Revenue Fund (the “**Water Revenue Fund**”), and will be accounted for through and held in trust in the Water Revenue Fund, and the City will only have such beneficial right or interest in any of such money as provided in the Installment Sale Agreement. All Gross Revenues will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

Under the Installment Sale Agreement, all Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth below:

(1) Maintenance and Operation Costs. The City will first pay from the moneys in the Water Revenue Fund the budgeted Maintenance and Operation Costs as they become due and payable.

(2) Installment Payment Fund. On or before the 3rd Business Day before each Interest Payment Date, beginning the 3rd Business Day before June 1, 2012, the City will transfer from the Water Revenue Fund to the Trustee for deposit in the Installment Payment Fund an amount equal to the next occurring Installment Payment.

All interest earnings and profits or losses on the investment of amounts in the Installment Payment Fund (described below) will be deposited in or charged to the Installment Payment Fund and applied to the purposes thereof. No transfer and deposit need be made into the Installment Payment Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Installment Payments to become due on the next Installment Payment Date.

(3) Reserve Fund. After making the payments, allocations and transfers described in subsections (1) and (2) above, if the Trustee has made a draw on the Reserve Fund to make an Installment Payment, the Reserve Fund will be restored by the City to the fund balance of the Reserve Fund immediately prior to such draw, by transfers from the first moneys which become available in the Water Revenue Fund to the Trustee for deposit in the Reserve Fund.

(4) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner described above in subsections (2) and (3), any moneys remaining in the Water Revenue Fund may at any time be treated as surplus and applied for any lawful purpose.

Limited Obligations

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

FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Outstanding Parity Debt

2003 Certificates. The 2003 Certificates were executed and delivered in March 2003 in the original principal amount of \$7,795,000, and mature in 2018.

From their issuance date through December 1, 2013, the 2003 Certificates are secured by and payable from a combination of the 2003 Installment Payments, which are secured by a pledge of Net Revenues on a parity with the pledge securing the Installment Payments, and lease payments made by the City under a lease agreement between the City and the Corporation. Thereafter, the 2003 Certificates will be secured solely by the 2003 Installment Payments.

The 2003 Certificates are currently outstanding in the principal amount of \$3,280,000, of which \$2,780,000 is attributable to the Water Fund. See the notes to the Water System financial statements attached as APPENDIX C.

Authorized but Unissued Debt. The City has previously issued revenue bonds secured by revenues of the Water System as authorized by the electorate at a bond election held on June 7, 1966. These bonds have been fully retired. Of this voter-approved bond authorization, \$1,400,000 remained authorized but unissued as of June 30, 2011. See the notes to the Water System financial statements attached as APPENDIX C.

Limitations on Parity Debt

General. Under the Installment Sale Agreement, the City may issue “**Parity Debt**” (defined as bonds, notes or other obligations (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred under the Installment Sale Agreement) only in compliance with the conditions set forth in the Installment Sale Agreement and described below.

Parity Debt. Under the Installment Sale Agreement, in addition to the 2003 Installment Payments and the Installment Payments, the City may, by Parity Debt Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues, to provide financing for the Water System, in such principal amount as determined by the City.

The City may issue or incur any such Parity Debt subject to the specific conditions set forth in the Installment Sale Agreement, which are made conditions precedent to the issuance and delivery of such Parity Debt, as follows:

(a) The City must be in compliance with all covenants set forth in the Installment Sale Agreement.

(b) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Parity Debt Instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items described in paragraphs (i)

and (ii) below, must at least equal 125% of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Water Revenue Obligations to be Outstanding immediately subsequent to the issuance of such Parity Debt that have a lien on Net Revenues of the Water System.

The items that may be added to Net Revenues for the purpose of issuing or incurring Parity Debt are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be made with the proceeds of such Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such 12-month period, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown in the written report of an Independent Consultant engaged by the City.

(ii) An allowance for earnings arising from any increase in the Charges that has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown in the written report of an Independent Consultant engaged by the City.

(c) The Parity Debt Instrument providing for the issuance of such Parity Debt must provide that the proceeds of such Parity Debt will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Water System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Water System, or for the purpose of refunding any Water Revenue Obligations in whole or in part, including all costs (including costs of issuing such Parity Debt and including capitalized interest on such Parity Debt during any period which the City deems necessary or advisable) relating thereto.

Governmental Loans. The City may borrow money from a Governmental Agency and incur a Governmental Loan to finance improvements to the Water System. A Governmental Loan may be treated as Parity Debt for purposes of the Installment Sale Agreement, so long as the City complies with the conditions for incurring Parity Debt contained the Installment Sale Agreement (and described above) before incurring a Governmental Loan.

Senior and Subordinate Obligations

No Senior Obligations. The City may not issue or incur any additional bonds or other obligations during the Term of the Installment Sale Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments.

Subordinate Obligations. Nothing in the Installment Sale Agreement limits or affects the ability of the City to issue or incur (a) Parity Debt under the Installment Sale Agreement, or (b) obligations that are either unsecured or that are secured by an interest in the Net Revenues that is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Installment Sale Agreement.

Rate Covenants

The City will make the following covenants in the Installment Sale Agreement with respect to Charges for the Water System:

Sum Sufficient. The City will fix, prescribe, revise and collect Charges for the Water System during each Fiscal Year that are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

(i) all Maintenance and Operation Costs of the Water System estimated by the City to become due and payable in that Fiscal Year;

(ii) the Debt Service on the Water Revenue Obligations (i.e., the Installment Payments, the 2003 Installment Payments, and any future Parity Debt);

(iii) all other payments required for compliance with the Installment Sale Agreement and the Parity Debt Instrument under which any Parity Debt relating to the Water System is issued; and

(iv) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

Coverage Covenant Excluding Connection Fees and Transfers. The City will fix, prescribe, revise and collect Charges for the Water System (exclusive of connection fees and transfers to the Water Revenue Fund from a rate stabilization fund, should one be established) during each Fiscal Year that are sufficient to yield Net Revenues of the Water System at least equal to 100% of the Debt Service on the Water Revenue Obligations in that Fiscal Year.

Coverage Covenant on All Net Revenues. The City will fix, prescribe, revise and collect Charges for the Water System during each Fiscal Year that are sufficient to yield Net Revenues of the Water System at least equal to 125% of the Debt Service on the Water Revenue Obligations in that Fiscal Year.

Reserve Fund

Establishment and Reserve Amount. Under the Trust agreement, the Trustee will establish and maintain a special fund designated as the “**Reserve Fund**” to be held by the Trustee in trust. The Reserve Fund will be initially funded in an amount equal to \$708,400.00, which equals the Reserve Requirement with respect to the Certificates as of the Closing date. See “FINANCING PLAN – Estimated Sources and Uses of Funds.”

The City will maintain in the Reserve Fund at all times an amount equal to the “Reserve Requirement,” as defined below. Any deficiency therein will be replenished from the first

available Net Revenues under the Installment Sale Agreement. The Trust Agreement defines “Reserve Requirement” as the least of:

- (i) Maximum Annual Debt Service under the Installment Sale Agreement;
- (ii) 10% of the principal amount of the Certificates; or
- (iii) 125% of Average Annual Debt Service under the Installment Sale Agreement.

Disbursements. If on any Interest Payment Date the moneys available in the Installment Payment Fund are not at least equal to the amount of the Installment Payment then coming due and payable, the Trustee will withdraw the amount of the deficiency from the Reserve Fund and apply such funds to make such payments on behalf of the City by transferring the amount necessary for this purpose to the Installment Payment Fund.

See APPENDIX A for a further description of the circumstance under which funds will be disbursed from the Reserve Fund.

Additional Covenants Regarding Water System

Under the Installment Sale Agreement the City will make certain covenants regarding the Water System that include, among others, the following. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Installment Sale Agreement”.

Operation of the Water System. The City will covenant and agree to operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

Sale or Eminent Domain of Water System. Except as provided in the Installment Sale Agreement, the City will covenant that the Water System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the City to pay the Installment Payments or the principal of or interest on any Parity Debt, or would materially adversely affect its ability to comply with the terms of the Installment Sale Agreement or any Parity Debt Instruments. The City may not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments or any Parity Debt, or which otherwise would impair the rights of the Certificate Owners or the Trustee with respect to the Net Revenues.

If any substantial part of the Water System is sold, the payment therefore shall either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied on a pro rata basis to (i) prepay the Installment Payments on the next available prepayment date, and (ii) prepay any Parity Debt in accordance with the related Parity Debt Instrument.

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

rata basis to (i) prepay the Installment Payments on the next available prepayment date, and (ii) prepay any Parity Debt in accordance with the related Parity Debt Instrument.

Insurance. The City will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System.

All amounts collected from insurance against accident to or destruction of any portion of the Water System shall be used, at the option of the City, either

(a) to repair or rebuild such damaged or destroyed portion of the Water System,
or

(b) to prepay on a pro rata basis (i) the Installment Payments on the next available prepayment date, and (ii) any Parity Debt in accordance with the related Parity Debt Instrument.

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

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

THE WATER SYSTEM

History

On May 26, 1887, a franchise to operate a water system was obtained by the West Hill Water and Electric Light Company from the Town of Martinez. The water system supplied the Town of Martinez and consisted of seven wells. On December 7, 1898, the Port Costa Water Company purchased the system. The Port Costa Water system included a group of wells and a pumping station near Concord. The Port Costa Water Company abandoned this source in 1911 and a new supply of water was obtained from seven artesian wells and a new pumping plant.

The Town of Martinez purchased the distribution system in 1918 from the Port Costa Water Company who agreed to furnish water to Martinez at wholesale rates on a metered basis. At that time the distribution system included about 9 miles of pipe.

The California Water Service Company purchased the Port Costa Water Company holdings on April 19, 1927. In 1930, the California Water Service Company completed construction of a rapid sand filter plant and a 1-million-gallon storage reservoir and began treatment of water pumped from the Sacramento River. They continued to provide Martinez with water until June 15, 1949. At that time, the City of Martinez put its newly completed rapid sand filter plant in use and began taking water from the terminal reservoir of Contra Costa Canal.

Management

The management of the Water System is the responsibility of the Public Works Department for both construction and the maintenance and operation. The Department has three Division Managers – Engineering, Public Works and Water – with various responsibilities of constructing, maintaining and operating the system.

Water Superintendent. The Water Superintendent manages the operations and maintenance of the treatment plant, pump stations, reservoirs and meter reading of the system. This Division has 11 full-time equivalent employees involved in the Water System.

Public Works Superintendent. The Public Works Superintendent is responsible for maintaining the water distribution system and has 8 full-time equivalent employees assigned to this duty.

City Engineer. The City Engineer is responsible for the design and construction of water projects and has a staff of 3 engineers.

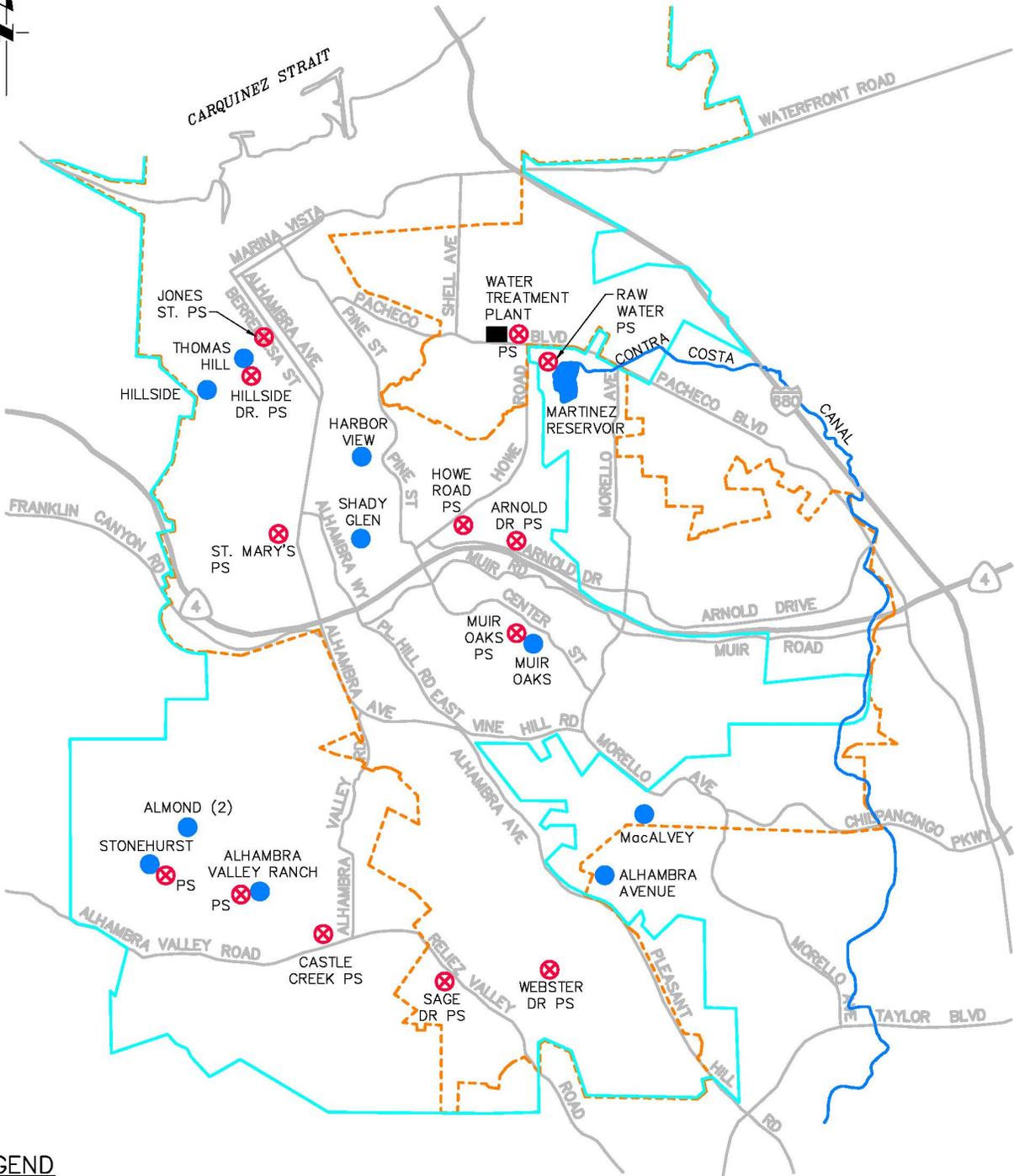
The Finance Department is responsible for billing and collecting all water bills.

Labor Relations

Local Laborers' 324 represents various miscellaneous classifications of City staff and a recent labor agreement has been ratified and will expire June 30, 2015. This labor agreement will go to Council for approval on February 15, 2012. Any modifications to expenditures have been accounted for in the projections in this Official Statement.

Service Area

The City is the primary provider of water service within the corporate limits of the City and small areas in unincorporated Contra Costa County and the City of Pleasant Hill along the City's northeast, southeast, and southwest borders. The Water System's service area encompasses over 10,000 acres (or approximately 16 square miles), serving a population of approximately 37,000. A map of the Water System's service area is on the following page.



LEGEND

- CITY LIMITS
- WATER SERVICE BOUNDARY
- ⊗ PUMP STATION (PS)
- RESERVOIR

0 1/4 1/2 1 MILE

PSOMAS

6MAR1704FIG2-1
KWM 1/11/11



CITY OF
MARTINEZ

CITY OF MARTINEZ
2010 UWMP UPDATE

WATER SERVICE AREA
AND FACILITY LOCATIONS

FIGURE NO.

2-1

JOB NO.
6MAR1704

Water Storage and Distribution System

The Water System's treatment, storage and distribution system currently consists of one treatment plant, 11 reservoirs and approximately 100 miles of distribution lines.

The Water System currently treats and delivers an average of approximately 4.0 mgd,¹ with a rated treatment capacity of 14.7 mgd during high use periods. The peak use day for the Water System to date has been 10.2 million gallons.

The Water System presently has a reservoir capacity of approximately 9.33 million gallons of treated water.

Sources of Water Supply

The City purchase its supply of untreated water from the Contra Costa Water District (the "**Water District**"), which is delivered through the Contra Costa Canal to the Martinez Reservoir near the City's water treatment plant.

The City purchases water based on the Water District's rate structure per unit of water delivered. The City has received all of its untreated water supply from the Water District since 1949, and has no other water supply providers and no other developed water sources.

The City does not have a contract with the Water District for a fixed water delivery amount. Rather, the City purchases water in an amount equal to projected demand.

During periods of drought, CCWD has established supply limits based on a percentage of the demand from the previous years. In addition, the Water District has instituted a water conservation plan for its customers, known as the 20 x 2020 Water Conservation Plan, that mandates regional per capita reductions in water consumption.

The Water District

The information in this section regarding the Water District has been obtained from sources that the City and the Corporation believe to be reliable, but the City and the Corporation take no responsibility for the accuracy or completeness hereof.

Background. The Water District was formed in 1936 in response to the growing water demands of the County. The Water District purchases and distributes water provided primarily by the United States Bureau of Reclamation (the "**Bureau of Reclamation**") from the Federal Government's Central Valley Project (the "**CVP**"). The backbone of the Water District's distribution system is the 48-mile Contra Costa Canal, which transports water from screened intakes in the Sacramento-San Joaquin Delta (the "**Delta**") to the Water District's treatment plants and municipalities, industry, and local water companies.

The Water District stores untreated water in four reservoirs, the largest of which, Los Vaqueros, has a current capacity of 100,000 acre-feet, and operates three water treatment plants. The Water District delivers water to approximately 500,000 people in its service area.

¹ Million gallons per day.

Water District Sources of Supply. The Water District has four sources of water supply that provide a total maximum entitlement of 329,830 acre-feet, as summarized and further described below.

Central Valley Project Contract. The Water District obtains most of its untreated water supply from the CVP by diversion from the San Francisco Bay Delta under a long-term contract with the Bureau of Reclamation. The Water District's annual quantity of water available from the CVP is 195,000 acre feet.

The water is diverted from the Delta at Rock Slough on the south side of the San Joaquin River, Old River near Discovery Bay, Middle River near Victoria Island, or the Freeport Intake on the Sacramento River. Water may also be diverted at Mallard Slough depending on water quality and availability. Diverted water is conveyed to the Water District's water treatment facilities and its untreated water distribution system through the Contra Costa Canal.

The Water District's existing Bureau of Reclamation contract provides for water deliveries through 2045. The Bureau of Reclamation contract provides that it may be extended under terms and conditions agreeable to the parties for successive periods not to exceed 40 years each.

The shortage provision under the Bureau of Reclamation Contract establishes a firm water delivery "floor" in the event of shortages. No reduction in the water available to the Water District can occur unless the Bureau of Reclamation has declared that a shortage exists and has imposed significant reductions in deliveries to irrigation users. If the Bureau of Reclamation is unable to make full deliveries due to water shortage, the Water District's supply may not be less than 75% of historical use. If the Bureau of Reclamation determines that a water shortage emergency exists and that the shortage is so severe that CVP agricultural water users' allocations are reduced below 25%, the Water District's supply can be reduced to not less than 65% of historical use, which is the quantity estimated to be sufficient to satisfy public health and safety requirements as set forth in the Water District's current water shortage contingency plan.

Mallard Slough Water Right. The Water District obtains untreated water from Mallard Slough in the Delta under a State water rights permit and license. The Water District diverts untreated water from Mallard Slough, which is closer to San Francisco Bay than the Water District's other water diversion points, when the water quality is better than the Water District's minimum quality standards. The Water District is permitted to divert up to 26,780 acre-feet per year from Mallard Slough.

Los Vaqueros Water Right. The Water District is entitled to divert up to 95,850 acre-feet per year from the Delta under a State Water Resources Control Board decision issued in 1994.

East Contra Costa Irrigation District Contract. The Water District entered into an agreement with the East Contra Costa Irrigation District in 1999 that provides a permanent entitlement of 8,200 acre feet annually, which may be used in the overlapping service areas of the two districts, and an additional 4,000 acre-feet annually to be available to the Water District in shortage periods.

Water Quality and Water Quality Regulations. Water quality at the Rock Slough, Mallard Slough, Old River, and Middle River diversion points is highly variable. It is affected by seawater intrusion during periods of low fresh water inflow. It is also subject to seasonal variations due to drainage or runoff from tributary agricultural areas. The Water District's water supply is also vulnerable to Delta emergencies including those from chemical spills, agricultural discharge and levee failures. Sea water intrusion, which increases the mineral content of the water, occurs between summer and mid-winter, when flows in the Sacramento and San Joaquin Rivers are at a seasonal low.

The Water District is required to comply with the growing list of drinking water standards under the 1996 amendments to the federal Safe Drinking Water Act and additional State-specific regulations developed by the California Department of Public Health.

In addition, the availability of water supplies to the Water District could be affected in the future by the CALFED Bay-Delta Program, a program developed by a consortium of 20 State and Federal agencies (known as CALFED) to implement a long-term comprehensive plan intended to restore ecological health and improve water management for beneficial uses of the Bay-Delta System.

Historical Water Deliveries

The table below sets forth a five-year history of water deliveries from the Contra Costa Water District measured in acre-feet.

Table 1
WATER DELIVERIES
(in acre-feet²)
Fiscal Years 2006-07 through 2010-11

2006-07	2007-08	2008-09	2009-10	2010-11
5,904	5,387	4,788	4,203	4,267

Source: City of Martinez.

Water Demand and Demand Management

On average, the City provides its customers with 3.8 mgd. Demand is below aggregate entitlements of 10.2 mgd, although demand experiences seasonal fluctuation, with higher consumption in the summer months and lower consumption in the fall and winter months.

The City's water demand management practices are detailed in its Urban Water Management Plan, which is updated every five years and was most recently adopted on June 1, 2011. Among other components, the Urban Water Management Plan provides an urban water shortage contingency analysis and a four-stage rationing plan, which involves both voluntary and mandatory rationing that could lead to a reduction in water use of up to 50%. The rationing stage implemented depends on the level of restrictions imposed on the City by its water

² An acre-foot is a volume of water that will cover an acre to a depth of one foot, and equals 43,560 cubic feet, or approximately 325,851 gallons.

supplier, the Contra Costa Water District. A water crisis within the water service area could also cause the shortage conditions and implementation of any rationing stage as appropriate.

Proposed measures to overcome revenue impacts of water rationing include development of reserves and imposition of a water use surcharge (as was done during the 1991 drought). The City bases its Water System budget on previous-year use and anticipated drought conditions. Revenue reductions caused by a reduction in water usage could be made up from reserves, or a water use surcharge. The City does not anticipate that significant expenditures would be required for implementing ordinary water conservation measures during a drought.

Environmental and Regulatory Issues Relating to the Water System

In order to ensure that tap water is safe to drink the United States Environmental Protection Agency (“**USEPA**”) and the California Department of Public Health (“**CDPH**”) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems.

The City has identified potential environmental issues with regards to a portion of the water supply that comes through the Sacramento-San Joaquin River Delta, which faces several significant environmental challenges primarily related to the protection of endangered species. The State passed legislation in late 2009 providing a plan for the restoration of the San Francisco Bay Delta ecosystem, the addition of surface and groundwater supply, and improvement of local supplies.

The Water System is in compliance with all current regulatory requirements. The City does not conduct separate testing of groundwater and purchased water, but rather periodically tests the water quality of the Water System as a whole. Water quality testing conducted in 2010 by the City met or exceeded water quality standards set by CDPH and USEPA.

The City is not aware of any environmental or regulatory issues that would materially adversely impact the Water System or interfere with the City’s ability to generate Net Revenues sufficient to pay the Installment Payments.

Projected Maintenance and Capital Improvements

General. In 2005 the City developed a Water System Master Plan, which evaluated water storage and distribution conditions and capacity. The Water System Master Plan is the guide used to develop the long-term capital improvement program for the Water System.

The Water System Master Plan recommend conducting a separate Master Plan for the Water Treatment Plant, which is in draft form is scheduled for adoption by the City Council on February 15, 2012. The recommended improvements in the draft plan were utilized in developing the projected improvements listed in Table 2 below.

Major Anticipated Capital Improvements. An overview of major anticipated categories of capital projects for the Water System is shown in the table below.

Specific projects in the capital improvement program for the Water System include:

- water main replacement projects,

- water main extension projects (including Alhambra Hills Drive, Palm Avenue, Muir Road and Morello Avenue),
- water storage projects (including Hillside Reservoir access and Webster Drive Hydropneumatic System Replacement project),
- a system-wide water meter replacement project, and
- Water Treatment Plant improvements (including major electrical improvements throughout the plant, chemical storage improvements, instrumentation upgrades, ozone system upgrades and piping, and valve and pump replacement).

The City expects to finance these projects partially with available revenues on a pay-as-you-go basis and partially with a portion of the proceeds of the Certificates. See “FINANCING PLAN” above. It is possible that the City may issue Parity Debt or Governmental Loans in the future for capital improvements to be made after 2015-16.

The table below summarizes the City’s projected capital improvement plan for the Water System over the next five years.

Table 2
Capital Improvement Program Summary
(\$000s)

	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Water Supply	\$1,400	\$ --	\$ --	\$ --	\$ --	\$1,400
Water Treatment Plant	--	4,000	1,461	1,099	1,083	7,643
Transmission/Distribution Systems	585	690	950	2,630	2,850	7,705
Treated Water Storage [1]	3,500	--	--	--	--	3,500
Other Water Capital Projects	100	--	--	--	--	100
Total	\$5,585	\$4,690	\$2,411	\$3,729	\$3,933	\$20,348

[1] Anticipated to be funded with a portion of the proceeds of the Certificates. See “FINANCING PLAN” above.

Source: City of Martinez.

Customer Base

Active Water Service Connections. The table below sets forth a five-year summary of active water service connections for the Water System.

Table 3
Active Water Service Connections

Year	Number of Accounts
2006-07	9,886
2007-08	9,905
2008-09	9,878
2009-10	9,858
2010-11	9,928

Source: City of Martinez.

Customer Base Summary. The following table summarizes the number of accounts, consumption, and revenues for the Water System by type of customer for active water accounts during Fiscal Year 2010-11.

Table 4
Summary of Water Accounts, Usage and Revenues by Customer Type
Fiscal Year 2010-11

Customer Type	Number of Accounts	Consumption (cubic feet)	% of Total	Revenues [1]	% of Total
Residential					
Single-family	8,664	102,200,400	61%	\$3,455,240	62%
Multi-family	464	19,106,700	11	643,541	11%
Non-Residential					
Commercial	369	13,975,500	8	462,925	8%
Industrial	11	6,922,300	4	193,616	3%
Irrigation	149	10,632,200	6	355,326	6%
Other Agencies [2]	271	16,282,100	10	542,066	10%
Total	9,928	169,119,200 [3]	100%	\$5,652,714	100%

[1] Represents all water sales revenues based only on water consumption, and excludes revenues from service charges and fire service.

[2] Represents Fire Service, Public Agencies and City Domestic.

[3] Variation from the total consumption shown in Table 5 below results from different record-keeping systems used to derive the data.

Source: *City of Martinez.*

Largest Users. The following table shows the top ten water users in the City based on water consumption in Fiscal Year 2010-11.

**Table 5
Top Ten Customers by
Water Consumption (in HCF)
Fiscal Year 2010-11**

Customer Name	Customer Type	Consumption (hcf)	% of Total
Contra Costa County	Public	98,209	5.79%
Rhone-Poulenc Basic Chemical	Industrial	54,520	3.22
City of Martinez	Public	53,212	3.14
Shell Oil Products US	Industrial and Commercial	32,447	1.91
Martinez Unified School District	Public	24,626	1.45
Vine Hill Homeowners' Association	Multi-Unit and Irrigation	16,997	1.00
Country Village Homeowners' Association	Multi-Unit and Irrigation	14,350	0.85
Kaiser Permanente	Commercial	12,209	0.72
John Muir Homes	Multi-Unit	10,790	0.64
Valley Homeowners' Association	Multi-Unit and Irrigation	10,776	0.64
Subtotal Top Ten:		328,136	19.36
All Others		1,366,679	80.64
Total [1]		1,694,815	100.00%

[1] Variation from the total consumption shown in Table 4 above results from different record-keeping systems used to derive the data.

Source: City of Martinez.

Water Rates and Charges

Rate-Setting Process. The City establishes water rates through a 45-day notice and public hearing process in compliance with Proposition 218. See "RISK FACTORS – Proposition 218." With the last water rate process the rates were indexed to the cost increase of raw water purchases. The annual water rate index increase has been between 2.5% and 3.5%.

Water Rate Structure. The City's water rates are based on water service meter fees and usage fees. Usage fees are adjusted to include pumping costs to various pressure zones. In addition backflow prevention devices and fire service charges are assessed where appropriate. New construction is assessed connection fees to pay for its fair share of the existing infrastructure providing service to the site.

The table below shows a 4-year history of water service charges for the Water System, which reflect the annual inflationary adjustment for each water rate class that commenced January 1, 2010. See “–Historical and Projected Rate Increases” below.

Table 6
Water Rate Structure

	Effective Jan. 1, 2009	Effective Jan. 1, 2010	Effective Jan. 1, 2011	Effective Jan. 1, 2012
Monthly Service Charge by Meter Size [1]				
Lifeline -- 5/8 inch	\$11.25	\$11.56	\$11.90	\$12.31
5/8 inch	22.50	23.12	23.80	24.62
Combined residential fire sprinkler domestic	28.97	29.76	30.62	31.69
1 inch	50.58	51.97	53.48	55.35
1-1/2 inch	97.38	100.06	102.96	106.56
2 inch	153.55	157.77	162.35	168.03
3 inch	303.31	311.65	320.69	331.91
4 inch	471.79	484.76	498.82	516.28
6 inch	939.81	965.65	993.65	1,028.43
8 inch	1,688.63	1,735.07	1,785.39	1,847.88
10 inch	2,718.26	2,793.01	2,874.01	2,974.60
Volume and Pumping Charge [2]				
Zone 1	3.17	3.24	3.32	3.43
Zone 2	3.35	3.43	3.52	3.64
Zone 3	3.49	3.57	3.66	3.78
Zone 4	3.68	3.77	3.87	4.00
Zone 5 [3]	N/A	N/A	N/A	N/A
Private Fire Protection Service Charge				
2 inch or smaller	38.27	39.32	40.46	41.88
3 inch	72.76	74.76	76.93	79.62
4 inch	111.56	114.63	117.95	122.08
6 inch	219.34	225.37	231.91	240.03
8 inch	391.79	402.56	414.23	428.73
10 inch	628.91	646.21	664.95	688.22
12 inch	930.70	956.29	984.02	1,018.46

[1] Monthly service charge.

[2] By hundred cubic feet. Represents the combined volume charge and pumping charge for each Zone.

[3] Not subject to volume and pumping charges because no water sales in this zone.

Source: *City of Martinez*.

Connection Fees

Fee Structure. The City charges connection fees for new residential and non-residential construction and development. The table below sets forth the Water System's connection fee structure effective April 1, 2011.

Table 7
Connection Fees
Single Family Residential (single unit)

	Effective Jan. 1, 2009	Effective Jan. 1, 2010	Effective April. 1, 2011
Residential			
Charge per dwelling unit for 1st unit	\$6,300	\$6,368	\$6,524
Charge per dwelling unit for 2nd unit on same parcel	3,150	3,184	3,262
Charge per dwelling unit for combined residential/fire sprinkler service	11,025	11,144	11,416
Non-Residential			
5/8 inch	6,300	6,368	6,524
1 inch	15,750	15,920	16,309
1-1/2 inch	31,500	31,840	32,618
2 inch	50,400	50,945	52,189
Dual 1-1/2 inch	63,000	63,681	65,237
Dual 2 inch	100,800	101,889	104,379
3 inch	100,800	101,889	104,379
4 inch	157,500	159,202	163,092
6 inch	315,000	318,404	326,184
8 inch	724,500	732,330	750,224
10 inch	894,600	904,268	926,363
Per gallon on peak day water use	4.93	4.98	5.10

Source: City of Martinez.

Connection Fee Revenues. During the last five years, connection fee revenues have averaged approximately 1% of total Water System revenues.

Historical and Projected Rate Increases

In 2007, the City Council adopted a revised rate structure for the Water System, which implemented the percentage rate increases effective May 1, 2007, January 1, 2008 and January 1, 2009, as set forth in the table below, and annual inflationary increases thereafter.

**Table 8
Water Rate Changes
2007 through 2009**

	Effective May 1, 2007	Effective Jan. 1, 2008	Effective Jan. 1, 2009
Monthly Service Charge by Meter Size [1]			
Lifeline -- 5/8 inch	40.03%	19.48%	17.55%
5/8 inch	5.14%	6.09%	5.88%
Combined residential fire sprinkler domestic	(4.78%)	8.71%	4.51%
1 inch	(0.16%)	6.48%	6.22%
1-1/2 inch	(2.08%)	6.64%	6.36%
2 inch	(2.80%)	6.69%	6.40%
3 inch	(3.43%)	6.74%	6.44%
4 inch	(3.65%)	6.76%	6.46%
6 inch	(3.85%)	6.77%	6.48%
8 inch	(3.95%)	6.78%	6.48%
10 inch	(3.99%)	6.79%	6.49%
Volume Charge [2]	6.25%	6.67%	6.25%
Pumping Charge			
Zone 1	8.00%	0.00%	3.70%
Zone 2	7.32%	2.27%	2.22%
Zone 3	(6.67%)	3.57%	3.45%
Zone 4	(19.35%)	2.67%	2.60%

Source: City of Martinez.

See “–Water Rates and Charges” above for a history of the water rates effective as of January 1, 2009, 2010 and 2011.

Future Rate Increases. Beginning on January 1, 2010, water rates may be adjusted by an inflationary factor, as follows:

Monthly service charges, volume and pumping charges, and private fire protection service: adjusted annually by the same percentage of increase of untreated water costs. Increases are limited to annual changes in rates between 0% to 5% in any one year.

Water connection fee and backflow prevention: adjusted annually by the previous calendar-year increase in Construction Costs as listed for the San Francisco Bay Area by Engineering News Records. Increases are limited to annual changes in rates between 0% to 5% in any one year.

These annual inflationary increases will continue until modified by the City Council.

Billing, Collection and Delinquencies

Billing and Collection Procedure.

The City bills for water service bi-monthly. Bills for service are due and payable 15 days after the date of billing. Any unpaid portion of bills is considered delinquent if not fully paid within 45 days after the due date, or a total of 60 days from the date of original billing. On the delinquent date, a penalty charge of 10% of the unpaid delinquent amount is added to the bill.

If the delinquent amount, including the penalty, is not fully paid within 10 days of the delinquent date, the water service is subject to discontinuance. A fee of \$10 is payable for each field collection call and is added to the water bill.

The City utilizes a collection agency to collect unpaid final bills after the customer has moved out of the property. Bills are sent to the collection agency if payment is not received within 30 days of the final bill date.

Delinquencies. The delinquency rate for water bills for the prior four fiscal years is shown below, based on the delinquent amounts sent to the collection agency in relation to total water sales each year.

Table 9
Historic Water Charge Delinquency Rates

<u>Fiscal Year</u>	<u>Delinquency Rate</u>
2007-08	0.974%
2008-09	0.290%
2009-10	0.346%
2010-11	0.389%

Source: City of Martinez.

WATER SYSTEM FINANCIAL INFORMATION

Financial Statements

A copy of the most recent audited financial statement of the Water System, for the fiscal year ending June 30, 2011 (the “**Financial Statements**”), is attached as APPENDIX C. The Financial Statements were prepared by Maze & Associates, Certified Public Accountants, Pleasant Hill, California (the “**Auditor**”). The Financial Statements should be read in their entirety.

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

Historical Revenues and Expenses

The following table presents a four-year history of the revenues, expenses and changes in net assets for the Water System.

Table 10
Statement of Revenues and Expenses and Changes in Net Assets
For the Water Fund
Fiscal Years 2007-08 through 2009-10 (Audited)
and 2010-11 (Unaudited)

	Audited <u>2007-08</u>	Audited <u>2008-09</u>	Audited <u>2009-10</u>	Audited <u>2010-11</u>
OPERATING REVENUES				
Water Sales [1]	\$9,523,618	\$9,603,050	\$9,484,712	\$9,413,940
Rents and Leases	21,687	26,161	26,467	26,904
Other Fees	2,859	660	790	1,005
Charges for Services	296,209	396,312	298,565	232,981
Other Revenue	--	20,196	19,814	72,027
Total Operating Revenues	9,844,373	10,046,379	9,830,348	9,746,857
OPERATING EXPENSES				
Filtration Plant	1,725,310	1,999,796	1,982,923	1,852,767
Raw Water Costs	2,789,325	2,504,386	2,288,260	2,378,527
Maintenance, Repairs and Distribution	1,639,969	1,599,210	1,487,298	1,475,872
Administration	1,552,394	1,821,239	2,065,328	1,841,608
Depreciation and Amortization	1,980,578	1,956,723	1,961,199	1,974,438
Total Operating Expenses	9,687,576	9,881,354	9,785,008	9,523,212
Operating Income	156,797	165,025	45,340	223,645
NON-OPERATING REVENUE (EXPENSE)				
Interest Income	443,450	239,166	75,738	58,956
Less Interest Expense	<u>(408,109)</u>	<u>(421,639)</u>	<u>(382,095)</u>	<u>(369,121)</u>
Total Non-Operating Revenues (Expenses)	35,341	(182,473)	(306,357)	(310,165)
Income (loss) Before Operating Transfers	192,138	(17,448)	(261,017)	(86,520)
TRANSFERS FROM (TO) THE CITY				
Transfers In	23,195	23,195	16,605	16,605
Transfers Out	<u>(79,870)</u>	<u>(72,724)</u>	0	0
Net Transfers	(56,675)	(49,529)	16,605	16,605
Change in Net Assets	135,463	(66,977)	(244,412)	(69,915)
Net Assets at Beginning of Year	40,400,666	40,536,129	40,469,152	40,224,740
Net Assets at End of Year	\$40,536,129	\$40,469,152	\$40,224,740	\$40,154,825

[1] Represents all water sales revenues, including water consumption, service charges and fire service.
Source: City of Martinez.

Historical Revenues, Expenses and Debt Service Coverage

The table below presents a historical record of coverage on the City's outstanding water revenue obligations provided by Net Revenues.

Table 11
Historical Revenues, Expenses and Debt Service Coverage
2006-07 through 2010-11

Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
Revenues					
Water Sales	\$9,215,311	\$9,523,618	\$9,603,050	\$9,484,712	\$9,413,940
Rents & Leases	25,927	21,687	26,161	26,467	26,904
Other Fees	11,769	2,859	660	790	1,005
Charges for Services	468,015	296,209	396,312	298,565	232,981
Interest	467,380	443,450	239,166	75,738	58,956
Other Revenues	0	0	20,196	19,814	72,027
Total Revenues	10,188,402	10,287,823	10,285,545	9,906,086	9,805,813
Operation and Maintenance Costs					
Filtration Plant	1,814,098	1,725,309	1,998,796	1,982,923	1,852,767
Raw Water Costs	2,837,694	2,789,326	2,505,386	2,288,260	2,378,527
Maintenance, Repairs & Distribution	1,552,812	1,639,969	1,599,210	1,487,298	1,475,872
Administration	1,555,654	1,552,394	1,821,239	2,065,328	1,841,608
Total Operation and Maintenance Costs	7,760,258	7,706,998	7,924,631	7,823,809	7,548,774
Net Revenues	2,428,144	2,580,825	2,360,914	2,082,277	2,257,039
Debt Service [1]	893,808	891,326	889,642	891,092	890,698
Coverage Ratio	2.72 x	2.90 x	2.65 x	2.34 x	2.53 x

[1] Represents Debt Service on the 1999 Certificates (which are being defeased with a portion of the proceeds of the Certificates) and the 2003 Certificates. See "FINANCING PLAN" and "SECURITY FOR THE CERTIFICATES – Outstanding Parity Debt."

Source: City of Martinez.

Projected Revenues, Expenses and Debt Service Coverage

Projections. The table below presents projected Water System revenues, expenses and debt service coverage ratios. Assumptions regarding these projections are set forth below.

Table 12
Projected Revenues, Expenses and Debt Service Coverage
2011-12 through 2015-16

Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues					
Water Sales	\$9,735,000	\$9,856,300	\$9,955,000	\$10,054,000	\$10,155,000
Rents & Leases	26,000	26,000	26,000	26,000	26,000
Other Fees	900	900	900	900	900
Charges for Services	278,500	278,500	278,500	278,500	278,500
Interest	60,000	60,000	60,000	60,000	60,000
Other Revenues	15,000	15,000	15,000	15,000	15,000
Total Revenues	10,115,400	10,236,700	10,335,400	10,434,400	10,535,400
Operation and Maintenance Costs					
Filtration Plant	2,000,000	2,049,000	2,099,000	2,149,000	2,201,000
Raw Water Costs	2,450,000	2,520,000	2,600,000	2,680,000	2,760,000
Maintenance, Repairs & Distribution [1]	1,800,000	1,817,000	1,836,000	1,855,000	1,873,000
Administration	2,050,000	2,071,000	2,091,000	2,112,000	2,133,000
Total Operation and Maintenance Costs	8,300,000	8,457,000	8,626,000	8,796,000	8,967,000
Net Revenues	1,815,400	1,779,700	1,709,400	1,638,400	1,568,400
Debt Service [2]	\$843,940	\$1,149,089	\$1,152,270	\$1,144,484	\$1,140,799
Coverage Ratio	2.15 x	1.55 x	1.48 x	1.43 x	1.38 x

[1] Includes allowances for unforeseen maintenance and capital expenses.

[2] Represents Debt Service on the Certificates and the 2003 Certificates. See "SECURITY FOR THE CERTIFICATES – Outstanding Parity Debt."

Source: *City of Martinez.*

Assumptions Regarding Projections. The projections in the table above are based on the following assumptions:

- Water sales revenues are projected to increase by 1% per year.
- Expenses for purchased water are projected to increase by 3% per year.
- All other expenses are projected to increase by 1.5% per year.

THE CORPORATION

The Corporation is a nonprofit public benefit corporation formed by the City in 1988 for the purpose of assisting the City in the financing of facilities and property useful to the City. The board of directors of the corporation is the City Council.

RISK FACTORS

The following describes certain special considerations and risk factors affecting the payment of and security for the Certificates. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Certificates and does not necessarily reflect the relative importance of the various risks. Potential investors in the Certificates are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Certificates. There can be no assurance that other considerations will not materialize in the future.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for water services, which can be affected by population factors, more stringent water quality regulations, and other factors.

There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in demand could require an increase in rates or charges in order to comply with the rate covenants contained in the Installment Sale Agreement. The City's ability to meet its rate covenants is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the Certificates and existing or future Parity Debt.

Operation and Maintenance Expenses

There can be no assurance that operation and maintenance expenses of the City related to the Water System will be consistent with the levels contemplated in this Official Statement. Increases in the cost of purchased water, changes in technology, changes in water quality standards, and other unexpected events that could cause increases in the operation and maintenance expenses of the Water System could require substantial increases in rates or charges in order to comply with the rate covenants in the Installment Sale Agreement.

Limitations on Remedies Available to Certificate Owners

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay debt service on the Certificates may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “– Proposition 218” below. Furthermore, any remedies available to the owners of the Certificates upon the occurrence of an event of default under the Trust Agreement or the Installment Sale Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Trust Agreement and the Installment Sale Agreement, the rights and obligations under the Certificates, the Trust Agreement and the Installment Sale Agreement may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Seismic Considerations

The City is located in a seismically active area of California. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Water System, resulting in a temporary reduction in the amount of Net Revenues available to pay Installment Payments when due.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were executed and delivered, as a result of future acts or omissions of the City in violation of its covenants in the Installment Sale Agreement. Should such an event of taxability occur, the Certificates are not subject to special redemption and will remain Outstanding until maturity or until prepaid under other provisions set forth in the Trust Agreement.

Proposition 218

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

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

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

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

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

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

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

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

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would

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

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

Current Practice Regarding Rates and Charges. The City's practice in implementing increases in water rates and charges has been to provide property owners with a 45-day mailed notice and public hearing, and opportunity to protest, before the City Council approves rate increases. The City's current practices comply with the current judicial interpretation of Proposition 218.

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

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

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

Environmental Regulation

The kind and degree of water treatment is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Water System, and mandate their use of technology. If the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation or regulations, should impose water quality standards upon the Water System, the City's expenses to operate the Water System could increase accordingly and rates and charges would have to be increased to offset those expenses.

It is not possible to predict the direction which federal or state regulation will take with respect to water quality standards, although it is likely that both will impose more stringent standards in the future, which could result in higher Operations and Maintenance Costs with respect to the Water System.

See “THE WATER SYSTEM – Environmental and Regulatory Issues Related to the Water System.”

Secondary Market for Certificates

There can be no guarantee that there will be a secondary market for the Certificates or, if a secondary market exists, that any Certificates can be sold for any particular price. Prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Certificates will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Certificates for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Certificates or obligations that present similar tax issues as the Certificates.

Future Parity Obligations

As described in “SECURITY FOR THE CERTIFICATES – Limitations on Parity Debt” above, the Installment Sale Agreement permits the City to issue Parity Debt, its obligations under which would be payable on a parity with the Installment Payments and the 2003 Installment Payments.

In the event of a decline in Net Revenues, the existence of additional Parity Debt could adversely affect the City’s ability to pay debt service on the Certificates.

TAX MATTERS

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

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

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

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

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Certificate (said term being the shorter of the Certificate's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Certificate for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Certificate is amortized each year over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates).

Amortized Certificate premium is not deductible for federal income tax purposes. Owners of premium Certificates, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Certificates.

In the further opinion of Special Counsel, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes.

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

CERTAIN LEGAL MATTERS

The legal opinion of Special Counsel, approving the validity of the Certificates, in substantially the form attached hereto as Appendix D, will be made available to purchasers at the time of original delivery of the Certificates. Special Counsel will, as Disclosure Counsel, also deliver a disclosure letter to the City and the Underwriter regarding the contents of this Official Statement. Certain matters will be passed upon for the City by the City Attorney.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the City and the Water System by not later than nine months after the end of the City's fiscal year, or March 31 each year based on the City's current fiscal year-end of June 30, commencing March 31, 2012, with the report for the 2010-11 fiscal year (the "**Annual Report**") and to provide notices of the occurrence of certain listed events, if material.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**"). The specific nature of the information to be contained in the Annual Report or the notices of listed events by the City is set forth in "APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The City has not previously defaulted on any obligation to provide an annual report in accordance with the Rule with respect to any bond issue of the City.

UNDERWRITING

The Certificates are being purchased by Brandis Tallman LLC (the “**Underwriter**”). The Underwriter has agreed to purchase the Certificates at a purchase price of \$8,669,784.90 (being an amount equal to the principal amount of the Certificates of \$8,025,000.00, *plus* original issue premium of \$696,947.40, *less* an underwriter’s discount of \$52,162.50).

The Purchase Contract pursuant to which the Underwriter has agreed to purchase the Certificates provides that the Underwriter will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Certificates to the public at the offering prices set forth on the 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 cover page hereof. The offering price may be changed from time to time by the Underwriter.

ABSENCE OF MATERIAL LITIGATION

The City is not aware of any litigation pending or threatened questioning the existence or powers of the City or the ability of the City to pay principal or interest with respect to the Certificates.

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

PROFESSIONAL FEES

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

RATINGS

Moody’s Investors Service (“**Moody’s**”) has assigned its municipal bond rating of “Aa3” to the Certificates, and Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“**S&P**”), has assigned its municipal bond rating of “AA” to the Certificates.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

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 the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Certificates may have an adverse effect on the market price or marketability of the Certificates.

EXECUTION

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

CITY OF MARTINEZ

By: _____ /s/ Philip Vince
City Manager

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Installment Sale Agreement, the Assignment Agreement and the Trust Agreement, as well as definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Copies of said documents are available from the City and from the Trustee.

CERTAIN DEFINITIONS

“Average Annual Debt Service” means the total aggregate Debt Service for the entire period during which the Certificates are Outstanding divided by the number of Fiscal Years or portions thereof during which the Certificates are Outstanding.

“Business Day” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office is located are closed or are required to close or a day on which the New York Stock Exchange is closed.

“Certificates” means the Certificates of Participation executed and delivered pursuant to the Trust Agreement.

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

“City Representative” means the Mayor, the City Manager or the Assistant City Manager of the City, or any other person authorized to act on behalf of the City under or with respect to the Trust Agreement and/or the Installment Sale Agreement and identified as such to the Trustee in writing.

“Closing Date” means the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase of the Certificates by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Installment Sale Agreement or the Trust Agreement) as it may be amended to apply to obligations issued on the Closing Date, together with applicable final regulations promulgated under the Code.

“Continuing Disclosure Certificate” shall mean that certain Continuing Disclosure Certificate executed by the City and dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the execution and delivery of the Installment Sale Agreement or the execution, sale and delivery of the Certificates, including but not limited to filing and recording costs, settlement costs, underwriter’s discount and original issue discount (if any), printing costs, reproduction and binding costs, initial fees and charges of the Trustee and its counsel, initial charges of the Corporation, out-of-pocket expenses incurred by the City, financing discounts, legal fees and charges, financial and other professional consultant fees,

costs of rating agencies for credit ratings, Certificate Insurance premium, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee under the Trust Agreement.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amounts:

(a) The principal amount and Maturity Value of all Outstanding Certificates payable by their terms in such period;

(b) The interest which would be due during such period on the aggregate principal amount of Certificates which would be Outstanding in such period if the Certificates are paid or redeemed as scheduled.

(c) Loan payments to be made to a Governmental Agency under a Governmental Loan.

“Defeasance Obligations” means (a) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with Federal Securities), or (b) Federal Securities, or (c) evidences of ownership of proportionate interests in future interest and principal payments on Federal Securities held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Federal Securities are not available to any person claiming through the custodian or to whom the custodian may be obligated, or (d) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody's, respectively, or (e) securities eligible for “AAA” defeasance under then existing criteria of S&P or any combination thereof.

“Escrow Fund” means the fund of that name established under the Trust Agreement to refund the 1999 Certificates.

“Event of Default” means an event of default under the Installment Sale Agreement.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the City.

“Federal Securities” means direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

“Fiscal Year” means any period of twelve (12) consecutive months established by the City as its fiscal year and shall initially mean the period commencing July 1 of one year and ending on June 30 of the following year.

“Governmental Agency” means the State, and the United States of America, acting through any of its agencies, to the extent that the State or such agency has loaned money to the City for the Water System.

“Governmental Loan” means a loan made by a Governmental Agency to the City which is secured by a pledge of Net Revenues and incurred by the City to finance improvements to the Water System pursuant to the Installment Sale Agreement.

“Gross Revenues” means, for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Water System or otherwise arising from the Water System during such period, including but not limited to (a) all Charges received by the City for use of the Water System, (b) all receipts derived from the investment of funds held by the City or the Trustee under the Installment Sale, (c) transfers from (but exclusive of any transfers to) any rate stabilization reserve accounts, and (d) all moneys received by the City from other public entities whose inhabitants are served by the Water System pursuant to contracts with the City.

“Independent Consultant” means any financial or engineering consultant (including without limitation any Independent Certified Public Accountant) with an established reputation in the field of municipal finance or firm of such consultants appointed and paid by the City, and who, or each of whom-

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

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

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Independent Counsel” means an attorney or a firm of attorneys duly admitted to the practice of law before the highest court of the state in which he or such firm maintains an office and who is not an employee of the Corporation, the Trustee or the City.

“Information Services” means the Municipal Securities Rulemaking Board Electronic Municipal Market Access (EMMA) system accessible at the emma.msrb.org website; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may indicate in a certificate of the City delivered to the Trustee.

“Installment Payment” means any payment required to be paid by the City to the Corporation pursuant to the Installment Sale Agreement.

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

“Installment Payment Fund” means the fund by that name established and held by the Trustee under the Installment Sale Agreement.

“Installment Sale Agreement” means the Installment Sale Agreement, dated as of February 1, 2012, between the City and the Corporation, together with any duly authorized and executed amendments thereto.

“Interest Payment Date” means, with respect to any Certificate, each June 1 and December 1, commencing June 1, 2012, to and including the date of maturity or the date of prepayment of such Certificate, and with respect to any Parity Debt, any date on which interest is due and payable thereon, and continuing so long as any Parity Debt remain Outstanding.

“Maintenance and Operation Costs” means the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with sound accounting principles, and all reasonable and necessary expenses of management and repair and other expenses to maintain and preserve the Water System in good repair and working order, and including all costs of purchasing water, costs of reasonable and necessary administrative costs of the City attributable to the Water System and the Certificates, such as salaries and wages and the necessary contribution to retirement of employees, overhead, insurance, taxes (if any), expenses, compensation and indemnification of the Trustee, and fees of auditors, accountants, attorneys or engineers, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Certificates or the Trust Agreement, but excluding depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

“Maximum Annual Debt Service” means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

“1999 Certificates” means the Certificates of Participation executed and delivered in the original principal amount of \$6,040,000 on August 17, 1999.

“1999 Project” means the facilities, improvements and other property described more fully as the 1999 Project in Appendix B attached to the Installment Sale Agreement.

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under the Trust Agreement.

“Original Purchaser” means Brandis Tallman LLC, as original purchaser of the Certificates.

“Outstanding”, when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or redemption of which funds or eligible securities in the necessary amount, including accrued interest thereon, shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

“Owner” or “Certificate Owner” or “Owner of a Certificate”, or any similar term, means the person in whose name a Certificate shall be registered.

“Parity Debt” means the 2003 Certificates (and 2003 Installment Sale Agreement), and all other bonds, notes or other obligations (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to the Parity Debt provisions of the Installment Sale Agreement.

“Parity Debt Instruments” means, collectively, the indenture of trust, trust agreement or other document authorizing the issuance of any Parity Debt or any securities which evidence Parity Debt.

“Permitted Investments” means any of the following:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (FmHA)
Certificates of Beneficial Ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration
Participation Certificates
6. Government National Mortgage Association (GNMA or Ginnie Mae)

GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
(these obligations are not acceptable for certain cash flow sensitive issues)

7. U.S. Maritime Administration Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Corporation Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies which are not backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
Participation Certificate Senior debt obligations
3. Federal National Mortgage Association (FNMA or Fannie Mae)
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or Sallie Mae) Senior debt obligations
5. Resolution Funding Corp. (REFCORP) obligations
6. Farm Credit System Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

H. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such rating agencies.

I. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

J. Repurchase Agreements ("**Repos**") for 30 days or less must follow the following criteria. Repos which exceed 30 days must be acceptable to XLCA (criteria available upon request).

Repos provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repos must be between the municipal entity and a dealer bank or securities firm.

a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and A2 or better by Moody's, or

b. Banks rated "A" or better by S&P and A2 or better by Moody's.

2. The written repurchase agreement must include the following:

a. Securities which are acceptable for transfer are:

(1) Direct obligations of the United States of America referred to in Section A above, or

(2) Obligations of federal agencies referred to in Section B above

(3) Obligations of FNMA and FHLMC

b. The term of the Repos may be up to 30 days.

c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee is (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

d. Valuation of Collateral.

(1) the securities must be valued weekly, marked-to-market at current market price plus accrued interest.

(2) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the municipal entity, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. A legal opinion which must be delivered to the municipal entity that states that the Repo meets guidelines under state law for legal investment of public funds.

K. The Local Agency Investment Fund maintained by the State of California.

L. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the California Government Code, as it may be amended, including but not limited to the California Asset Management Program (CAMP).

“Principal Corporate Trust Office” means the corporate trust office of the Trustee at the address set forth in the Installment Sale Agreement or at such other address designated by the Trustee by written notice filed with the City and the Corporation except that with respect to presentation of Certificates for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Project” means the 1999 Project and the 2012 Project.

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

“Rating Category” means, with respect to any Permitted Investment, one or more of the generic categories of rating by Moody’s and/or S&P applicable to such Permitted Investment, without regard to any refinement or gradation of such rating category by a plus or minus sign.

“Regular Record Date” means the close of business on the fifteenth (15th) day of the month preceding each Interest Payment Date, whether or not such fifteenth (15th) day is a Business Day.

“Reserve Fund” means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

“Reserve Requirement” means, as of the date of calculation, an amount equal to the lesser of: (i) Maximum Annual Debt Service under the Installment Sale Agreement; (ii) ten percent (10%) of the principal amount of the Certificates; or (iii) 125% of Average Annual Debt Service under the Installment Sale Agreement.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw-Hill, Inc., New York, New York, or its successors.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, NY 11530, Fax (516) 227-4039 or 4190; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the Certificates.

“State” means the State of California.

“Subordinate Debt” means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Net Revenues subordinate to the Installment Payments.

“Term of the Installment Sale Agreement” means the time during which the Installment Sale Agreement is in effect, as provided in the Installment Sale Agreement.

“Trustee” means U.S. Bank National Association, or any successor thereto, acting as Trustee pursuant to the Trust Agreement.

“2003 Certificates” means the City’s \$7,795,000 (original principal amount) Certificates of Participation (2003 Refinancing Project), executed and delivered under a Trust Agreement, dated as of March 1, 2003 between the City and The Bank of New York Trust Company, N.A.

“2012 Project” means the facilities, improvements and other property described more fully as the 2012 Project in Appendix B attached to the Installment Sale Agreement, as that Appendix may be amended from time to time in accordance with the Installment Sale Agreement.

“2012 Project Fund” means the fund by that name established and held by the Trustee under the Trust Agreement.

“2012 Project Costs” means, with respect to the 2012 Project, all costs of the acquisition, construction and installation thereof, including but not limited to:

(a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the 2012 Project;

(b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the 2012 Project;

(c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the 2012 Project;

(d) all costs of preliminary design, engineering, planning and other preliminary costs of the 2012 Project, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, environmental studies, all costs of supervising construction, as well as costs incurred for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the 2012 Project;

(e) any sums required to reimburse the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the 2012 Project;

(f) all financing costs incurred in connection with the acquisition, construction and installation of such 2012 Project; and

(g) the interest components of the Installment Payments during the period of acquisition, construction and installation of the 2012 Project.

“Trust Agreement” means the agreement by that name, dated as of February 1, 2012, by and among the Trustee, the Corporation and the City, together with any amendments or supplements thereto permitted to be made thereunder.

“Water Revenue Fund” means the fund by that name held by the City pursuant to the Installment Sale Agreement.

“Water Revenue Obligations”, means collectively, the 2003 Certificates, the Installment Sale Agreement and any Parity Debt (including Governmental Loans) issued after the date hereof in accordance with the Parity Debt provisions of the Installment Sale Agreement.

“Water System” means the existing water system of the City, comprising all facilities for the transportation, treatment and distribution of water for the residential, commercial and industrial consumers of water in the City.

“Written Certificate” of the City means a written certificate signed in the name of the City by a City Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

INSTALLMENT SALE AGREEMENT

Deposit of Moneys

On the Closing Date, the Corporation shall cause to be deposited with the Trustee, the Certificate proceeds. Pursuant to the Trust Agreement, the Trustee shall deposit: (a) an amount estimated to be required for the payment of Costs of Issuance shall be deposited in the Costs of Issuance Fund; (b) the initial Reserve Requirement shall be deposited in the Reserve Fund; (c) an amount needed to refund the 1999 Certificates shall be deposited in the Escrow Fund, and (d) the remaining balance shall be deposited in the 2012 Project Fund.

Title

The City and the Corporation agree that title to the Project shall be deemed conveyed to and vested in the City on the Closing Date, subject only to Permitted Encumbrances. The Corporation and its officers shall take all actions necessary to vest in the City all of the Corporation’s rights in and title to the Project.

Term

The Term of the Installment Sale Agreement shall commence on the Closing Date and shall end on December 1, 2026, unless such term is extended or sooner terminated as provided in the Installment Sale Agreement. If prior to December 1, 2026 the Trust Agreement shall be discharged by its terms, the Term of the Installment Sale Agreement shall end ten (10) days after the date of such discharge. If on December 1, 2026 the Trust Agreement shall not be discharged by its terms, then the Term of the Installment Sale Agreement shall be extended until ten (10) days after the date on which the Trust Agreement shall be discharged by its terms, but in any event not beyond December 1, 2036.

Special Obligation of the City

The City’s obligation to pay the Installment Payments shall be a special obligation limited solely to Net Revenues. Under no circumstances shall the City be required to advance any moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the Installment Payments, nor shall any other funds or property of the City be liable for the payment of the Installment Payments.

The obligations of the City to make the Installment Payments from Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach of the City, the Corporation or the Trustee of any obligation to the City or otherwise with respect to the Project, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Corporation or the Trustee. Until such time as all of the Installment Payments shall have been fully paid or prepaid, the City (a) will not suspend, abate, or discontinue any payments provided for in the Installment Sale Agreement, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Term of the Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Project, the taking by eminent domain of title to or temporary use of any or all of the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either thereof or any failure of the Corporation or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Trust Agreement, the Assignment Agreement or the Installment Sale Agreement.

Pledge of Net Revenues; Deposits to Pay Installment Payments; Surplus

The City covenants and agrees in the Installment Sale Agreement that all Gross Revenues, when and as received, will be received and held by the City in trust and will be deposited by the City in its Water Revenue Fund, and will be accounted for through and held in trust in the Water Revenue Fund, and the City will only have such beneficial right or interest in any of such money as provided in the Installment Sale Agreement. All Gross Revenues will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

All Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth below:

(1) Maintenance and Operation Costs. The City will first pay from the moneys in the Water Revenue Fund the budgeted Maintenance and Operation Costs as such Costs become due and payable.

(2) Installment Payment Fund. On or before the second Business Day prior to each Interest Payment Date, beginning the second Business Day prior to June 1, 2012, the City will transfer from the Water Revenue Fund to the Trustee for deposit in the Installment Payment Fund an amount equal to the next occurring Installment Payment.

All interest earnings and profits or losses on the investment of amounts in the Installment Payment Fund (described below) shall be deposited in or charged to the Installment Payment Fund and applied to the purposes thereof. No transfer and deposit need be made into the Installment Payment Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Installment Payments to become due on the next Installment Payment Date .

(3) Reserve Fund. After making the payments, allocations and transfers described in subsections (1) and (2) above, if the balance in the Reserve Fund is less than the Reserve Requirement, the deficiency will be restored by transfers from the first moneys which become available in the Water Revenue Fund to the Trustee for deposit in

the Reserve Fund, amounts necessary to fund the Reserve Fund to the Reserve Requirement, shall be deposited from next Net Revenues.

(4) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner described above in subsections (2) and (3), any moneys remaining in the Water Revenue Fund may at any time be treated as surplus and applied for any lawful purpose.

Rate Covenant

(a) The City shall fix, prescribe, revise and collect Charges for the Water System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

(i) all Maintenance and Operation Costs of the Water System estimated by the City to become due and payable in such Fiscal Year;

(ii) the Debt Service on the Water Revenue Obligations;

(iii) all other payments required for compliance with the Installment Sale Agreement and the Parity Debt Instrument pursuant to which any Parity Debt has been issued; and

(iv) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or Net Revenues.

(b) In addition, the City shall fix, prescribe, revise and collect Charges for the Water System (exclusive of connection fees and transfers to the Water Revenue Fund from a rate stabilization fund, should one be established) during each Fiscal Year which are sufficient to yield Net Revenues of the Water System at least equal to one hundred percent (100%) of the amounts payable under the preceding clause (a)(ii) in such Fiscal Year for Water Revenue Obligations.

(c) In addition, the City shall fix, prescribe, revise and collect Charges for the Water System during each Fiscal Year which are sufficient to yield Net Revenues of the Water System at least equal to one hundred twenty-five percent (125%) of the amounts payable under the preceding clause (a)(ii) in such Fiscal Year for Water Revenue Obligations.

Limitations on Future Obligations Secured by Net Revenues

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

Issuance of Parity Debt. In addition to the 2003 Certificates and the Installment Sale Agreement, the City may, by Parity Debt Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues, to provide financing for the Water System, in such principal amount as shall be determined by the City. The City may issue or incur any such Parity Debt subject to the following specific conditions which are hereby made conditions precedent to the issuance and delivery of such Parity Debt:

(a) The City shall be in compliance with all covenants set forth in the Installment Sale Agreement.

(b) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the Parity Debt Instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items hereinafter in this paragraph designated (i) and (ii), shall at least equal One Hundred Twenty-Five percent (125%) of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Water Revenue Obligations to be Outstanding immediately subsequent to the issuance of such Parity Debt which have a lien on Net Revenues of the Water System. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Debt hereunder are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be made with the proceeds of such Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such twelve (12) month period, were not in service, all in an amount equal to ninety percent (90%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown in the written report of an Independent Consultant engaged by the City; and

(ii) An allowance for earnings arising from any increase in the Charges which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such twelve (12) month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Charges had been in effect during the whole of such Fiscal Year or such twelve (12) month period, all as shown in the written report of an Independent Consultant engaged by the City.

(c) The Parity Debt Instrument providing for the issuance of such Parity Debt shall provide that the proceeds of such Parity Debt shall be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Water System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Water System, or for the purpose of refunding any Water Revenue Obligations in whole or in part, including all costs (including costs of issuing such Parity Debt and including capitalized interest on such Parity Debt during any period which the City deems necessary or advisable) relating thereto.

Governmental Loans. The City may borrow money from a Governmental Agency and incur a Governmental Loan to finance improvements to the Water System. A Governmental Loan may be treated as Parity Debt for purposes of the Installment Sale Agreement, so long as the City complies with the Parity Debt provisions of the Installment Sale Agreement before incurring said Governmental Loan.

Additional Payments

In addition to the Installment Payments, the City shall pay, from Net Revenues, when due, all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement and the Installment Sale Agreement, including, without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Trust Agreement and the Assignment Agreement, compensation due to the Corporation for its fees, costs and expenses incurred under the Trust Agreement and all costs and expenses of attorneys, auditors, engineers and accountants.

Payments to Reserve Fund

In addition to the Installment Payments, the City shall pay to the Trustee, from Net Revenues, such amounts as shall be required to replenish the Reserve Fund or a valuation determines that a deficiency exists therein, all in accordance with the Trust Agreement.

Maintenance, Taxes, Assessments and Modifications

The City, at its own expense, has agreed to maintain the Water System in good repair, the Corporation has no responsibility for such repair. The City has the power to make modifications and improvements to the Project which do not damage the Project or reduce the value of the Project to a value substantially less than that which existed prior to such modification or improvement. Any such modifications or improvements to the Project (except equipment or other personal property of the City) will automatically become subject to the Installment Sale Agreement. The City must pay or cause to be paid all taxes and assessments with respect to the Water System; provided that the City may in good faith contest any such taxes and assessments and may permit such taxes and assessments to remain unpaid during the period of such contest and any appeal therefrom.

Insurance

The Installment Sale Agreement requires the City to maintain or cause to be maintained insurance which is customarily maintained by cities with respect to enterprises such as the Water System, against risk of physical damage to Water System structures and other risks for the protection of the Certificate Owners, the City, and the Trustee.

Operation of the Water System

The City covenants to operate, or cause to be operated, the Water System in accordance with customary standards and practices applicable to similar facilities.

Tax Covenants

Private Activity Bond Limitation. The City shall assure that proceeds of the Certificates are not so used as to cause the Certificates or the Installment Sale Agreement to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Certificates or the Installment Sale Agreement to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Certificates and the Installment Sale Agreement.

No Arbitrage. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Certificates which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Certificates or the Installment Sale Agreement to be “arbitrage bonds” within the meaning of section 148 of the Code.

Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Eminent Domain

In the event of the exercise of eminent domain with respect to the Project or any portion thereof, the City is required to deposit the net proceeds of any condemnation award in the Insurance and Condemnation Fund held by the Trustee. Such proceeds shall be applied to the repair or rehabilitation of the Project by the City, or shall be withdrawn from the Insurance and Condemnation Fund and applied to retire all or a portion of outstanding Certificates, pursuant to the Trust Agreement. In the event less than all of the Project shall be condemned, the Installment Sale Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking, and there shall be a proportionate reduction in the amount of the Installment Payments, but in any event such that the resulting Installment Payments will be sufficient to pay the principal of and interest on the Certificates then outstanding.

Assignment; Sale or Lease of the Project

The Corporation has assigned to the Trustee, pursuant to the Assignment Agreement, certain of its rights under the Installment Sale Agreement, including the right to receive and enforce payment of the Installment Payments to be made by the City. The City may not assign any of its rights or sell the Project or any portion thereof during the term of the Installment Sale Agreement. The City may lease the Project in whole or in part under the conditions contained in the Installment Sale Agreement, including the condition that the City shall continue to be obligated to make Installment Payments, and that such lease shall not cause the interest component of the Installment Payments to be subject to federal or California personal income taxes.

Events of Default

The following are "Events of Default" under the Installment Sale Agreement:

(a) Failure by the City to pay any Installment Payment by the Installment Payment Date or failure to make any other payment required to be paid hereunder at the time specified herein; or

(b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Installment Sale Agreement or the Trust Agreement, other than as referred to in clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Certificates then Outstanding; *provided, however*, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation, the Trustee or such Owners, as applicable, shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected; or

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

(d) An event of default shall have occurred and be continuing with respect to any Parity Debt.

Upon the occurrence and continuance of any event of default, the Corporation shall have the right to (a) declare all principal components of the unpaid Installment Payments, plus accrued interest, to be immediately due and payable, and (b) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments or enforce performance of any obligation or covenant of the City under the Installment Sale Agreement. The Corporation has assigned certain of its rights under the Installment Sale Agreement to the Trustee under the Assignment Agreement, including its rights in the event of default.

TRUST AGREEMENT

Trustee

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

Funds

The Trust Agreement creates the 2012 Project Fund, the Costs of Issuance Fund, the Installment Payment Fund, the Escrow Fund, the Reserve Fund and the Insurance and Condemnation Fund to be held by the Trustee.

2012 Project Fund. Moneys in the 2012 Project Fund shall be disbursed by the Trustee to pay 2012 Project Costs upon a receipt of a sequentially numbered requisition, with bills, invoices or statements attached, signed by a City Representative setting forth the amounts to be disbursed for payment or reimbursement of 2012 Project Costs and the name and address of the person or persons to whom said amounts are to be disbursed, stating that the amounts to be disbursed are for 2012 Project Costs properly chargeable to the 2012 Project Fund.

Costs of Issuance Fund. Moneys in the Costs of Issuance Fund shall be disbursed by the Trustee to pay Costs of Issuance upon a receipt of a sequentially numbered requisition, with bills, invoices or statements attached, signed by a City Representative setting forth the amounts to be disbursed for payment or reimbursement of Costs of Issuance and the name and address of the person or persons to whom said amounts are to be disbursed, stating that the amounts to be disbursed are for Costs of Issuance properly chargeable to the Costs of Issuance Fund.

Installment Payment Fund. All Installment Payments and prepayments received by the Trustee and any other moneys required to be deposited therein, shall be deposited by the Trustee in the Installment Payment Fund, which shall be held by the Trustee in trust for the benefit of the Owners. All amounts in the Installment Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest and redemption premiums, if any, with respect to the Certificates as the same shall become due and payable or redeemed prior to maturity.

Escrow Fund. There shall be deposited in the Escrow Fund proceeds of the Certificates in an amount needed to fully refund and defease the 1999 Certificates, which shall be applied on or about April 1, 2012 to redeem the 1999 Certificates.

Reserve Fund. There shall be deposited in the Reserve Fund proceeds of the Certificates in an amount equal to the Reserve Requirement, which shall be held in trust as a reserve for the payment when due of the Installment Payments.

If, on any Interest Payment Date, the moneys available in the Installment Payment Fund do not equal the amount of the principal, interest and redemption premium (if any) with respect to the Certificates then coming due and payable, the Trustee shall apply the moneys available in the Reserve Fund to make delinquent Installment Payments on behalf of the City and by transferring the amount necessary for this purpose to the Installment Payment Fund.

Insurance and Condemnation Fund. The Trust Agreement creates the Insurance and Condemnation Fund into which the net proceeds of certain insurance policies and eminent domain proceedings with respect to the Project are to be deposited by the Trustee.

The Trustee is also required to deposit certain net proceeds of fire and extended coverage insurance collected due to an accident to or destruction of all or part of the Project into the Insurance and Condemnation Fund to be used to rebuild or repair the Project, if requested by the City, or to be used to redeem outstanding Certificates.

Investment of Moneys

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates, and for the purposes therein specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of either the Corporation, the Trustee or the City or any Owner of Certificates, or any of them until after the Certificates have been paid in full.

Investments Authorized. Moneys held by the Trustee hereunder with respect to a City shall, upon written order of a City Representative received by the Trustee at least two (2) Business Days prior to investment, be invested and reinvested by the Trustee in Permitted Investments. If a City Representative shall fail to so direct investments, the Trustee shall invest the affected moneys in Permitted Investments described in paragraph (d) of the definition thereof. Such investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. Investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee or any of its affiliates may act as principal or agent in the making or disposing of any investment. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the trust Agreement. The Trustee shall be entitled to rely conclusively upon the written instructions of a City Representative directing investments as to the fact that each investment is permitted by the laws of the State and constitutes a Permitted Investment hereunder, and the Trustee shall not be required to make further investigation with respect thereto. To the extent that any of the requirements concerning any Permitted Investment embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion of counsel to such party that such requirement has been met.

Allocation of Earnings. All interest or income received by the Trustee on investment of the Installment Payment Fund shall, prior to completion of the 2012 Project, be transferred to the 2012 Project Fund and thereafter shall be retained in the Installment Payment Fund and be applied as a credit against Installment Payments. All interest or income received by the Trustee on investment of the Reserve Fund shall be retained in the Reserve Fund in the event that amounts on deposit in the Reserve Fund are less than the Reserve Requirement. In the event that amounts then on deposit in the Reserve Fund equal or exceed the Reserve Requirement, such excess shall, prior to completion of the 2012 Project, be transferred to the 2012 Project Fund and thereafter shall be transferred to the Installment Payment Fund and be applied as a credit against Installment Payments. All interest or income in the 2012 Project Fund shall be retained

in the 2012 Project Fund until the 2012 Project Fund is closed. All interest or income in the Costs of Issuance Fund shall be retained in the Costs of Issuance Fund until the Costs of Issuance Fund is closed.

Events of Default

Upon the occurrence of an event of default by the City under the Installment Sale Agreement, the Trustee may exercise any and all remedies available under the Trust Agreement pursuant to law or granted pursuant to the Installment Sale Agreement. Upon the occurrence of an event of default, the Trustee may, and shall at the direction of the Owners of a majority of the outstanding principal amount of Certificates, declare the principal of the Installment Payments to be immediately due and payable. In the event the Trustee fails to take sufficient actions to eliminate such default, an Owner may institute any suit, action, mandamus or other proceeding in equity or at law for any remedy under the Trust Agreement if and only if such Owner and the Owners of a majority in aggregate principal amount of the Certificates then outstanding shall have first made written request of the Trustee to exercise the powers therein granted under the law or to institute such action, suit or proceeding in its name, and, in addition, the Trustee shall have been offered reasonable indemnity against the cost, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request for a period of sixty (60) days after receiving such request and tender of indemnity.

Amendment

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consent of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Installment Sale Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of the Corporation or the City, (2) to cure, correct or supplement any ambiguous or defective provision contained herein or therein and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates, (3) in regard to questions arising hereunder or thereunder, as the parties hereto or thereto may deem necessary or desirable and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates; (4) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Installment Payments and the interest payable with respect to the Certificates, (5) to add to the rights of the Trustee, or (6) to maintain the rating or ratings assigned to the Certificates. Any such

supplemental agreement shall become effective upon its execution and delivery by the parties hereto or thereto as the case may be.

Defeasance

Upon payment of all outstanding Certificates, either at or before maturity, or upon the deposit of cash or Defeasance Obligations with the Trustee which together with the amount of earnings calculated to accrue on any investment of such moneys or such obligations to maturity or applicable redemption dates, will be sufficient, with other available funds, to retire the outstanding Certificates at or before maturity, upon giving or providing for such notice, the Trust Agreement will be terminated subject to the payment of the Certificates.

Continuing Disclosure

The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Certificates, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any holder or beneficial owner of the Certificates may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Limitations of Liability

The Trust Agreement contains certain provisions limiting the liability of the parties thereto, including the following provisions:

(i) Except for the payment of Installment Payments and prepayments when due in accordance with the Installment Sale Agreement and the performance of the other covenants and agreements of the City contained in the Installment Sale Agreement and the Trust Agreement, the City shall have no pecuniary obligation or liability to the Corporation, the Trustee or the Owners with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates or the distribution of Installment Payments to the Owners by the Trustee except as expressly set forth in the Trust Agreement;

(ii) Neither the City nor the Corporation shall have any obligation or liability to each other, the Trustee or the Owners with respect to the performance by the Trustee of any duty imposed upon it by the Trust Agreement; and

(iii) The Trustee shall have no obligation or liability to the Owners with respect to the failure or refusal of any other party to perform any covenant or agreement under the Trust Agreement or the Installment Sale Agreement.

APPENDIX B

GENERAL INFORMATION ABOUT THE CITY OF MARTINEZ AND THE COUNTY OF CONTRA COSTA

General Description

The City of Martinez (the "City") is the County seat of Contra Costa County (the "County") located along the San Joaquin and Sacramento Rivers. From its days as a trading post in 1849 through incorporation in 1876, Martinez was a gold rush boomtown. Shell Oil Company came to the City in 1915 and an increase in residential building resulted. In 2001, the City opened an Intermodal Facility that is a popular stop on the Amtrak line.

Population

The State Department of Finance estimates the 2011 population of the City to be 35,958. The following table summarizes the City's population in 1990 and from 2007 through 2011.

CITY OF MARTINEZ Population Estimates

Calendar Year	City of Martinez	County of Contra Costa	State of California
1990	31,810	803,732	29,758,213
2007	35,363	1,015,672	36,399,676
2008	35,437	1,027,264	36,704,375
2009	35,630	1,038,390	36,966,713
2010	35,846	1,047,948	37,223,900
2011	35,958	1,056,064	37,510,766

Source: California Department of Finance for January 1.

Employment and Industry

The unemployment rate in the Oakland-Fremont-Hayward MD was 9.5% in November 2011, down from a revised 10.0% in October 2011, and below the year-ago estimate of 11.2%. This compares with an unadjusted unemployment rate of 10.9% for California and 8.2% for the nation during the same period. The unemployment rate was 9.6% in Alameda County, and 9.5% in Contra Costa County.

The following table summarizes the annual average civilian labor force, employment and unemployment in the County for the calendar years 2006 through 2010.

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

	2006	2007	2008	2009	2010
Civilian Labor Force ⁽¹⁾	1,247,300	1,262,000	1,281,300	1,285,800	1,277,900
Employment	1,192,800	1,202,900	1,202,600	1,152,300	1,133,700
Unemployment	54,500	59,000	78,700	133,500	144,200
Unemployment Rate	4.4%	4.7%	6.1%	10.4%	11.3%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	1,500	1,500	1,400	1,400	1,500
Natural Resources and Mining	1,200	1,200	1,200	1,200	1,200
Construction	73,300	71,700	64,900	53,500	47,600
Manufacturing	95,800	94,400	93,100	82,800	78,600
Wholesale Trade	48,800	48,700	47,600	43,700	42,100
Retail Trade	113,300	113,300	109,400	102,100	99,900
Transportation, Warehousing, Utilities	35,000	37,300	35,900	33,200	31,900
Information	30,100	29,000	27,800	25,300	23,900
Finance and Insurance	45,400	41,100	36,200	32,500	33,100
Real Estate and Rental and Leasing	18,200	17,000	16,500	15,500	15,300
Professional and Business Services	155,100	158,200	162,400	148,700	148,000
Educational and Health Services	124,800	128,300	133,000	137,200	139,700
Leisure and Hospitality	85,600	88,000	89,100	85,100	85,600
Other Services	35,900	36,200	36,100	34,700	34,600
Federal Government	17,300	17,100	17,100	16,700	15,700
State Government	45,800	44,500	39,100	39,000	38,000
Local Government	118,900	122,300	121,100	116,900	113,300
Total, All Industries ⁽³⁾	1,046,100	1,049,700	1,031,800	969,400	949,800

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

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

(3) Totals may not add due to rounding.

Source: 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 2006 through 2010.

Effective Buying Income As of January 1, 2006 through 2010

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
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
2009	Contra Costa County	31,197,703	64,213
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	Contra Costa County	30,049,698	61,031
	California	801,393,028	47,177
	United States	6,365,020,076	41,368

Source: *The Nielsen Company (US), Inc.*

Major Employers

The following table lists the major employers within the City:

CITY OF MARTINEZ Major Employers Fiscal Year 2010-11

Employers	Number of Employees	% of Total City Employment
Contra Costa County ⁽¹⁾	9,489	44.1%
Shell Oil Refinery	733	3.4
Kaiser Permanente	715	3.3
Veterans Administration Medical Center	650	3.0
Martinez Unified School District	401	1.9
Wal-Mart Store	232	1.1
Safeway Stores	160	0.7
Contra Costa Electric	150	0.7
City of Martinez	124	0.6
Home Depot	108	0.6
Total	12,762	59.4%

(1) Contra Costa County employee count represents the entire County.

Source: *City of Martinez, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.*

The following table lists the major employers within the County:

**COUNTY OF CONTRA COSTA
Major Employers
(As of January 2012)**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Bayer Health Care Phrmctcls	Richmond	Laboratories-Pharmaceutical (Mfrs)
Bio-Rad Laboratories Inc	Hercules	Biological Products (Mfrs)
C & H Sugar Co Inc	Crockett	Sugar Refiners (Mfrs)
California State Auto Assn	Walnut Creek	Automobile Clubs
Chevron Corp	San Ramon	Petroleum Products-Manufacturers
Chevron Global Downstream LLC	San Ramon	Marketing Programs & Services
Concord Naval Weapons Station	Concord	Federal Government-National Security
Contra-Costa Regional Med Ctr	Martinez	Hospitals
Department of Veterans Affairs	Martinez	Clinics
Doctor's Medical Ctr	San Pablo	Hospitals
John Muir Health Physical Rhb	Concord	Physical Therapists
John Muir Medical Ctr	Concord	Hospitals
Kaiser Permanente	Walnut Creek	Hospitals
Kaiser Permanente Martinez	Martinez	Clinics
Muirlab	Walnut Creek	Laboratories-Medical
Nordstrom	Walnut Creek	Department Stores
PMI Group Inc	Walnut Creek	Insurance-Bonds
Richmond City Offices	Richmond	Government Offices-City, Village & Twp
San Ramon Regional Medical Ctr	San Ramon	Hospitals
Shell Oil Prod	Martinez	Oil Refiners (Mfrs)
St Mary's College of Ca	Moraga	Schools-Universities & Colleges Academic
Sutter Delta Medical Ctr	Antioch	Hospitals
Tesoro Golden Eagle Refinery	Pacheco	Oil Refiners (Mfrs)
USS-POSCO Industries	Pittsburg	Steel Mills (Mfrs)
VA Outpatient Clinic	Martinez	Surgical Centers

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

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 is not comparable to that of prior years.

Total taxable sales during the first three quarters of calendar year 2010 in the City were reported to be \$304,942,000 a 26.53% increase over the total taxable sales of \$240,998,000 reported during the first three quarters of calendar year 2009. 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 2010.

CITY OF MARTINEZ Taxable Transactions (Dollars in Thousands)

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2005	464	241,588	970	395,514
2006	437	238,934	939	375,099
2007	415	254,781	938	394,033
2008	426	246,642	926	380,656
2009 ⁽¹⁾	589	239,362	868	335,651

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: State Board of Equalization.

Total taxable sales during the first three quarters of calendar year 2010 in the County were reported to be \$8,686,271,000, a 0.09% decrease over the total taxable sales of \$8,694,382,000 reported during the first three quarters of calendar year 2009. 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 2010.

CONTRA COSTA COUNTY Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions (Dollars in Thousands)

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
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
2008	11,577	9,484,307	23,149	13,307,681
2009 ⁽¹⁾	14,045	8,473,578	21,395	11,883,049

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Construction Activity

Provided below are the building permits and valuations for the City of Martinez and Contra Costa County for calendar years 2006 through 2010.

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Permit Valuation</u>					
New Single-family	\$3,806.2	\$7,087.7	\$5,993.0	\$2,100.0	\$528.5
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	<u>7,769.5</u>	<u>5,203.9</u>	<u>4,733.4</u>	<u>3,466.8</u>	<u>6,967.6</u>
Total Residential	11,575.6	12,291.6	10,726.4	5,566.8	7,496.1
New Commercial	3,500.0	0.0	0.0	0.0	0.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	4,569.2	2,903.6	860.8	1,000.4	915.5
Com. Alterations/Additions	<u>4,951.5</u>	<u>1,723.9</u>	<u>1,899.6</u>	<u>1,941.2</u>	<u>1,146.2</u>
Total Nonresidential	\$13,020.7	\$4,627.4	\$2,760.3	\$2,941.5	\$2,061.7
<u>New Dwelling Units</u>					
Single Family	11	32	19	5	2
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	11	32	19	5	2

Source: Construction Industry Research Board, Building Permit Summary.

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Permit Valuation</u>					
New Single-family	\$986,694.1	\$832,053.1	\$300,088.7	\$300,363.3	\$237,458.0
New Multi-family	157,971.5	94,504.9	132,824.8	34,119.3	106,555.4
Res. Alterations/Additions	<u>307,152.6</u>	<u>290,107.5</u>	<u>229,023.3</u>	<u>170,149.7</u>	<u>209,044.4</u>
Total Residential	1,451,818.2	1,216,665.5	661,936.8	504,632.3	553,057.8
New Commercial	101,785.9	148,838.2	108,228.4	49,992.0	38,093.5
New Industrial	14,529.4	17,504.1	60,376.2	11,530.0	29,619.4
New Other	122,628.4	95,442.0	66,511.1	39,878.8	47,510.7
Com. Alterations/Additions	<u>173,556.4</u>	<u>229,530.2</u>	<u>224,816.8</u>	<u>212,900.7</u>	<u>170,193.8</u>
Total Nonresidential	\$412,500.1	\$491,314.5	\$459,932.5	\$314,301.4	\$285,417.4
<u>New Dwelling Units</u>					
Single Family	3,310	2,698	985	1,038	809
Multiple Family	<u>1,178</u>	<u>909</u>	<u>909</u>	<u>163</u>	<u>890</u>
TOTAL	4,488	3,607	1,894	1,201	1,699

Source: Construction Industry Research Board, Building Permit Summary.

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APPENDIX C

**WATER SYSTEM FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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**CITY OF MARTINEZ
WATER SYSTEM
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2011**

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**CITY OF MARTINEZ
WATER SYSTEM
ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Martinez, California

We have audited the financial statements of the City of Martinez Water System Enterprise Fund as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these fund 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 referred to above 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 fund financial statements referred to above present fairly in all material respects the financial position of the City of Martinez Water System Enterprise Fund as of June 30, 2011 and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Our audit was made for the purpose of forming an opinion on the fund financial statements taken as a whole. The supplementary schedule listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the City of Martinez Water System. Such information has been subjected to the auditing procedures applied in our audit of the financial statements, and in our opinion is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maze & Associates

September 9, 2011

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	
Current Assets:	
Cash and investments (Note 2):	
Available for operations	\$13,088,405
Restricted Assets:	
Cash and cash equivalents (Note 2)	465,666
Accounts and other receivables	<u>1,269,294</u>
Total Current Assets	<u>14,823,365</u>
Noncurrent Assets:	
Capital assets - at cost: (Note 1D):	
Buildings	15,793,743
Improvements other than buildings	150,584
Equipment	1,297,203
Infrastructure	<u>88,276,473</u>
Total Depreciable Capital Assets	105,518,003
Less: Accumulated depreciation	<u>(74,392,169)</u>
	31,125,834
Land	630,912
Construction in progress	<u>1,336,215</u>
Total Capital Assets - net	<u>33,092,961</u>
Other Non-Current Assets:	
Loan receivable (Note 3)	22,920
Bond issuance cost - net of accumulated amortization	<u>759,551</u>
Total Noncurrent Assets	<u>33,875,432</u>
Total Assets	<u>48,698,797</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	467,147
Accrued liabilities	60,117
Deposits	<u>46,172</u>
Total Current Liabilities	<u>573,436</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	40,303
Current portion of compensated absences (Note 1F)	25,000
Current maturities of certificates of participation (Note 5)	<u>540,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>605,303</u>
Noncurrent Liabilities:	
Accrued compensated absences (Note 1F)	145,233
Certificates of participation (Note 5)	<u>7,220,000</u>
Total Liabilities	<u>8,543,972</u>
NET ASSETS (Note 6)	
Invested in capital assets, net of related debt	25,332,961
Net Assets:	
Restricted for debt service	465,666
Restricted for capital improvements	7,351,236
Unrestricted	<u>7,004,962</u>
Total Net Assets	<u>\$40,154,825</u>

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES	
Water sales	\$9,413,940
Rents and leases	26,904
Other fees	1,005
Charges for services	232,981
Other revenue	<u>72,027</u>
Total Operating Revenues	<u>9,746,857</u>
OPERATING EXPENSES	
Filtration plant	4,231,294
Maintenance, repairs and distribution	1,475,872
Administration	1,841,608
Depreciation and amortization	<u>1,974,438</u>
Total Operating Expenses	<u>9,523,212</u>
Operating income	<u>223,645</u>
NONOPERATING REVENUE (EXPENSE)	
Interest income	58,956
Interest expense	<u>(369,121)</u>
Total Nonoperating Revenue (Expense)	<u>(310,165)</u>
Income (Loss) Before Transfers	<u>(86,520)</u>
TRANSFERS FROM (TO) THE CITY	
Transfers in	<u>16,605</u>
Net Transfers	<u>16,605</u>
Change in Net Assets	(69,915)
Net Assets at beginning of year	<u>40,224,740</u>
Net assets at end of year	<u><u>\$40,154,825</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$9,673,071
Payments to suppliers	(5,801,376)
Payments to employees	(1,857,138)
Rent and lease payments received	<u>72,027</u>
Cash Flows from Operating Activities	<u>2,086,584</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interfund receipts (payments), net	<u>16,605</u>
Cash Flows from Noncapital Financing Activities	<u>16,605</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(311,928)
Principal payments on capital debt	(520,000)
Interest paid	<u>(371,091)</u>
Cash Flows from Capital and Related Financing Activities	<u>(1,203,019)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>58,956</u>
Cash Flows from Investing Activities	<u>58,956</u>
Net Cash Flows	959,126
Cash and investments at beginning of period	<u>12,594,945</u>
Cash and investments at end of period	<u><u>\$13,554,071</u></u>
Financial Statement Presentation:	
Cash and Investments	\$13,088,405
Restricted Cash and Cash Equivalents	<u>465,666</u>
Total	<u><u>\$13,554,071</u></u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating income	\$223,645
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	1,974,438
Change in assets and liabilities:	
Accounts and other receivables	(1,759)
Accounts payable and accrued liabilities	(99,485)
Deposits	(265)
Accrued compensated absences	<u>(9,990)</u>
Cash Flows from Operating Activities	<u><u>\$2,086,584</u></u>

See accompanying notes to the financial statements

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Martinez – Water System is an enterprise fund of the City of Martinez (City) and is an integral part of that reporting entity. This enterprise fund is included in the basic financial statements of the City of Martinez. Enterprise funds are used to account for operations which are self-financing and where the determination of net earnings is necessary or useful for sound financial administration.

B. Basis of Presentation

The Water System’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 United States of America.

C. Basis of Accounting

The Water System uses the accrual basis of accounting whereby revenues are recorded as water is consumed, and expenses are recorded when incurred. The City has applied all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as elected to apply any pronouncements issued by the Financial Accounting Standards Board, except for those that conflict with or contradict GASB pronouncements.

D. Capital Assets

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis.

	<u>Useful Life</u>
Buildings	30-50 years
Equipment	4-25 years
Improvements	40 years
Underground valves and pipes	50-67 years

E. Discount

Bond discounts are accreted over the term of the bonds on a straight-line basis which approximates the interest method.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Compensated Absences

Compensated absences comprise unused vacation leave, vested sick pay and other employee benefits which are accrued as earned. The liability for compensated absences is determined annually. Only amounts expected to be permanently liquidated are classified as a current liability; the remainder is recorded as a long term liability.

The changes of the compensated absences were as follows:

Beginning Balance	\$180,223
Additions	141,448
Payments	<u>(151,438)</u>
Ending Balance	<u><u>\$170,233</u></u>
Current Portion	<u><u>\$25,000</u></u>

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

The Water System's cash is pooled with other funds of the City in an unrated cash and investment pool, the details of which are presented in the City's Comprehensive Annual Financial Report. The City is primarily invested in the California Local Agency Investment Fund and investments of U.S. Government sponsored agencies. Investments are stated at fair market value as required by generally accepted accounting principles.

The Water System considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Interest income earned on pooled cash and investments is allocated monthly to the various funds of which the Water System is a participant, based on the month-end cash balances. Interest income from restricted cash and cash equivalents is credited directly.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
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

As of June 30, 2011, Restricted Assets consisted of \$465,666 of cash in banks.

NOTE 3 – LOAN RECEIVABLE

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, 2011 the loan balance was \$284,930 of which \$22,920 was owed to the Water System Enterprise Fund.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 4 – RATE SCHEDULES

Monthly service charges, service line and meter installation fees and consumption rates are as follows for fiscal year 2011:

Meter Size (Inches)	Monthly Service Charges	Service Line Installation Charges	Meter Installation Charges	
5/8	\$23.80	\$2,640.04	\$165.00	
1	53.48	2,640.04	330.00	
1-1/2	102.96	3,300.05	405.00	
2	162.35	3,300.05	562.00	
3	320.69	Actual Costs	Actual Costs	
4	498.82			
6	993.65			
8	1,785.39			
10	2,874.01			
Consumption Rate	Zone 1	Zone 2	Zone 3	Zone 4
Per hundred cubic feet	\$3.32	\$3.52	\$3.66	\$3.87

NOTE 5 – CERTIFICATES OF PARTICIPATION

The Water System'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, 2010	Retirements	Balance at June 30, 2011	Current Portion
Certificates of Participation:					
1999 Water System Improvements, 4.2-5.375%, due 12/01/26	\$6,040,000	\$4,820,000	\$185,000	\$4,635,000	\$195,000
2003 Refinancing Project, 2-4%, due 12/01/18	5,595,000	3,460,000	335,000	3,125,000	345,000
Total Enterprise Long Term Debt		<u>\$8,280,000</u>	<u>\$520,000</u>	<u>\$7,760,000</u>	<u>\$540,000</u>

B. 1999 Certificates of Participation

On August 1, 1999, the City issued Certificates of Participation (COPs) in the amount of \$6,040,000 to fund 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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 5 – CERTIFICATES OF PARTICIPATION (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 8.20 percent and 11.02 percent of net water revenues. The Water System Fund’s total principal and interest remaining to be paid on the bonds is \$6,881,870. The Water System Fund’s principal and interest paid for the current year and total customer net revenues were \$433,731 and \$2,257,039 respectively.

C. 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. The portion of the 2003 COPs used to refund the 1993 COPS have been recorded in the Water System Fund as they are payable from lease revenues derived from the operation of the water system repayable from fund resources. Interest payments on the 2003 COPs are due semiannually on June 1 and December 1, and annual principal payments are due on December 1.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the Installment Sale Agreement portion of the Certificates of Participation through 2019. Annual principal and interest payments on the bonds are expected to require less than 14.84 percent and 5.42 percent of net water revenues. The Water Fund’s total principal and interest remaining to be paid on the bonds is \$3,627,215. The Water Fund’s principal and interest paid for the current year and total customer net revenues were \$457,361 and \$2,257,039 respectively.

D. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Principal	Interest
2012	\$540,000	\$350,698
2013	555,000	328,769
2014	580,000	305,598
2015	605,000	280,822
2016	630,000	254,527
2017 - 2021	2,655,000	856,573
2022 - 2026	1,780,000	360,935
2027	415,000	11,163
Total	<u>\$7,760,000</u>	<u>\$2,749,085</u>

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 as of June 30, 2011.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 6 – NET ASSETS

Restrictions of net assets of enterprise funds are created by increases in assets restricted for debt service and capital improvements. These increases result from earnings on restricted assets and other interfund transfers to restricted accounts. Earnings on restricted assets are included in net income of the enterprise funds. When restricted net assets are increased there is an equal reduction to the portion of net assets that is unrestricted.

NOTE 7 – 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, 2011, are summarized as follows:

	Safety	Miscellaneous	Miscellaneous Joint Facilities Agency
	<u>5 years service</u>	<u>5 years service</u>	<u>5 years service</u>
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	39.041%	8.984%	10.537%

*Rates include amortization of side fund

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 7 – 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 last three fiscal years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<i>Safety Plan</i>			
June 30, 2009	\$1,278,550	100%	\$0
June 30, 2010	1,417,950	100%	0
June 30, 2011	1,470,275	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2009	\$24,422	100%	\$0
June 30, 2010	23,966	100%	0
June 30, 2011	23,453	100%	0
<i>Miscellaneous Joint Facilities Agency</i>			
June 30, 2009	\$731,653	100%	\$0
June 30, 2010	740,618	100%	0
June 30, 2011	761,593	100%	0

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%. 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. In April 2011 the City satisfied its Miscellaneous Joint Facilities Agency Plan’s unfunded liability by making a lump sum contribution of \$631,914. For the Safety 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 11 years.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. CALPERS’ latest actuarial value (which differs from market value) and funding progress for the State-wide pools are shown below:

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
2007	\$7,986,055,176	\$6,826,599,459	\$1,159,455,717	85.5%	\$831,607,658	139.4%
2008	8,700,467,733	7,464,927,716	1,235,540,017	85.8%	914,840,596	135.1%
2009	9,721,675,347	8,027,158,724	1,694,516,623	82.6%	973,814,168	174.0%

The City’s Safety Plan represents approximately 0.39%, 0.36%, and 0.43% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$3,765,849, \$3,361,440, and \$3,608,420 for those years.

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
2007	\$2,611,746,790	\$2,391,434,447	\$220,312,343	91.6%	\$665,522,859	33.1%
2008	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%
2009	3,104,798,222	2,758,511,101	346,287,121	88.9%	742,981,488	46.6%

The City’s Miscellaneous Plan represents approximately 0.04%, 0.04%, and 0.02% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$261,051, \$303,687, and \$134,759 for those years.

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
2007	\$2,611,746,790	\$2,391,434,447	\$220,312,343	91.6%	\$665,522,859	33.1%
2008	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%
2009	3,104,798,222	2,758,511,101	346,287,121	88.9%	742,981,488	46.6%

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

The City’s Miscellaneous Joint Facilities Agency Plan represents approximately 0.97%, 0.97%, and 0.98% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$7,227,796, \$6,688,211, and \$6,542,304 for those years.

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS

The City provides health care benefits for retired employees and spouses based on negotiated employee bargaining unit contracts under an agent multiple-employer post employment benefit plan. 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, 41 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, 40 retirees meet the eligibility requirements and are either receiving reimbursements or health benefits paid directly by the City to PERS.

The cost of retiree health care benefits is recognized as an expenditure when health care premiums are paid. For the year ending June 30, 2011, those costs totaled \$705,820.

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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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 (PEU) Local #324 (formerly Local One)

Health Benefits – Retirees represented by the Association and by PEU, Local #324 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 retirees 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.

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 retirees 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, 2011, approximately 73 participants were eligible to receive retirement health care benefits.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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%-10% health inflation increases. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. 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 closed 30 year amortization period.

In accordance with the City's budget, the annual required contribution (ARC) is to be funded throughout 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 an agent multiple-employer plan, consisting of an aggregation of single-employer plans, with pooled administrative and investment functions. 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. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

Funding Progress and Funded Status

Generally accepted accounting principles permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability (AAL) when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2011, the City contributed the ARC amounting to \$934,000 to the Plan which represented 9.00% of the \$10,416,000 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 on the following page:

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 8 – POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	(\$934,000)
Interest on net OPEB obligation	320,000
Adjustment to annual required contribution	<u>(263,000)</u>
Annual OPEB cost	<u>(877,000)</u>
Contributions made:	
City portion of current year premiums paid	705,820
Additional contributions to CERBT	<u>228,180</u>
Total contributions	<u>934,000</u>
Change in net OPEB asset	57,000
Net OPEB Asset at June 30, 2010	<u>4,126,000</u>
Net OPEB Asset at June 30, 2011	<u><u>\$4,183,000</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2010 amounted to \$14,273,000 and was partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$5,785,463 as of June 30, 2011, which partially reduced the unfunded actuarial accrued liability.

The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2009, 2010 and 2011 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2009	\$894,000	\$894,000	100%	\$4,065,000
June 30, 2010	842,000	903,000	107%	4,126,000
June 30, 2011	877,000	934,000	106%	4,183,000

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
July 1, 2007	\$0	\$14,010,000	\$14,010,000	0.00%	\$9,579,000	146.26%
July 1, 2009	3,566,000	13,633,000	10,067,000	26.16%	10,088,000	99.79%
July 1, 2010	4,054,000	14,273,000	10,219,000	28.40%	10,416,000	98.11%

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 9 – 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 10 - INSURANCE

The City participates in the Municipal Pooling Authority (MPA) pool in which there is a transfer or pooling of risks among participants in the pool. Premiums are paid to MPA by all cities and MPA pays claims, maintains claim reserves and controls administrative costs of the program. Claims are paid by MPA, excluding the deductible. If MPA does not have adequate funds, then the City could be assessed additional premiums to fund the liabilities. However, MPA believes it is adequately funded based on recent actuarial reports.

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$10,000)	\$29,000,000
Employment Risk Management Authority (\$50,000)	1,000,000
Vehicle - Physical Damage (\$3,000 for police vehicles, \$2,000 for all others)	250,000
Worker's Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$5,000)	1,000,000,000
Earthquake (10% per location, \$100,000 minimum)	50,000,000
Flood (\$100,000 per occurrence)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000

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SUPPLEMENTARY INFORMATION

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Filtration Plant</u>	<u>Maintenance, Repairs and Distribution</u>	<u>Administration</u>
Salaries	\$578,778	\$424,760	\$111,444
Salaries - overtime and temporary	38,573	85,726	
Fringe benefits	357,136	267,591	147,363
Labor provided by (charged to) other departments, net		104,014	488,121
Rent and utilities	336,320	158,612	
Communications	3,124	31,971	719
Operating supplies	101,762	190,635	
Travel and entertainment	73	823	221
Dues and subscriptions		2,060	2,338
Office supplies	18,925		9,024
Equipment rental	37,671	79,722	14,076
Repairs and maintenance	47,505	17,411	
Professional fees	131,055	80,532	202,491
Raw water and chemicals purchase	2,571,899		
Training	885	4,288	
Contractual services	4,416	1,715	5
Operating charges by other departments		24,255	445,366
Insurance	3,172	1,757	13,132
Tax in-lieu			407,308
	<u>\$4,231,294</u>	<u>\$1,475,872</u>	<u>\$1,841,608</u>

**APPENDIX D
PROPOSED FORM OF BOND COUNSEL OPINION**

[Letterhead of Jones Hall, A Professional Law Corporation]

February 23, 2012

City Council
City of Martinez
525 Henrietta Street.
Martinez, CA 94553

OPINION: \$8,025,000 2012 Certificates of Participation (City of Martinez Water Refunding and Improvement Project) Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the City of Martinez to the Martinez Public Improvement Corporation

Members of the City Council:

We have acted as special counsel in connection with the delivery by the City of Martinez (the "City"), of the Installment Sale Agreement dated as of February 1, 2012 (the "Installment Sale Agreement") between the Martinez Public Improvement Corporation (the "Corporation") as seller and the City as purchaser. Under the Trust Agreement dated as of February 1, 2012 (the "Trust Agreement") among the City, the Corporation and U.S. Bank National Association, as trustee thereunder (the "Trustee"), the Trustee has executed and delivered \$8,025,000 aggregate principal amount of 2012 Certificates of Participation (City of Martinez Water Refunding and Improvement Project) (the "Certificates") evidencing the direct, undivided fractional interests of the owners thereof in installment payments to be made by the City under the Installment Sale Agreement (the "Installment Payments"), which have been assigned by the Corporation to the Trustee under the Trust Agreement. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The City is a municipal corporation duly organized and validly existing under the laws of the State of California with the full power to enter into the Installment Sale Agreement and the Trust Agreement and to perform the agreements on its part contained therein. The Corporation is a nonprofit corporation duly organized and validly existing under the laws of the State of California with the full power to enter into the Installment Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Installment Sale Agreement and the Trust Agreement have been duly approved by the City and the Corporation and constitute valid and binding obligations of the City and the

Corporation enforceable against the City and the Corporation in accordance with their respective terms.

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

4. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on such corporations (as defined for federal income tax purposes), such interest is required to be taken into account in determining certain income and earnings. The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Installment Sale Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Installment Sale Agreement and the Trust Agreement and other instruments relating to the Certificates to comply with each of such requirements. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Installment Sale Agreement. We express no opinion regarding other federal tax consequences arising with respect to the Installment Sale Agreement and the Certificates.

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

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

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$8,025,000

CITY OF MARTINEZ

2012 Certificates of Participation

(City of Martinez Water Refunding and Improvement Project)

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 certificates of participation captioned above (the “**Certificates**”). The Certificates evidence the direct, undivided fractional interests of the owners thereof in installment payments to be made by the City under an Installment Sale Agreement dated as of February 1, 2012 (the “**Installment Sale Agreement**”) between the Martinez Public Improvement Corporation, as seller, and the City as purchaser. The Certificates will be delivered under and subject to the terms and provisions of a Trust Agreement dated as of February 1, 2012 (the “**Trust Agreement**”) among the City, the Corporation and U.S. Bank National Association, as trustee (the “**Trustee**”). The City covenants and agrees as follows:

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

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

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

“*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 Willdan Financial Services, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a).

“*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, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement dated February 10, 2012, executed by the City in connection with the issuance of the Certificates.

“*Participating Underwriter*” means Brandis Tallman, LLC, as the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it 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, 2012, with the report for the 2010-11 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 below; ***provided, however, that the first Annual Report due on March 31, 2012, shall consist solely of the City’s audited financial statements for fiscal year 2010-11 and a copy of the Official Statement.*** 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; 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 and the Participating Underwriter, 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) Audited Financial Statements of the Water System prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements for the Water System are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual

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

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following information for the most recently completed fiscal year:

(i) Historic revenues, expenditures and debt service coverage for the Water System substantially in the form of Table 11 contained in the Official Statement.

(ii) A statement of net assets for the Water Fund.

(iii) A breakdown of water customers substantially in the form of Table 4 contained in the Official Statement.

(iv) A history of active water service connections substantially in the form of Table 3 contained in the Official Statement.

(v) A description of the 10 largest customers of Water System (based on consumption) substantially in the form of Table 5 contained in the Official Statement.

(vi) A summary of the current water rate structure substantially in the form of Tables 6 and 7 contained in the Official Statement.

(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. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Certificates:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the City determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, and the Participating Underwriter in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. 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 Certificates under the Indenture.

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 Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 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. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

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 Certificates, or type of business conducted;

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

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

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report 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 this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. 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 any amendment made pursuant to this Section 9 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 Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 13. 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: February 23, 2012

CITY OF MARTINEZ

By _____
City Manager

ACCEPTED AND AGREED:

Willdan Financial Services,
as Dissemination Agent

By _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Martinez

Name of Issue: \$8,025,000 2012 Certificates of Participation
(City of Martinez Water Refunding and Improvement Project)

Date of Issuance: February 23, 2012

NOTICE IS HEREBY GIVEN that the City of Martinez has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate dated as of February 23, 2012, executed by the City of Martinez. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF MARTINEZ

By _____
Name:
Title:

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APPENDIX F

BOOK ENTRY PROVISIONS

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

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

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

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

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

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

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

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

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